

Guangshen Railway Company Limited

NEW ISSUE



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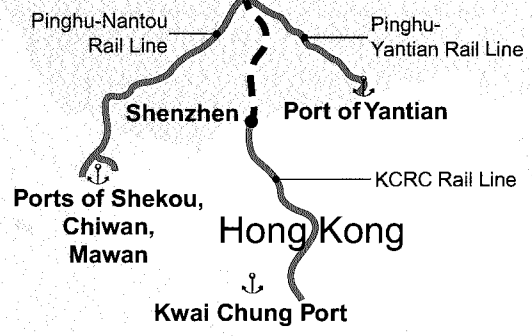
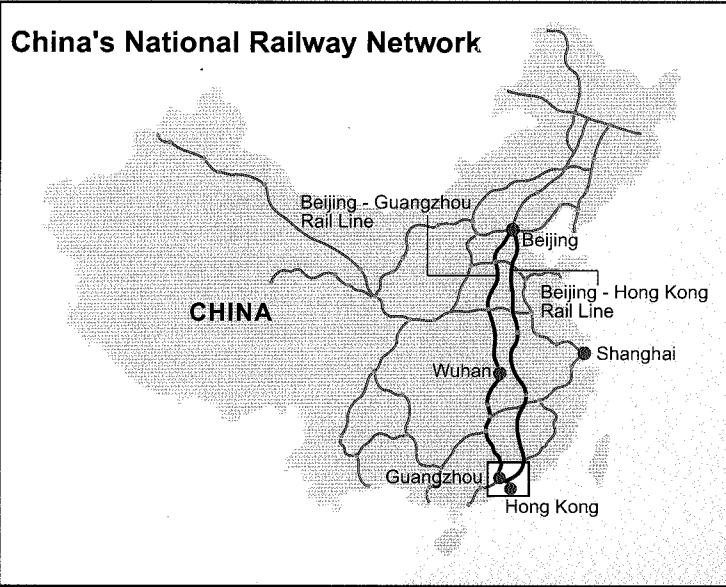
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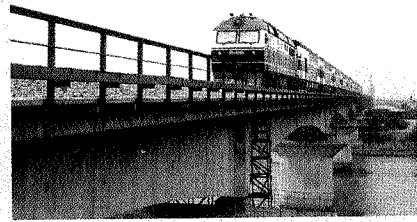
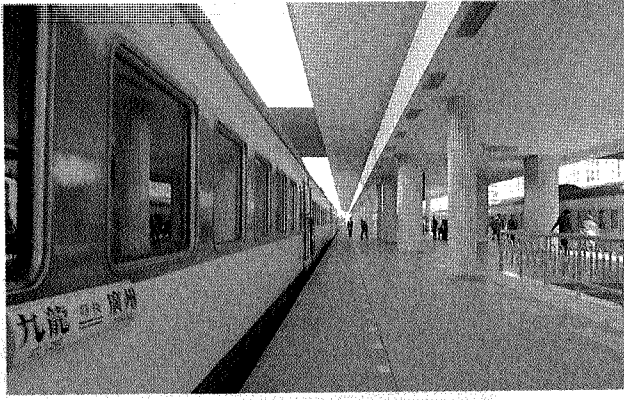
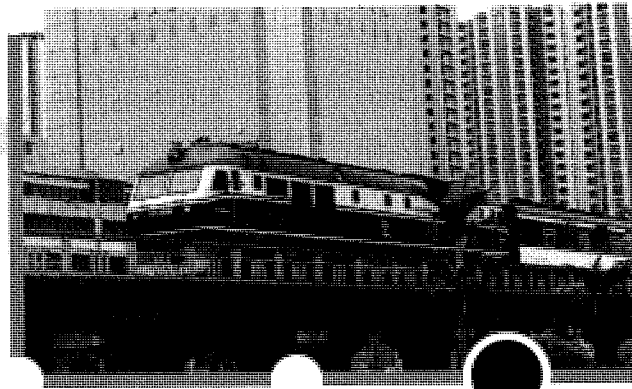
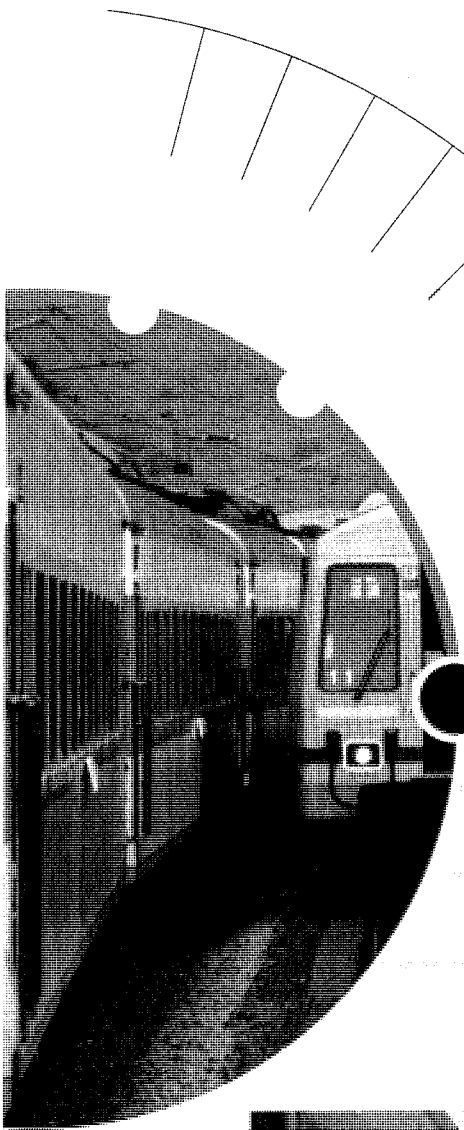
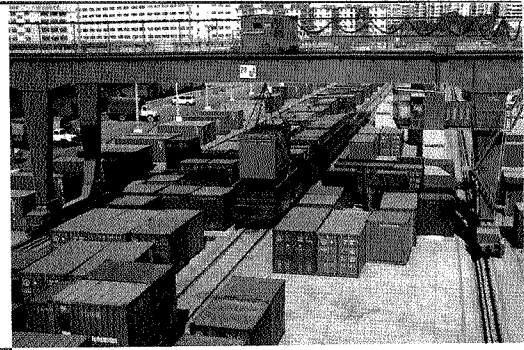
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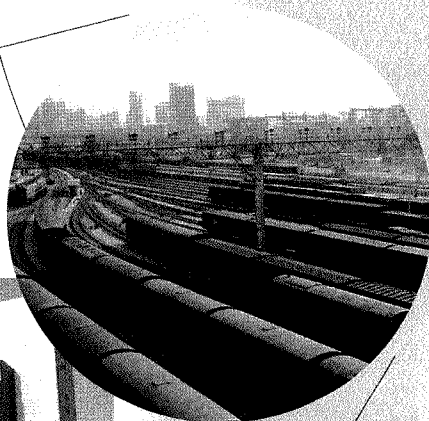
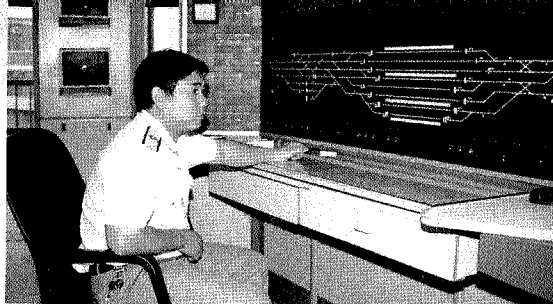
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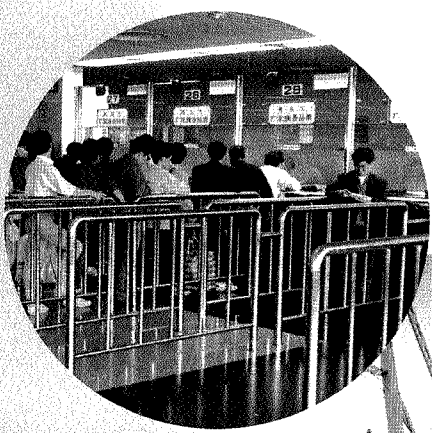
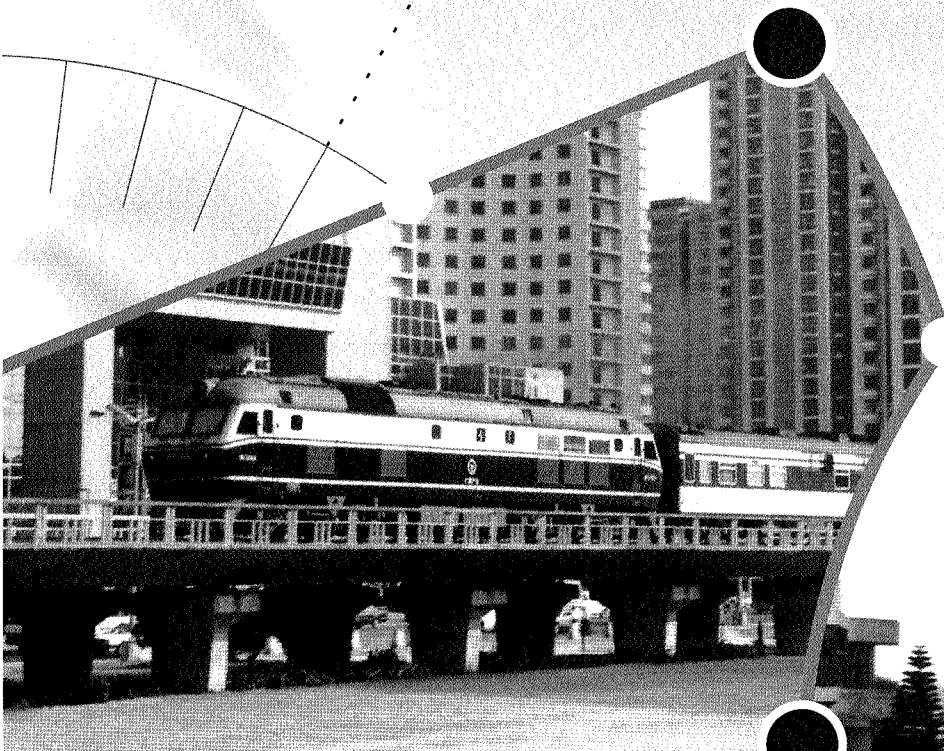
PRC Financial Advisor
Standard International Co. Ltd.

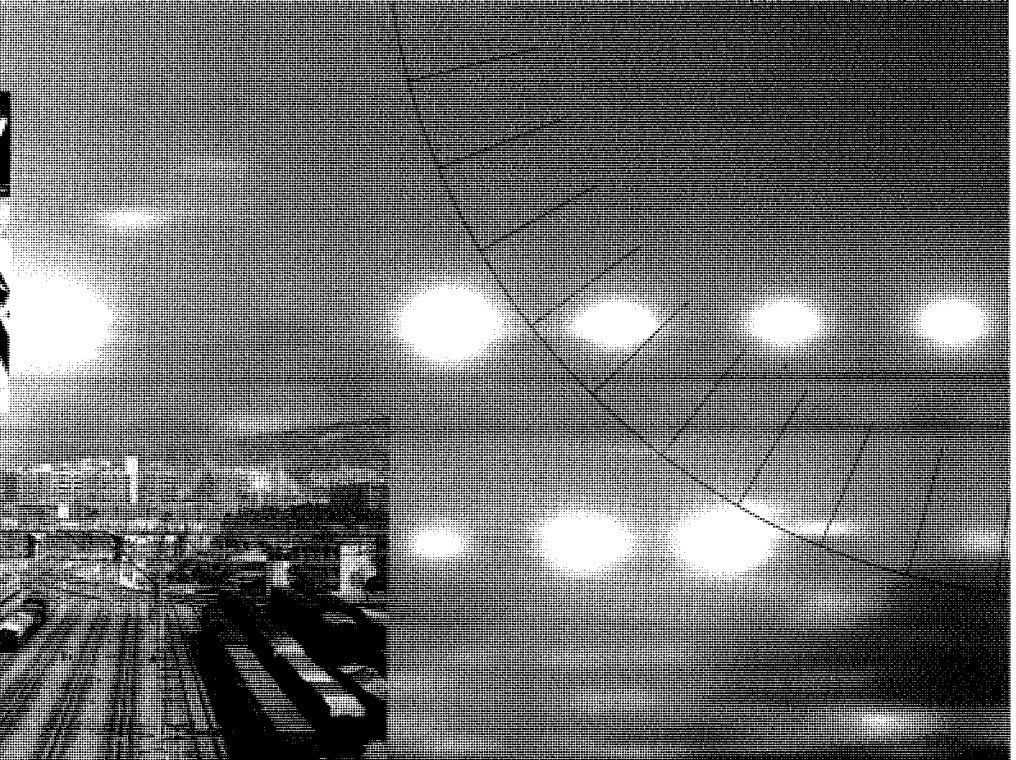
Legend
 - - - Guangshen's rail line
 — Connecting railroads











IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix X, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong. The Registrar of Companies in Hong Kong takes no responsibility for the contents of this prospectus or the documents referred to above.

The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and Hong Kong Securities Clearing Company Limited ("Hongkong Clearing") take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

GUANGSHEN RAILWAY COMPANY LIMITED

廣深鐵路股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

NEW ISSUE

of 1,244,650,000 H Shares, par value RMB1.00 each, of which 124,465,000 H Shares, subject to adjustment in certain instances, are being offered in Hong Kong at HK\$2.91 per H Share payable in full on application subject to refund

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New Japan Securities International (Hong Kong) Limited

Seapower Securities Limited

Sun Hung Kai Investment Services Ltd.

PRC Financial Adviser

Standard International Co. Ltd.

The Hong Kong Offering is part of a world-wide offering of 1,244,650,000 H Shares (including H Shares represented by ADSs) to be made in Hong Kong, the United States and various other jurisdictions. The number of H shares being offered in the worldwide offering may be increased by up to 186,650,000 H Shares through the exercise of the Over-allotment Options. The number of H Shares being offered in Hong Kong ("Offered Shares") may be increased in certain circumstances by a reallocation of H Shares from the world-wide offering. Furthermore, certain discretion has been given to the Global Coordinator to reallocate H Shares among the various offerings. Further details are set out in the section "Combined Offering".

The price per Offered Share will be based on the Hong Kong dollar equivalent of the United States dollar price per H Share of the ADSs as determined by certain Underwriters and the Company. It will be set at a level slightly lower than, but will after addition of 1% brokerage and 0.013% stock exchange transaction levy (which are payable by applicants in the Hong Kong Offering, but not those in the US Offering or the International Offering) be equal to, the price per H Share of the ADSs, subject to any necessary rounding. (The transaction levy otherwise payable by investors in the US Offering and the International Offering on the H Shares purchased by them will be borne by the Company.) The price per Offered Share will be not more than HK\$2.91 and is expected to be not less than HK\$2.45. Applicants for Offered Shares are required to pay, on application, the maximum price of HK\$2.91 per Offered Share subject to refund if the price determined as described above should be lower than the maximum price. Further details are set out in the sections "Combined Offering" and "Procedure for application".

The procedure for application is set out at the end of this prospectus. The attention of nominees who wish to submit separate applications on behalf of different beneficial owners is drawn to the section "Procedure for application". The application list for the Offered Shares will open at 11:45 a.m. on 9th May, 1996 and will close at 12:00 noon on the same day (subject to the conditions set out in the section "Procedure for application"). Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange, the H Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in the Central Clearing and Settlement System ("CCASS") with effect from the commencement date of dealings in the H Shares or such other date as may be determined by Hongkong Clearing. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Company is incorporated, and its businesses are located, in the PRC. Potential investors in the Company should be aware of the differences in the legal, economic, and financial systems between the mainland of the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the shares of the Company. Such differences and risk factors are set out in the sections "Risk factors", "Appendix VI—The People's Republic of China", and "Appendix IX—Summary of principal legal and regulatory provisions and Articles of Association". Investors should also be aware that the companies and securities regulatory framework in the PRC to which the Company is subject has only recently been introduced.

6th May, 1996

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SUMMARY

The following information is derived from, and should be read in conjunction with, the full text of this prospectus.

THE PRC RAILWAY SYSTEM

The PRC railway network is among the world's largest and is the leading mode of transportation in China. The PRC railway system is also among the world's leaders in passenger and freight traffic volume, as well as in equipment and track utilisation.

Since 1979, when economic reforms were first introduced in the PRC, PRC GDP has grown at a compound annual rate of 10%. During the same period, while rail passenger and freight traffic grew at compound annual rates of 8% and 5%, respectively, the total operating track length in the PRC grew at a rate of less than 1% per year. While demand has been increasing, the lack of expansion of the railway network has constrained traffic growth. Concerns about the possible implications of such constraint on China's overall economic growth have caused the PRC Government to adopt an aggressive infrastructure development plan in which the railway sector is a primary focus. The plan contemplates investments of RMB300 billion for the development of the railway sector in China over the next five years.

As part of financing the railway expansion plan and contributing to reform of the railway system, the State Council Securities Commission issued a notice to permit the Company to pursue an overseas offering and listing. The Company, which performs the functions of a railway sub-administration under the jurisdiction of the MOR, believes it was selected for several reasons:

High profitability. The Company's railroad is among the most profitable in China.

Leader in railway reform. Since 1984, the Company has been granted increased responsibility for managing its railway operations, authority to charge premium prices for its passenger and freight transportation services and accountability for profitability.

Company location. The Company is based in the high growth Pearl River Delta and headquartered in Shenzhen, where many of China's economic reforms were first introduced.

Modern technology. The Company's railroad is one of the most modern in the PRC, and the Company operates the only high speed rail line in the PRC.

Strategic investments in infrastructure. The Company has specific and substantial capital requirements to complete its high speed rail line, to fund the next phase of its development and to ensure adequate operating capacity in the region.

SUMMARY

THE COMPANY

The Company operates the sole railroad between Guangzhou, the capital city of Guangdong Province, and Shenzhen in the PRC's rapidly developing Pearl River Delta. The Company's railroad is a principal component of the transportation infrastructure of southern China, and the Company is the leading provider of passenger and freight transportation services in the Guangzhou-Shenzhen Corridor. The Company's railroad connects with the rail line to Hong Kong, and the Company operates through train passenger service between Hong Kong and Guangzhou, with limited service to Changping, Foshan and Zhaoqing in Guangdong Province. According to an independent market survey conducted by Frank Small & Associates, in 1995 the Company's market share of persons travelling between Guangzhou and Shenzhen was 75%, and for persons travelling directly between Guangzhou and Hong Kong, the Company's market share was 62%. Hong Kong through train service is operated jointly with KCRC, a public authority established as a corporation by the Hong Kong government. The Company's rail line also connects with the rest of the PRC national railway network as well as with local rail lines to Yantian, Shekou, Chiwan and Mawan ports in Shenzhen and Huangpu port near Guangzhou, the key ports in southern China. In addition to railway transportation, the Company engages in other businesses, principally sales of food, beverages and merchandise to passengers.

The Company believes that its railroad operating margins are among the highest in the world. In 1995, its railroad operating margin was 63%, compared to an average of 17% for Class I railroads in the United States. In 1995, the Company carried 24.2 million passengers and 28.2 million tonnes of freight and generated revenues of RMB2,332.2 million (HK\$2,166.7 million) and net income of RMB1,250.3 million (HK\$1,161.6 million).

Passenger and freight transportation represented 48% and 33% of revenues, respectively, while operating income from railroad transportation represented 92% of total 1995 operating income. The Company has also experienced rapid growth. From 1991 to 1995, the Company's passenger revenues and freight revenues grew at compound annual rates of 22% and 17%, respectively, while other business revenues have increased at a compound annual rate of 36%. Over the same period, operating income from railroad transportation and other businesses has grown at compound annual rates of 14% and 54%, respectively. Railroad revenue and operating income growth have been driven in part by growth in revenues per passenger-kilometre and per tonne-kilometre, which increased from 1991 to 1995 at compound annual rates of 25% and 13%, respectively.

The Company's railroad is one of the most modern in the PRC. In addition to operating the only high speed rail line in the PRC, the Company has one of only two triple-tracked rail lines in China. The Company's two high speed tracks and the majority of its third track were constructed in the last five years. Since 1987, the Company has rebuilt or remodelled most of its stations and freight yards.

THE COMPANY'S MARKET

The Company operates in the Pearl River Delta, which includes much of Guangdong Province, Hong Kong and Macau. Rapid growth in the region has been driven by PRC policy reforms that encourage foreign investment, particularly in the manufacturing sector, and promote exports. Guangdong Province as a whole has been the fastest growing province in the PRC, with annual GDP growth rates of 22%, 19% and 15% in 1993, 1994 and 1995, respectively. Guangzhou, the largest city in southern China, achieved an average annual GDP growth rate of 20% from 1991 to 1995 and had the second highest household income in China in 1995. Shenzhen, the second largest city in Guangdong Province and the location of one of the original SEZs, has been China's fastest growing city, achieving an average annual GDP growth rate of 31% from 1991 to 1995. Household income in Shenzhen is currently the highest in China.

Much of the region's growth is attributable to its proximity to Hong Kong, one of the world's leading financial and international trade centres. Approximately three-quarters of total foreign investment in Guangdong Province since 1986 has come from Hong Kong. Regional growth has also been made possible by the developed transportation infrastructure. Hong Kong's container port (consisting principally of the Kwai Chung port) is the busiest container port in the world, and approximately two-thirds of the freight handled at the port originates from or is destined for China. The Pearl River Delta also has regional ports, including Yantian, Shekou and Huangpu, each of which is linked directly or through connecting rail lines to the Company's railroad.

Since mid-1993, when the PRC introduced an austerity programme aimed at curbing inflation and promoting sustainable economic development, growth in passenger and freight transportation has slowed in the region. However, the Company believes that demand for passenger and freight transportation in its service territory will increase in the future as a result of several factors, including (i) continuing strong overall economic growth in the region, (ii) the completion of major new rail lines which will connect with the Company's line, including the Beijing-Hong Kong rail line, (iii) the impending reunification of Hong Kong and China in July 1997, (iv) increases in port capacity in the Guangzhou-Shenzhen Corridor and in Hong Kong and (v) increases in international intermodal container transport in the PRC. According to Frank Small & Associates, from 1996 through 2000, the number of persons travelling between Guangzhou and Shenzhen is projected to increase at an annualised rate of 8.3% and the number of persons travelling directly between Guangzhou and Hong Kong is projected to increase at an annualised rate of 7.5%.

COMPANY STRATEGY

The Company's strategic objective is to build on its position as the leading transportation provider in the Guangzhou-Shenzhen Corridor. To achieve this objective, the Company is in the process of significantly upgrading its transportation services, particularly its passenger service, through the full implementation of frequent, convenient, high speed passenger trains. This upgrade in service will be achieved in part by investments in new infrastructure and through changes in the way the Company manages its businesses, made possible by new autonomy granted to the Company by the PRC Government.

SUMMARY

The Company's strategy for enhancing its leading market position includes the following key elements:

Investments in infrastructure

The Company intends to invest in new infrastructure that supports its objectives of improving the quality of its service and increasing revenues. Major projects that the Company has started include:

The High Speed Project. The Company's investment in the High Speed Project is a key part of the Company's plan to upgrade the quality of its train operations and enhance the Company's competitive position. In December 1994, the Company completed the construction of the principal facilities and commenced operation of high speed passenger service. The Company is purchasing additional high speed coaches and locomotives and replacing certain of its regular speed passenger trains with high speed trains and adding other high speed trains. In addition, the Company intends to increase the frequency of overall train service (including its high speed trains) which, it believes, will encourage travel along the Company's routes and increase total ridership. The Company will continue to invest in the remaining portions of the High Speed Project, all of which are expected to be completed in 1997.

Electrification. The Company intends to electrify its high speed line, enabling faster and more frequent service to be implemented. The electrification project is expected to be completed in 1998.

Guangzhou East Station. The Company's Guangzhou East Station will become the hub for service between Guangzhou and Shenzhen, and may (subject to regulatory approvals by the MOR or the Parent Company) enable the Company to initiate new long-distance service to other parts of China. The construction of the Guangzhou East Station is expected to be completed in the second half of 1996. The station has been partially operational since 1995.

New autonomy

In early 1996, the Parent Company, the MOR and central government authorities granted the Company significant increased flexibility and new autonomy in the pricing of its transport services and management of its operations. The Company intends to utilise such flexibility and autonomy to make substantial changes to many aspects of its operations, including (i) increasing the frequency of passenger train service, (ii) altering train schedules and seat mix to accommodate customer travel patterns and seating preferences, (iii) setting fares based on market demand and (iv) assuming greater control over the allocation of freight cars to its customers.

SUMMARY

Customer service

The Company continually seeks ways to improve service to its customers. In addition to making service improvements that are part of the High Speed Project, the Company intends to upgrade the quality of service on board its trains, increase the number of ticket outlets to allow passengers to purchase tickets at more locations and improve its computer reservation system to facilitate advance bookings. For its freight customers, the Company intends to shorten the lead time required of its customers to reserve freight cars and to provide more accurate and timely information on freight location and delivery status.

Cost management and organisational improvement

The Company believes that it has an opportunity to contain costs in the future and to further modernise its organisation. The Company has implemented measures to control equipment lease and service costs currently associated with Yang Cheng by purchasing locomotives and rolling stock and by maintaining high speed passenger coaches in-house. The Company also intends to limit increases in labour and administrative costs. Further, while the Company previously obtained most of its supplies and equipment through MOR-owned suppliers, the Company intends to evaluate alternative suppliers in an effort to reduce purchasing costs. The Company also intends to continue to improve the quality and effectiveness of its organisation by linking compensation and performance, expanding staff training and applying more advanced management practices to both planning and operations.

Opportunities for other businesses

The Company believes that there are significant opportunities to expand its other business activities. The Company plans to operate restaurants and lease space to retailers at its Guangzhou East Station, benefiting from significant passenger flows through this new station. The Company also intends to strengthen sales of food and merchandise on its trains. The Company has formed a marketing group to review the products offered by the Company on its trains and to select products for which demand and margins will be higher.

SUMMARY

TRADING RECORD

Set out below is a summary of the audited combined results of the Company for each of the three years ended 31st December, 1995, which has been prepared on the basis of the Accountants' Report set out in Appendix I. The summary has been prepared on the assumption that the Restructuring had been completed as of the beginning of the periods presented and the business activities had been performed by the Company throughout the relevant periods.

	Year ended 31st December,			Year ended 31st December,		
	1993	1994	1995	1993	1994	1995
	(RMB millions)			(HK\$ millions)		
Turnover	1,650.9	2,123.9	2,332.2	1,533.7	1,973.2	2,166.7
Profit before taxation	1,030.3	1,274.2	1,273.8	957.2	1,183.8	1,183.4
Taxation	18.1	23.8	18.5	16.8	22.1	17.2
Net profit	999.8	1,242.3	1,250.3	928.8	1,154.1	1,161.6

Note: Amounts in Renminbi have been translated into Hong Kong dollars at the PBOC Rate on 8th April, 1996 of HK\$1.00 = RMB1.0764. No representation is made that the Renminbi amounts could have been, or could be, converted into HK dollars at that rate or at any other certain rate on 8th April, 1996 or on any other date.

PRO FORMA INFORMATION

The unaudited pro forma information set forth below presents the combined results of operations of the Company for the year ended 31st December, 1995 as if (a) the 1996 profits tax rate of 15% had been applied to profit from the Company's railroad businesses in 1995, (b) the Yang Cheng Agreement had been in effect throughout 1995, (c) additional depreciation resulting from the revaluation of the Company's fixed assets in 1995 which was not recognised until 1996 had been recorded and (d) the new social service agreements with GEDC, Yang Cheng and the Parent Company had been in effect in 1995:

	RMB (thousands)
Net profit as reported	1,250,344
Pro forma adjustments: (unaudited)	
—Taxation	(171,345)
—Equipment lease and service cost	(29,422)
—Depreciation	(33,249)
—Social services	(9,000)
Pro forma net profit (unaudited)	<u>1,007,328</u>

The unaudited pro forma net profit of the Company has been prepared for information and comparative purposes only and does not purport to indicate the combined results of operations of the Company which would actually have occurred had the above arrangements been in effect on 1st January, 1995, or the combined results of operations of the Company for any future date or period. See Section (A) of Appendix II.

SUMMARY

FORECAST FOR THE YEAR ENDING 31ST DECEMBER, 1996

Combined profit after taxation and minority interests but before extraordinary items ⁽¹⁾	not less than RMB1,077 million (HK\$1,001 million) ⁽⁵⁾
Earnings per Share	
(a) fully diluted ⁽²⁾	RMB0.27 (HK\$0.25) ⁽⁵⁾
(b) weighted average ⁽³⁾	RMB0.29 (HK\$0.27) ⁽⁵⁾
Final dividend per Share ⁽⁴⁾	RMB0.05 (HK\$0.046) ⁽⁵⁾

- (1) The bases and assumptions on which the above profit forecast has been prepared are set out in Appendix V.
- (2) The calculation of the forecast earnings per Share on a fully diluted basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items for the year ending 31st December, 1996 assuming that the Company had been listed since 1st January, 1996 and a total of 4,148,900,000 Shares were in issue during the entire year. The forecast combined profit after taxation but before extraordinary items for the year ending 31st December, 1996 has been adjusted to take into account the interest income that would have been earned if the proceeds from the Combined Offering were received on 1st January, 1996 on the basis that the interest rates for US\$ and HK\$ deposits during 1996 were those prevailing on 1st January, 1996. These calculations assume that the Over-allotment Options will not be exercised, and the H Shares issued pursuant to the Combined Offering were issued on 1st January, 1996 at a Hong Kong Offering Price of HK\$2.68 per H Share (excluding 1% brokerage and 0.013% stock exchange transaction levy, which are payable by applicants in the Hong Kong Offering, but not those in the US Offering and the International Offering) and an offering price per ADS in the US Offering and the International Offering of US\$17.50.
- (3) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast combined profit after taxation and minority interests but before extraordinary items and a weighted average number of 3,693,208,470 Shares assumed to be in issue during the year. The calculation assumes that the Over-allotment Options will not be exercised, and the H Shares issued pursuant to the Combined Offering will be issued at a price of HK\$2.68 per H Share with respect to the Hong Kong Offering, and US\$17.50 per ADS with respect to the US Offering and the International Offering on the basis shown in note (2) above.
- (4) The forecast final dividend per Share for the year ending 31st December, 1996 is based on the above profit forecast, details of which are set out in the section "Profit forecast and dividend policy". The calculation assumes that the Over-allotment Options will not be exercised and the H Shares issued pursuant to the Combined Offering will be issued at a price of HK\$2.68 per H Share and US\$17.50 per ADS with respect to the US Offering and the International Offering on the basis shown in note (2) above.
- (5) Amounts in Renminbi have been translated into Hong Kong dollars at the rate of HK\$1.00 = RMB1.0764, being the PBOC Rate on 8th April, 1996. No representation is made that the Renminbi amounts could have been, or could be, converted into HK dollars at that rate or at any other certain rate on 8th April, 1996 or on any other date.

SUMMARY

ISSUE STATISTICS⁽¹⁾

	Based on a Hong Kong Offering Price of HK\$2.45 per H Share	Based on a Hong Kong Offering Price of HK\$2.91 per H Share
Market capitalisation of the H Shares ⁽¹⁾	HK\$3,049 million	HK\$3,622 million
Prospective price/earnings multiple		
(a) fully diluted ⁽²⁾	9.80 times	11.64 times
(b) weighted average ⁽³⁾	9.07 times	10.78 times
Prospective dividend yield ⁽⁴⁾	1.88%	1.58%
Adjusted net tangible asset value per Share ⁽⁵⁾	RMB1.78	RMB1.86

- (1) Except where otherwise indicated, the issue statistics have been prepared on the assumption that the Over-allotment Options will not be exercised. Issue statistics shown in Hong Kong dollars and the prospective earnings of the Company taken into account in the prospective price/earnings multiple have been translated from Renminbi into Hong Kong dollars at the rate of HK\$1.00 = RMB1.0764, being the PBOC Rate on 8th April, 1996. No representation is made that the Renminbi amounts could have been, or could be, converted into HK dollars at that rate or at any other certain rate on 8th April, 1996 or on any other date. Issue prices of HK\$2.45 and HK\$2.91 for H Shares issued in the Hong Kong Offering do not include 1% brokerage and 0.013% stock exchange transaction levy.
- (2) The prospective H Share price/earnings multiple on a fully diluted basis is based on the assumptions set out in note (2) to the section "Forecast for the year ending 31st December, 1996" above.
- (3) The prospective H Share price/earnings multiple on a weighted averaged basis is based on the assumptions set out in note (3) to the section "Forecast for the year ending 31st December, 1996" above.
- (4) The prospective dividend yield is based on the total dividends of RMB0.05 (HK\$0.046) per Share which the Company intends to pay for the year ending 31st December, 1996, representing payout of a portion of the Company's profits from the date of listing through 31st December, 1996.
- (5) The adjusted net tangible asset value per Share has been arrived at after the adjustments, including a surplus of approximately RMB1,492 million arising on valuation of the Company's machinery and equipment and properties, referred to in the section "Adjusted net tangible assets" and on the basis of 4,148,900,000 Shares in issue immediately following the completion of the Combined Offering.

If the Over-allotment Options are exercised in full, the adjusted net tangible asset value per Share will be increased, while the earnings per Share will be diluted correspondingly. However, the Company believes that this will not have any material effect on the shareholders.

SUMMARY

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

The following tables present selected financial information and operating data of the Company and its subsidiaries as of 31st December, 1991, 1992, 1993, 1994 and 1995 and for the years then ended. The selected financial information as of and for the years ended 31st December, 1991 and 1992 and the operating data have been prepared by the Company based on the accounting policies set forth in Section 3 of Appendix I and are unaudited and should not be accorded the same degree of reliability as audited information. The selected financial information and operating data as of and for the years ended 31st December, 1993, 1994 and 1995 should be read in conjunction with, and are qualified by reference to, the Accountants' Report prepared by Arthur Andersen & Co., independent public accountants, the text of which is set out in Appendix I and the additional financial disclosures in Section (B) of Appendix II.

A. Selected financial information

	Year ended 31st December,					
	1991	1992	1993	1994	1995	1995
	RMB (Unaudited)	RMB (Unaudited)	RMB	RMB	RMB	HK\$(¹)
	(Amounts in thousands)					
Income statement data:						
Revenues from railroad businesses						
—passenger	496,265	609,613	820,068	1,147,868	1,117,328	1,038,023
—freight	408,044	447,682	546,575	639,380	771,843	717,060
Subtotal	904,309	1,057,295	1,366,643	1,787,248	1,889,171	1,755,083
Revenues from other businesses	128,040	205,945	284,288	336,625	443,055	411,608
Turnover	1,032,349	1,263,240	1,650,931	2,123,873	2,332,226	2,166,691
Railroad operating expenses	197,060	262,472	403,360	623,159	702,839	652,953
Other businesses operating expenses	110,382	150,581	218,942	243,104	343,120	318,767
Operating profit	724,907	850,187	1,028,629	1,257,610	1,286,267	1,194,971
Net profit	700,907	842,837	999,800	1,242,334	1,250,344	1,161,598
Balance sheet data:						
Working capital (excluding short-term loans payable to Parent Company)	2,451	(87,562)	(472,654)	(471,735)	(856,969)	(796,143)
Short-term loans payable to Parent Company	—	—	—	906,242	1,176,721	1,093,201
Fixed assets	665,391	1,213,711	2,082,165	3,145,287	3,683,508	3,422,062
Total assets	930,304	1,573,822	3,018,477	4,866,705	5,736,428	5,329,271
Long-term loan payable to Parent Company	—	—	—	250,490	375,000	348,383
Equity	687,848	1,199,091	2,059,611	2,502,554	2,649,575	2,461,515
Cash flow statement data:						
Net cash provided by operating activities	704,737	1,005,032	1,093,185	1,475,219	1,344,807	1,249,356
Net cash used in investing activities	56,461	597,933	1,119,047	1,503,339	1,067,281	991,528
Net cash (used in) provided by financing activities	(647,544)	(271,428)	165,716	313,141	(443,961)	(412,450)
Capital expenditures	56,461	595,751	1,103,421	1,500,862	1,049,345	974,865
Distribution to Parent Company	637,340	879,645	998,854	1,317,236	1,314,434	1,221,139
Contribution from Parent Company	80,113	548,051	859,574	517,845	211,111	196,127
Other data:						
EBITDA ⁽²⁾	744,647	914,762	1,100,599	1,366,395	1,423,337	1,322,312
Railroad transportation operating profit	707,249	794,823	963,283	1,164,089	1,186,332	1,102,130
Other businesses operating profit	17,658	53,364	65,346	93,521	99,935	92,481

(1) Translations of amounts from Renminbi into HK dollars for the convenience of the reader have been made at the PBOC Rate on 8th April, 1996, of HK\$1.00 = RMB1.0764. No representation is made that the Renminbi amounts could have been, or could be, converted into HK dollars at that rate or at any other certain rate on 8th April, 1996 or on any other date.

(2) EBITDA refers to earnings before interest income, interest expense, taxes, depreciation and amortisation. EBITDA should not be construed as an alternative to operating income or any other measure of performance determined in accordance with IAS or as an indicator of the Company's operating performance, liquidity or cash flows generated by operating, investing and financing activities. The Company has included the information concerning EBITDA because management believes it is a useful supplement to cash flow data as a measure of the Company's performance.

SUMMARY

B. Operating data

	Year ended 31st December,					
	1991	1992	1993	1994	1995	1995 ⁽¹⁾
Operating ratio (percentage) ⁽²⁾	21.8	24.8	29.5	34.9	37.2	37.2
Total passengers (millions)	23.0	29.3	30.3	28.3	24.2	24.2
Passenger traffic (million passenger-kilometres) ⁽³⁾	2,870.0	3,537.2	3,558.0	3,257.9	2,689.2	2,689.2
Passenger revenues (RMB millions)	496.3	609.6	820.1	1,147.9	1,117.3	1,038.0
Passenger revenues per passenger (RMB)	21.58	20.81	27.07	40.56	46.17	42.89
Passenger revenues per passenger-kilometre (RMB) ⁽³⁾	0.17	0.17	0.23	0.35	0.42	0.39
Total tonnes of freight (million tonnes)	23.9	26.3	27.8	28.6	28.2	28.2
Freight traffic (million tonne-kilometres) ⁽⁴⁾	1,875.5	2,098.9	2,215.7	2,247.4	2,167.0	2,167.0
Freight revenues (RMB millions)	408.0	447.7	546.6	639.4	771.8	717.1
Freight revenues per tonne (RMB)	17.07	17.02	19.66	22.36	27.37	25.4
Freight revenues per tonne-kilometre (RMB) ⁽⁴⁾	0.22	0.21	0.25	0.28	0.36	0.33
Route kilometres at period end	147	147	147	147	147	147
Track kilometres at period end ⁽⁵⁾	—	—	493	601	645	645
Total active employees at period end ⁽⁵⁾⁽⁶⁾	—	—	6,405	6,409	6,451	6,451

(1) Financial data in this column are in HK dollars, rather than Renminbi, where applicable, translated at the PBOC Rate on 8th April, 1996 of HK\$1.00 = RMB1.0764. No representation is made that the Renminbi amounts could have been, or could be, converted into HK dollars at that rate or at any other certain rate on 8th April, 1996 or on any other date.

(2) Operating ratio refers to railroad operating expenses as a percentage of railroad revenues.

(3) This item denotes the product of the number of paying passengers carried and the kilometres such passengers travelled on the Company's line.

(4) This item denotes the product of the number of tonnes of freight carried for hire and the number of kilometres such freight travelled on the Company's line.

(5) Information for 1991 and 1992 is not available.

(6) This item denotes total employees excluding temporary employees.

EXPECTED TIMETABLE

Latest time for lodging applications	12:00 noon on Thursday, 9th May, 1996
Announcement of Hong Kong Offering Price, basis of allotment and results of applications for white form applicants to be published in newspapers ⁽¹⁾	Monday, 13th May, 1996
Refund cheques to be posted on ⁽²⁾⁽³⁾	Monday, 13th May, 1996
Share certificates for H Shares to be posted on ⁽³⁾	Monday, 13th May, 1996
Dealings in H Shares expected to commence on	Tuesday, 14th May, 1996

- ⁽¹⁾ The South China Morning Post and the Hong Kong Economic Journal.
- ⁽²⁾ Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Hong Kong Offering Price is less than the price payable on application.
- ⁽³⁾ Applicants for 1,000,000 Offered Shares or more, and applicants who apply for less than 1,000,000 Offered Shares but have indicated their desire to do so, may collect refund cheques and (where relevant) H Share certificates personally on the same date. See "Procedure for application".

RISK FACTORS

Investors should consider carefully all of the information set out in this prospectus and, in particular, should evaluate the following risks in connection with an investment in the Company, certain of which are not typically associated with investing in equity securities of companies from Hong Kong or other economically advanced jurisdictions. For more information concerning the PRC and certain related matters discussed below, see “Appendix VI — The People’s Republic of China” and “Appendix IX — Summary of principal legal and regulatory provisions and Articles of Association”.

OPERATIONAL CHANGES AND SIGNIFICANT CAPITAL EXPENDITURES

Since the Restructuring, the Company has begun to operate its businesses in an environment of significantly greater freedom from regulatory constraints than was the case prior to the Restructuring. As a part of its business strategy, the Company intends to utilise this increased autonomy to increase both transportation volumes and profitability. See “Particulars of the Company — Business description — Principal businesses — Regulatory environment” and “ — Future plans and prospects”.

Since 1987, the Company has made significant capital expenditures, the primary focus of which has been the construction of the High Speed Project. In addition to the High Speed Project, the Company has invested in electrification of its tracks and significant improvements to and expansions of its stations, freight yards and warehouses. Some of these capital projects have been completed or, as in the case of fixed asset improvements of the High Speed Project, are nearing completion, while others, including the significant capital improvements to the Company’s Guangzhou East Station and the acquisition of substantial numbers of locomotives and passenger coaches as part of the High Speed Project, require significantly more capital expenditures and time to complete. The Company estimates that total costs for the capital projects undertaken since 1991 have been RMB4.31 billion through the end of 1995, and that capital expenditures necessary to fully complete the projects (which will be financed in part with the net proceeds of the Combined Offering and in part through other means, such as cash flow from operations), including electrification of its tracks and establishment of maintenance facilities for its new locomotives and passenger coaches, will be approximately RMB3.04 billion.

Both the implementation of the Company’s business strategy and the execution of its capital expenditure programme pose substantial risks for the Company which, because of the substantial changes expected in the future, exceed the ordinary business development risks faced by most other businesses. The Company’s strategy is dependent on its ability to obtain customer support for its programme of enhancing its facilities and operations and providing high speed passenger train service. The Company’s operations and implementation of strategy are also subject to completion and timing risks, including risks relating to construction schedules, machinery and equipment purchases and deliveries, and timely and efficient integration of new assets into the Company’s businesses.

The risks facing the Company also include operating risks, such as risks relating to the ability of the Company’s management team (which, although formally appointed to their current

RISK FACTORS

positions around the time of the Restructuring, comprises mostly persons who served the Predecessor in similar functions for many years) to operate effectively in the new environment existing after the Restructuring. Further, the financial, accounting and operations systems and controls in effect for the Company, while consistent, the Company believes, with those utilised by other PRC companies, differ in certain respects from those utilised by companies in many Western countries.

No assurance can be given that the successful implementation of the Company's plans will be completed on the timetable anticipated by the Company, or at all.

DECLINING VOLUMES AND PASSENGER TRANSPORT REVENUES

Although the Company's annual aggregate transport revenues have increased consistently through 1995, since 1993 annual passenger transport volumes have declined, and annual passenger transport revenues declined slightly in 1995. In addition, annual freight transport volume also declined marginally in 1995. The Company believes that these declines are attributable to factors including (i) substantial increases in passenger ticket prices on the Company's line, which may have discouraged more price sensitive passengers, (ii) the national economic slowdown due to the onset of the PRC Government's austerity programme in mid-1993, (iii) competition from other means of transport and (iv) service delays on the Company's line due to construction of the high speed line. See "Particulars of the Company — Trading record — Results of operations — Overview" and " — Business description — Competition — Passenger transport". There can be no assurance that these declines in the Company's passenger or freight transport volumes will not continue, or that, despite any such declines, the Company will be able to maintain or increase its current level of aggregate revenues through price increases in its railroad transport businesses or expansion of its other businesses.

DEVELOPMENTS IN THE PEARL RIVER DELTA

The Pearl River Delta has been one of China's strongest centres of economic development, as well as the focus of considerable attention stemming from the impending resumption of sovereignty over Hong Kong by the PRC on 1st July, 1997. Growth in the Pearl River Delta has been attributable in part to preferential policies, such as tax incentives, applicable to SEZs in the region, including Shenzhen. There can be no assurance that such preferential policies will continue in the future. Further, even if such preferential policies do continue, there can be no assurance that Shenzhen and the Pearl River Delta will continue to develop at the rapid pace at which they have developed in the past few years or that any such development will be accompanied by corresponding growth in the overall demand for transportation. See "The PRC railway industry and the Company's market environment — The Company's market environment". Any change in policies or any increase in competition for the Pearl River Delta from other rapidly developing areas of the PRC could negatively affect the growth in the Pearl River Delta, including Shenzhen. In addition, the uncertainty surrounding the reunification of Hong Kong with China may lead to disruption of economic development in the Pearl River Delta generally and in the Shenzhen SEZ in particular.

RISK FACTORS

The Company may face certain direct negative effects resulting from changes in border controls following the reunification of Hong Kong with the PRC. For example, if the PRC opens the border to private automobile traffic from Hong Kong, this could lead to direct competition to the Company's passenger transport business. See "The PRC railway industry and the Company's market environment — The Company's market environment — Hong Kong".

GOVERNMENT REGULATION OF THE RAILWAY SYSTEM

The PRC's national railway system is state-owned and operated as a single unified system, and is subject to operational and regulatory control by the MOR and, with respect to price setting for transport services, by the State Council. The Predecessor operated substantially within this system in which the MOR exercised overall authority over transportation operations, equipment and materials procurement, engineering and construction, revenue and expenditure controls, as well as other aspects of railroad operations.

In connection with the Restructuring, the Company has been granted by the Parent Company and the MOR special flexibility and autonomy in areas such as obtaining freight cars, scheduling services and determining the mix of passenger seat classes within its own line, routing trains through bottlenecks beyond its rail line and despatching empty freight cars to destinations beyond the Company's line. In addition, in February 1996, the State Council granted the Company, with effect from 1st April, 1996, increased flexibility and autonomy with respect to the setting of passenger fares and freight tariffs. This regulatory flexibility and autonomy allows the Company a greater degree of control over its operations and ability to adjust its services to meet market demand. Further, in preparation for the Combined Offering, the Company has achieved legal clarification and confirmation of its asset ownership, corporate powers and relationships with service providers and other entities in the national railway system. Because these changes are fairly recent, there has been limited experience on the part of the Company, the Parent Company and others in implementing these measures. Consequently, certain operational details remain to be determined and others are relatively untested. No assurance can be given that implementation of these changes will achieve the economic effect intended by the Company.

Although the operating flexibility and autonomy is granted to the Company without a fixed time limit, there can be no assurance that this will not be changed in the future or that other railway operators will not be granted similar treatment. Apart from the special dispensations granted in connection with the Restructuring, the Company, as a part of the national railway system, is generally subject to industry regulation by the MOR and must coordinate with other entities in the railway system where its operations relate to those entities. See "The PRC railway industry and the Company's market environment — PRC railway industry — Regulatory structure and the Ministry of Railways", "Particulars of the Company — Business description — Principal businesses — Regulatory environment" and " — Relationship with the Ministry of Railways".

RISK FACTORS

INSURANCE

The Company does not currently maintain any insurance coverage with third party carriers against third party liabilities. Pursuant to applicable PRC regulations and the practice of national railway companies, the Company is liable for (i) personal injury to or death of its passengers, in the case of accidents and regardless of fault, for up to RMB40,000 per passenger and (ii) personal injury to or death of non-passengers, for hospital and/or funeral expenses and a payment of up to RMB40,000 per person, and/or property damage to non-passengers (exclusive of damage to freight shipped by the Company), but in each case only to the extent that the Company is at fault. Since its inception in 1984, the Company has not been subject to any liability for injury to or death of a passenger. Although the Company has not been found liable in any case involving the injury to or death of a non-passenger, the Company has agreed to make certain payments to such persons or their families in certain cases. In 1993, 1994 and 1995, the Company paid approximately RMB1.6 million, RMB1.4 million and RMB816,000, respectively, in connection with personal injuries to and deaths of non-passengers. With respect to loss of or damage to baggage, parcels and freight, the Company's customers may elect to purchase insurance administered by the MOR for up to their declared value. Passengers who do not elect to purchase insurance in respect of their baggage and/or parcels may nevertheless recover up to RMB13 for each kilogramme of damaged baggage and/or parcels. Similarly, freight transport customers who elect not to purchase insurance may recover up to RMB2,000 for each tonne of damaged freight. No material amounts were paid by the Company in 1993, 1994 or 1995 in connection with damage to property of any passenger or non-passenger (exclusive of freight). Further, the Company has not made any payments with respect to damaged freight in the past three years.

Given the low recovery ceilings provided by applicable regulations and the relatively small amount of expenses relating to personal injury, death and freight damage claims filed against the Company, the Company believes that its exposure to third party liability as a railroad operator is currently relatively insignificant. However, there is no assurance that such regulations or the interpretation thereof will not change, that the number of claims will not increase or that the Company's exposure to personal injury or freight damage claims will not increase significantly in the future. In addition, for personal injuries, deaths or property damage related to the Company's through train service that occur in Hong Kong, Hong Kong laws may apply, in which case such recovery ceilings will not be applicable and the Company may be subject to significantly higher damage awards. See "Particulars of the Company — Business description — Insurance".

Consistent with what it believes to be the customary practice among railway operators in the PRC, the Company does not maintain insurance coverage for its property and facilities (other than for its automobiles), for business interruption or for environmental damage arising from accidents on Company property or relating to Company operations. As a consequence, in the event of an accident or other event causing loss, destruction or damage to the Company's property or facilities, causing interruption to the Company's normal operations or causing liability for environmental damage or clean-up, the Company will be reliant on its own resources to cover losses and damages. In a major flood in Shenzhen in 1993, the Company suffered approximately RMB7.5 million in property damage for which it received no third party compensation.

RISK FACTORS

With respect to its employees, the Company does not maintain medical insurance or disability insurance with any third party insurance carriers. The Company has adopted internal rules to provide for medical and disability benefits to its employees, consistent with MOR regulations and practices and relevant regulations of the Shenzhen municipality. The Company has entered into service agreements with the Parent Company and GEDC pursuant to which the health care facilities owned by these entities provide the Company's employees and their families with medical services. See "Particulars of the Company — Business description — Insurance" and " — Relationship with the Parent Company and affiliated companies".

No assurance can be given that losses incurred or payments required to be made by the Company which are not fully insured will not have a material adverse effect on the Company's financial condition.

CERTAIN PRC CONSIDERATIONS

The economy of the PRC differs from the economies of most countries belonging to the OECD in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. For over 40 years, the economy of the PRC has been a planned economy subject to one and five-year state plans adopted by central PRC Government authorities and implemented, to a large extent, by provincial and local authorities, which plans set out production and development targets. Although the majority of productive assets in the PRC is still owned by the government, in the past several years emphasis has been placed on decentralisation and the utilisation of market mechanisms in the development of the PRC economy. Such economic reform measures adopted by the PRC Government may be inconsistent or ineffectual, and the Company may not be able to capitalise on all such reforms. Further, these measures may be adjusted or modified in particular ways in particular areas, possibly resulting in such economic liberalisation measures being inconsistent from time to time or from industry to industry or across different regions of the country.

During the past 17 years, the PRC Government has been reforming, and is expected to continue to reform, its economic systems. Many of the reforms are unprecedented or experimental, and are expected to be refined and improved. Other political, economic and social factors can also lead to further readjustment of the reform measures. This refining and readjustment process may not always have a positive effect on the operations of the Company. The Company's operating results have been, and may in the future be, adversely affected by changes in the PRC's political, economic and social conditions and by changes in policies of the PRC Government such as changes in laws and regulations (or the interpretation thereof), measures which may be introduced to control inflation, changes in the rate or method of taxation or imposition of additional restrictions on currency conversion.

RISK FACTORS

COMPETITION

The Company operates in an environment of increasing competition to its railroad businesses (especially, to this point, to its passenger transport business) from other providers of transportation, such as operators of buses, trucks and air and waterway transport. The Company believes that in each of 1994 and 1995 it lost passenger market share to other providers of transportation. See "Particulars of the Company — Business description — Competition". It is generally expected that the continuing economic development of the PRC will be accompanied by infrastructural development and expansion. In particular, the Company believes that development of the PRC roadway system will receive special emphasis in PRC Government plans and policies. Therefore, the Company expects that it will need to focus increasingly on its competition, refining its business strategy to protect its position in its principal markets. Increasing competition could have a material adverse effect on the Company's results of operations. See "Particulars of the Company — Future plans and prospects".

INFLATION

The Company's costs, including those for services provided by its largest supplier, Yang Cheng, and others, are affected by inflation. Pursuant to the Yang Cheng Agreement and several other agreements with suppliers of goods and services including GEDC and certain other national and local railway and related entities, the costs to the Company of the goods and services provided by Yang Cheng and other suppliers are based on the suppliers' actual costs plus, in certain cases, a fixed profit margin, and therefore may increase as a result of inflation in the PRC.

The pricing of the Company's rail transport services, other than Hong Kong through trains and high speed trains, is regulated by the State Council, with the result that increases in pricing do not necessarily correspond to the rate of inflation in China, which, according to the China State Statistical Bureau, was 13.2%, 21.7% and 14.8% in 1993, 1994 and 1995, respectively (although from 1993 to 1995 price increases of the Company's passenger tickets generally outpaced inflation). In addition, even for those services with respect to which the Company has autonomy in pricing, there can be no assurance that the Company will be able to increase prices to offset inflation. As a result, in times of significant inflation in the PRC, the Company's margins may be compressed and its profitability reduced.

CURRENCY CONVERSION AND EXCHANGE RATE RISKS

The PRC Government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign imports. Effective 1st January, 1994, pursuant to the PBOC Notice, the conversion of Renminbi into Hong Kong and United States dollars must be based on the respective rates set by the PBOC, which are set daily based on the previous day's PRC interbank foreign exchange market rate with reference to current exchange rates on the world financial markets.

RISK FACTORS

In general, the PBOC Notice and the PRC Foreign Exchange Control Regulations, which took effect on 1st April, 1996, require that domestic enterprises operating in the PRC must price and sell their goods and services in the PRC in Renminbi. Any foreign exchange revenues received by such enterprises must be sold to authorised foreign exchange banks in the PRC. Prior to the Restructuring, the Parent Company converted Hong Kong dollar ticket sale receipts from the Hong Kong through train service into Renminbi and remitted funds in that currency to the Company. Since the Restructuring, while the Company has received such payments in Hong Kong dollars directly, it has been required to sell such foreign currency to authorised banks.

Following the completion of the Combined Offering, the Company, with more than 25% of its equity interest held by foreign investors, will be eligible and intends to apply for the status of a foreign investment joint stock limited company. In addition to the 25% foreign ownership requirement, the principal conditions for granting such status are that an applicant must have been established as a joint stock limited company with PRC Government approval, and that its scope of business is consistent with the industrial policy relating to foreign investment enterprises. In view of the PRC Government's encouragement of foreign investment in transportation projects, the Company believes that it will satisfy all relevant requirements and that it will obtain such status. If the Company obtains such status, it will be permitted to keep its Hong Kong dollar ticket sale receipts in Hong Kong dollars, which would be helpful in meeting any Hong Kong dollar obligations the Company may have (including, without limitation, payments of dividends on the H Shares). The Company also believes that it will be able to meet its foreign exchange liabilities (which are not currently material in amount) for the foreseeable future. However, there can be no assurance that the Company will obtain foreign investment enterprise status, that current authorisation for foreign investment enterprises to retain their foreign exchange revenues will not be limited or eliminated or that the Company will be able to obtain sufficient foreign exchange in the future to enable it to satisfy its foreign exchange liabilities (if any) or to pay dividends to its overseas shareholders.

As a result of the unitary exchange rate system introduced on 1st January, 1994, the official bank exchange rate for conversion of Renminbi to US dollars experienced a devaluation of approximately 50%. The exchange rate for conversion of Renminbi to Hong Kong dollars also experienced a devaluation of approximately 50% because the Hong Kong dollar to US dollar exchange rate is stabilised at around US\$1.00 = HK\$7.8. Any future devaluation of the Renminbi against the US dollar will have an adverse effect upon the US dollar equivalent and Hong Kong dollar equivalent of the Company's net income and increase the effective cost of foreign equipment and amount of foreign currency expenses and liabilities. The Company is able to partially reduce its Renminbi — US dollar and Renminbi — HK dollar exchange rate exposure because Hong Kong through train revenues, which are principally collected in Hong Kong dollars, represent a significant portion of the Company's total revenues (14% in 1995). Apart from the effect of receiving much of the through train fares in Hong Kong dollars, the Company has no plans to hedge its currency exposure in the future. No assurance can be given that the Hong Kong dollar to US dollar exchange rate link will be maintained in the future, or, therefore, that the Hong Kong dollar revenues of the Company will insulate the Company from changes in the Renminbi — US dollar and Renminbi — HK dollar exchange rates. Further, any change in exchange rates which has a negative effect on the market for the H Shares in either the US or Hong Kong is likely to result in a similar negative effect on the other market. See "Particulars of the Company — Trading record — Currency exchange".

RISK FACTORS

THE PARENT COMPANY AND RELATED COMPANIES

Immediately following the consummation of the Combined Offering, the Parent Company will own 70% of the issued share capital of the Company (67%, if the Over-allotment Options are exercised in full), and will therefore remain its controlling shareholder. As a controlling shareholder, the Parent Company will be able to make most corporate decisions, including the election of Directors, without the concurrence of any of the Company's other shareholders. In addition, the Parent Company is a state-owned enterprise under the administrative control of the MOR, which is primarily responsible for the administration and development of the PRC railway industry. The Articles of Association provide certain protection against the abuse of a controlling shareholder's powers by stipulating that, in addition to any obligation imposed by law, a controlling shareholder shall not exercise its voting rights in a manner prejudicial to the interests of the minority shareholders with respect to certain enumerated matters of fundamental importance to shareholders. There has not been, however, any published report of judicial enforcement in the PRC of such provisions by minority shareholders. See "Particulars of the Company — Relationship with the Parent Company and affiliated companies" and "Appendix IX — Summary of principal legal and regulatory provisions and Articles of Association — Articles of Association".

In addition to its relationship with the Company as the Company's controlling shareholder, the Parent Company will also affect the Company's operations as a result of the Parent Company's responsibility to control and coordinate railway operations, including monthly and daily railway traffic plans, in Guangdong Province, Hunan Province and Hainan Province. Pursuant to an agreement between the Parent Company and the Company, the Parent Company also provides social and other services to the Company. Further, several subsidiaries of the Parent Company provide services to the Company on a contractual basis. One of these, Yang Cheng, leases locomotives and passenger coaches and provides other services to the Company. In 1993, 1994 and 1995, goods and services supplied by Yang Cheng accounted for 18%, 19% and 14% of the Company's total costs, respectively, making Yang Cheng the Company's largest supplier. The Yang Cheng Agreement provides for the calculation and payment of amounts to Yang Cheng on a different basis than those methods contained in prior agreements between the two parties. The Company intends to reduce its future reliance on Yang Cheng by purchasing locomotives and rolling stock and by maintaining its high speed passenger coaches in-house. Although the Company does not anticipate a substantial increase in amounts payable to Yang Cheng, no assurance can be given that such an increase will not take place. In addition, although Yang Cheng's and the Company's railroads serve different parts of Guangdong Province, Yang Cheng operates several freight yards and container yards in the northern, southern and western districts of Guangzhou, while the Company operates a freight yard in eastern Guangzhou. The Company believes that customers generally utilise freight and container yards that provide the most convenience in terms of location and, therefore, that Yang Cheng's freight and container yards generally do not compete with the Company's Guangzhou freight yard. Revenues from the operation of this freight yard by the Company accounted for less than 2% of the Company's total revenues in each of 1993, 1994 and 1995. Pursuant to contract, GEDC provides the Company's employees with medical care, schools and housing management and maintenance. Any material financial or operational problems in these entities leading to disruption of their normal provision of goods and services to the Company could materially affect the Company's operations. See

RISK FACTORS

“Particulars of the Company — Trading record” and “— Relationship with the Parent Company and affiliated companies”.

LEGAL SYSTEM

The PRC legal system is based on written statutes and is a system, unlike common law systems, in which decided legal cases have little precedent value. The PRC system is similar to civil law systems in this regard. In 1979, the PRC began the process of developing its legal system by undertaking to promulgate a comprehensive system of laws. On 29th December, 1993, the National People’s Congress promulgated the Company Law, which became effective on 1st July, 1994. In August 1994, pursuant to the Company Law, the State Council issued the “PRC Special Regulations on Overseas Offering and Listing of Shares by Joint Stock Limited Companies” to regulate joint stock limited companies that offer and list their shares overseas. The Company Law, the rules and regulations recently promulgated thereunder and legal prescriptions relating to PRC companies whose stock is offered overseas provide the core of the legal framework governing the corporate behaviour of companies, such as the Company, and their directors and shareholders. Because these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement involve significant uncertainty.

SHAREHOLDER RIGHTS; MANDATORY ARBITRATION

Currently, the primary sources of shareholder rights for shareholders of the Company are the Articles of Association, the Company Law and the Listing Rules, which, among other things, impose certain standards of conduct, fairness and disclosure on the Company, the Directors and the controlling shareholder of the Company. There are material differences between Hong Kong company law and the Company Law, being the principal company regulation to which the Company is subject, and, in particular, in the rights of H Share holders in the Company as compared with the rights of shareholders of most of the Hong Kong companies listed on the Hong Kong Stock Exchange. A summary of certain material differences between Hong Kong company law and the Company Law is set out in Appendix IX. To facilitate the offer and listing of shares of PRC companies overseas and to regulate the behaviour of companies whose shares are listed overseas, the State Council Securities Commission and the State Commission for Restructuring the Economic System issued the Mandatory Provisions. These Mandatory Provisions become entrenched in that, once they are incorporated into the articles of association of a PRC company, they can only be amended with the approval of the State Council Securities Commission and the relevant examination and approval authorities authorised by the State Council (currently the State Commission for Restructuring the Economic System).

The Listing Rules require a number of provisions additional to the Mandatory Provisions to be included in the articles of association of PRC companies listing H Shares on the Hong Kong Stock Exchange (the “Additional Provisions”). The Mandatory Provisions and the Additional Provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix IX.

RISK FACTORS

The Mandatory Provisions and the Additional Provisions together reduce many of the differences that exist between the Company Law and Hong Kong company law (as discussed at pages IX-1 to IX-24 of Appendix IX) regarding, among other things, the variation of class rights, shareholders' rights to information, safeguards against directors' abuse of their powers, directors' fiduciary duties and duties of controlling shareholders to other shareholders. Certain differences remain, of which the following should be noted:

- in lieu of derivative proceedings, which do not exist under PRC law, H Share holders will have a personal right of action against Directors, Supervisors and officers for breach of their duties; and
- disputes between an H Share holder and the Company, its Directors, Supervisors, officers or Domestic Share holders arising out of the Articles of Association or the Company Law and any rights or obligations conferred or imposed by other relevant laws and regulations (such as the Mandatory Provisions) concerning the affairs of the Company (except in relation to the register of shareholders of the Company) are to be resolved through arbitration by the Hong Kong International Arbitration Centre in Hong Kong or the China International Economic and Trade Commission in the PRC, rather than through a court of law, as could be the case under Hong Kong company law.

To the Company's knowledge, there has not been any published report of judicial enforcement in the PRC by H Share holders of their rights under constituent documents of joint stock limited companies or the Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock limited companies. Moreover, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom, Japan or most other OECD countries, and therefore recognition and enforcement in the PRC of judgements of a court in any of these jurisdictions (in relation to any matter not subject to the binding arbitration provision) may be impossible. Furthermore, the Articles of Association provide that most disputes between H Share holders and the Company, its Directors, Supervisors, officers or Domestic Share holders arising out of the Company's Articles of Association or the Company Law and any rights or obligations conferred or imposed by other relevant laws and regulations concerning the affairs of the Company are to be resolved through arbitration by arbitration organisations in Hong Kong or the PRC, rather than through a court of law. Because the PRC is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") and because Hong Kong participates in the New York Convention by virtue of the United Kingdom being a signatory to the New York Convention, an award by an arbitration organisation in Hong Kong can generally be enforced in the PRC. The PRC Arbitration Law was promulgated on 31st August, 1994 and became effective from 1st September, 1995. There is no difference between the PRC Arbitration Law and existing legal principles in the PRC relevant to arbitration and enforcement of arbitration awards. To the Company's knowledge, no action has been brought in the PRC by any shareholder to enforce an arbitration award under the New York Convention. No assurance can be given as to the outcome of any action brought in the PRC to enforce an arbitral award granted to shareholders.

RISK FACTORS

Summaries of the principal legal and regulatory provisions in the PRC and Hong Kong are set out in Appendix IX.

TAX LAWS AND REGULATIONS

Since overseas-listed shares in PRC companies are a relatively new form of investment in China, it is not entirely certain whether taxes will be levied by, or how any such taxes will be paid to, the tax authorities in China in relation to dividends or capital gains arising from such shares. Currently, PRC withholding tax is temporarily suspended for foreign shareholders who receive dividends from shares in a PRC company or realise gains from the transfer of such shares. If any withholding tax is imposed in the future, based on the PRC tax laws and regulations currently applicable, the tax rate will be 20%, except for shareholders from certain countries having a tax treaty with the PRC, in which case the tax rate will generally be reduced to 10%. The PRC currently has such tax treaties with a number of countries, including the United States, the United Kingdom, Japan and most OECD countries. However, the PRC has no such tax treaty with Hong Kong. Therefore, shareholders residing in Hong Kong will generally not be entitled to the 10% reduced tax rate. See “Appendix VII — Taxation — Taxation of shareholders — The People’s Republic of China — Tax on dividends”. There can be no assurance that changes in the tax laws, regulations and rulings applicable to the Company will not adversely affect the Company’s investors.

Currently, the Company is subject to a 15% corporate income tax rate. The 15% rate, applicable to the Company in view of its incorporation in the Shenzhen SEZ, is substantially lower than the 33% corporate income tax rate generally applicable in the PRC. To the extent that the Company engages in other businesses through subsidiaries, those other businesses are subject to corporate income tax rates of either 15% or 33%, depending mainly on the places of incorporation of these companies. No assurance can be given that the Shenzhen SEZ will maintain its SEZ status or that, even if such status is maintained, it will continue to result in the Company being subject to the 15%, or any other, preferential corporate income tax rate. See “ — Developments in the Pearl River Delta” and “Appendix VII — Taxation — Taxation of the Company by the PRC — Income tax”.

DILUTION

The public offering price of the H Shares and, consequently, the ADSs is substantially higher than the book value per share of the Domestic Shares issued to the Parent Company in the Restructuring. Persons purchasing H Shares in the Combined Offering will therefore incur immediate and substantial dilution which, if the Hong Kong Offering Price is determined to be HK\$2.68, will be HK\$0.83 per H Share (on the basis of net adjusted tangible asset value per share of RMB1.85 converted into Hong Kong dollars at the PBOC Rate of HK\$1.00 = RMB1.0764 on 8th April, 1996). Further details are set out in the section “Particulars of the Company — Adjusted net tangible assets”.

RISK FACTORS

NO PRIOR MARKET FOR THE H SHARES OR ADSs

Prior to the Combined Offering, there has been no public market for the H Shares or ADSs. Although approval in principle has been granted for the listing of and permission to deal in the H Shares on the Hong Kong Stock Exchange, and application has been made for the ADSs to be listed on the New York Stock Exchange, there can be no assurance that an active trading market for the H Shares or ADSs will develop upon the completion of the Combined Offering.

NEGOTIATED OFFERING PRICE

The Hong Kong Offering Price will be determined by negotiation between the Company and the representatives of the several Hong Kong Underwriters, US Underwriters and International Underwriters and may not be indicative of the market price of the H Shares or, by correlation, the ADSs, after the Combined Offering.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings indicated:

“ADS”	an American depositary share issued by the Depositary representing ownership of 50 H Shares
“Articles of Association” or “Articles”	the articles of association of the Company
“Bear Stearns”	Bear Stearns Asia Limited
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“CICT”	the Consolidated Industrial and Commercial Tax of the PRC
“Combined Offering”	the Hong Kong Offering, the US Offering and the International Offering
“Company”	Guangshen Railway Company Limited (廣深鐵路股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, and unless the context otherwise requires, its subsidiaries, or, in respect of references to any time prior to the formation of Guangshen Railway Company Limited, the railroad and those other businesses carried on by the Predecessor or certain of its subsidiaries and, in certain cases, by the Parent Company or certain of its subsidiaries, which were transferred to Guangshen Railway Company Limited pursuant to the Restructuring
“Company Law”	the Company Law (公司法) of the PRC adopted at the Fifth Session of the Standing Committee of the Eighth National People’s Congress on 29th December, 1993 and effective from 1st July, 1994, as amended, supplemented or otherwise modified from time to time
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Depositary”	Morgan Guaranty Trust Company of New York

DEFINITIONS

“Directors”	the directors of the Company
“Domestic Shares”	domestic invested shares in the share capital of the Company, of par value RMB1.00 each, which are subscribed for in Renminbi by PRC investors
“GATT”	the General Agreement on Tariffs and Trade
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)
“GEDC”	Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company, a wholly-owned subsidiary of the Parent Company
“Global Coordinator”	Bear, Stearns & Co. Inc.
“Guangzhou-Shenzhen Corridor”	the area between (and including) Guangzhou and Shenzhen
“H Shares”	overseas listed foreign invested shares in the share capital of the Company, of par value RMB1.00 each, which are to be listed on the Hong Kong Stock Exchange, and subscribed for and traded in HK dollars
“High Speed Project”	the construction of a high speed rail line and purchase of certain high speed locomotives and passenger coaches which the Company has been undertaking since 1991. The project involves the reconstruction of the Company’s existing tracks, the construction of a new track and the replacement of certain of its regular speed passenger trains with high speed trains and addition of other high speed trains, all of which are described in greater detail under “Particulars of the Company — Business description — Principal businesses — Passenger transport — High Speed Project”
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong. Where amounts of HK dollars have been derived from Renminbi, such translations are for the convenience of the reader only and, except as otherwise indicated, have been made at the PBOC Rate on 8th April, 1996. No representa-

DEFINITIONS

	<p>tion is made that Renminbi amounts could have been or could be converted into HK dollars at these rates or at any other rate on the relevant date or on any other date. The PBOC Rate on 26th April, 1996 was HK\$1.00 = RMB1.0770</p>
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Hong Kong Offering”	the offer for subscription of H Shares in Hong Kong, as further described in the section “Combined Offering”
“Hong Kong Offering Price”	the price per Offered Share, to be determined as described in the section “Combined Offering”
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	Bear Stearns, China Development Finance Co., (H.K.) Ltd., ABN AMRO HG Asia Limited, Credit Lyonnais Securities (Asia) Limited, HSBC Investment Bank Asia Limited, Peregrine Capital Limited, Swiss Bank Corporation, Wheelock NatWest Securities Limited, C.A. Pacific Capital Limited, Core Pacific Securities International Limited, FOTIC Capital Limited, Guangdong Securities Ltd., J & A Securities (Hong Kong) Ltd., New Japan Securities International (Hong Kong) Limited, Seapower Securities Limited and Sun Hung Kai Investment Services Ltd.
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 2nd May, 1996 relating to the Hong Kong Offering entered into between the Company, the Hong Kong Underwriters and Bank of China (Nominees) Limited
“Huangpu port”	a group of three ports, including Huangpu old port, Huangpu new port and Xinsha port
“IAS”	International Accounting Standards
“International Offering”	the offering of ADSs or (at the option of investors) H Shares to professional investors within Hong Kong and to persons outside Hong Kong, the United States, Canada, and the PRC, as further described in the section “Combined Offering”

DEFINITIONS

“International Underwriters”	the group of underwriters led by Bear, Stearns International Limited, ABN AMRO HG Asia Limited and Swiss Bank Corporation which are expected to enter into the International Underwriting Agreement with the Company
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering expected to be entered into between the Company and the International Underwriters on or before 10th May, 1996, as described in Appendix X
“KCRC”	Kowloon-Canton Railway Corporation
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, which were promulgated by the State Council Securities Commission and the State Commission for Restructuring the Economic System on 27th August, 1994
“MOFTEC”	the PRC Ministry of Foreign Trade and Economic Cooperation
“MOR”	the PRC Ministry of Railways
“New York Stock Exchange”	New York Stock Exchange, Inc.
“Notice Relating to Foreign Exchange Control Matters for Enterprises Listed Overseas”	the Notice Relating to Foreign Exchange Control Matters for Enterprises Listed Overseas (關於境外上市企業外匯管理有關問題的通知) issued by the CSRC and MOFTEC in January 1994
“OECD”	the Organisation for Economic Co-operation and Development
“Offered Shares”	the H Shares offered in the Hong Kong Offering
“Over-allotment Options”	the options granted by the Company to the Underwriters to require the Company to issue up to an aggregate of 186,650,000 additional H Shares (which in the case of the

DEFINITIONS

	<p>US Offering and the International Offering may be deliverable in the form of a corresponding number of ADSs) solely to cover over-allotments in the US Offering and the International Offering and certain oversubscriptions in the Hong Kong Offering, if any</p>
“Parent Company”	<p>Guangzhou Railway (Group) Company (廣州鐵路(集團)公司), a wholly-owned state enterprise under the administrative control of the MOR, which is the controlling shareholder of the Company, or in respect of references to any time prior to the formation of Guangzhou Railway (Group) Company, the Guangzhou Railway Administration</p>
“PBOC”	<p>the People’s Bank of China</p>
“PBOC Notice”	<p>the Notice of the People’s Bank of China Concerning Future Reform of the Foreign Currency Control System (關於進一步改革外匯管理體制的公告) issued in December 1993</p>
“PBOC Rate”	<p>the exchange rate for foreign exchange transactions set daily by the People’s Bank of China based on the previous day’s PRC interbank foreign exchange market rate and with reference to current exchange rates on the world financial markets</p>
“Pearl River Delta”	<p>the area in and adjacent to the southern part of Guangdong Province, PRC, surrounding the mouth of the Pearl River in its lower reaches, including Hong Kong and Macau</p>
“PRC” or “China”	<p>the People’s Republic of China</p>
“PRC Government”	<p>the central government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof</p>
“Predecessor”	<p>Guangshen Railway Company (廣深鐵路總公司), the original owner of the majority of the railroad and other businesses transferred to the Company pursuant to the Restructuring</p>

DEFINITIONS

“Price Determination Date”	the date on which the offering prices of the ADSs and H Shares are to be fixed by the Underwriters and the Company, expected to be 10th May, 1996
“Provisional Regulations on Establishment of Foreign Investment Joint Stock Limited Companies”	the Provisional Regulations on Establishment of Foreign Investment Joint Stock Limited Companies (關於設立外商投資股份有限公司若干問題的暫行規定), issued by MOFTEC in January 1995
“Restructuring”	the incorporation of the Company on 6th March, 1996 and the transfer to the Company, effective as of the same date, of the principal railroad businesses of the Predecessor and certain assets and liabilities of the Parent Company and certain of its subsidiaries, together with certain other businesses, assets and liabilities, as more particularly described in the section “Particulars of the Company — The Restructuring”
“RMB” or “Renminbi”	the lawful currency of the PRC, the basic denomination of which is the yuan
“SAEC”	the State Administration for Exchange Control (中國國家外匯管理局), the PRC government agency responsible for matters relating to foreign exchange administration
“SEZ”	special economic zone; as part of China’s economic reform programme, the PRC Government, in order to attract foreign investment, authorised the creation of special economic zones, which offer incentives to foreign businesses, including favourable tax treatment and land use fees
“Shares”	Domestic Shares and H Shares
“Special Regulations on Listing Overseas”	the PRC Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), issued by the State Council on 4th August, 1994
“State Assets Bureau”	the PRC State-owned Assets Administration Bureau (國家國有資產管理局)

DEFINITIONS

“State Council”	the State Council of the PRC (中國國務院)
“State Council Securities Commission”	the State Council Securities Commission of the PRC (中國國務院證券委員會)
“State Commission for Restructuring the Economic System”	the State Commission for Restructuring the Economic System of the PRC (國家經濟體制改革委員會)
“State Planning Commission”	the State Planning Commission of the State Council (中國國務院國家計劃委員會)
“Supervisors”	members of the supervisory committee of the Company
“Swap Centres”	foreign currency adjustment centres established by the SAEC for the purpose of exchanging Renminbi with foreign currencies
“Swap Rate”	an exchange rate at which foreign exchange transactions are executed at a Swap Centre
“Underwriters”	the Hong Kong Underwriters, the International Underwriters and the US Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement, the US Underwriting Agreement and the International Underwriting Agreement
“United States” or “US”	the United States of America
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“US GAAP”	generally accepted accounting principles in the United States
“US Offering”	the offering of ADSs or (at the option of investors) H Shares in the United States and in Canada, as further described in the section “Combined Offering”
“US Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder

DEFINITIONS

- “US Underwriters” the group of underwriters led by the Global Coordinator, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, Donaldson, Lufkin & Jenrette Securities Corporation and Schroder Wertheim & Co. Incorporated which are expected to enter into the US Underwriting Agreement with the Company
- “US Underwriting Agreement” the underwriting agreement relating to the US Offering expected to be entered into between the Company and the US Underwriters on or before 10th May, 1996, as described in Appendix X
- “VAT” the value added tax provided for in the Implementation Rules of the Provisional Value-added Tax Laws of the People’s Republic of China (中華人民共和國增值稅暫行條例), which were promulgated by the State Council on 13th December, 1993 and became effective as of 1st January, 1994
- “Yang Cheng” Yang Cheng Railway Company, a wholly-owned subsidiary of the Parent Company
- “Yang Cheng Agreement” the agreement entered into between the Company and Yang Cheng on 3rd April, 1996 to govern the business relationship between the parties, which agreement commences on 6th March, 1996 and expires on 5th March, 2006

GLOSSARY OF RAILWAY TERMS

“Class I railroad”	a railroad in the US, the annual operating revenues of which are at least equal to a threshold amount that is published annually by the US Interstate Commerce Commission (approximately US\$250 million in 1995)
“High speed trains”	as defined by the Association of America Railroads, trains which operate at normal speeds equivalent to 160 kilometres per hour or faster
“Operating ratio”	total railroad operating expenses as a percentage of total railroad revenues
“Pair of trains”	trains making one round trip between two points
“Passenger-kilometres”	the product of the number of paying passengers carried and the kilometres such passengers travelled
“Route kilometres”	aggregate kilometres of track in regular operation, excluding sidings, yards and double and triple trackage
“Spur line”	a line running off of the main track used for a freight customer or set of customers, the construction of which is typically financed by the customer or set of customers
“Tonne-kilometres”	the product of the number of tonnes of freight carried for hire and the kilometres such freight travelled
“Track kilometres”	aggregate kilometres of track owned and operated, including track on the regular line, track located in yards and on sidings and double and triple trackage

PRELIMINARY

This prospectus includes particulars given in compliance with the Companies Ordinance (Chapter 32 of the Laws of Hong Kong, as amended), the Securities (Stock Exchange Listing) Rules 1989 (as amended) and the Listing Rules for the purpose of giving information to the public with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

This prospectus is published in connection with the Hong Kong Offering which is sponsored by Bear Stearns Asia Limited, China Development Finance Co., (H.K.) Ltd. and ABN AMRO HG Asia Limited and underwritten by the Hong Kong Underwriters.

The Offered Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Offered Shares to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Hong Kong Underwriters, any of their respective directors or any other person involved in the Hong Kong Offering.

Application has been made to the Listing Committee of the Hong Kong Stock Exchange for listing of and permission to deal in the H Shares. Application has been made to list the ADSs for trading on the New York Stock Exchange. The Company intends to have the H Shares approved for quotation through SEAQ International of the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited. Save as disclosed in this prospectus, no H Shares are listed on or dealt in on any other stock exchange.

Dealings in H Shares will be subject to Hong Kong stamp duty.

The Company prepares its financial statements in Renminbi. Except as otherwise noted, this prospectus contains translations of Renminbi amounts into Hong Kong dollars at the rate of HK\$1.00 = RMB1.0764, the PBOC Rate on 8th April, 1996, for reference only. No representation is made that the Renminbi or Hong Kong dollar amounts set out in this prospectus could have been or could be converted into Hong Kong dollars or Renminbi, as the case may be, at any particular rate on such date or any other date. Further information in respect of foreign exchange rates is set out in Appendix VIII.

No action has been taken to permit an offering of the Offered Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

This prospectus has not been registered under the US Securities Act. This prospectus may not be delivered within the United States or to United States persons and the Offered Shares may

PRELIMINARY

not be offered or sold within the United States or to United States persons except pursuant to an effective registration statement under the US Securities Act or pursuant to an exemption from Section 5 of the US Securities Act.

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The H Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995. In addition, no person may issue or pass on to any person in the United Kingdom any document received by it in connection with the issue of the H Shares unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 or is a person to whom such document may otherwise lawfully be issued or passed on.

Each Underwriter has agreed that the Offered Shares may not be offered or sold, nor may any document or other material in connection with the Offered Shares be distributed, either directly or indirectly, (i) to persons in Singapore other than in circumstances in which such offer or sale does not constitute an offer or sale of the Offered Shares to the public in Singapore or (ii) to the public or any member of the public in Singapore other than pursuant to, and in accordance with the conditions of, an exemption invoked under Division 5A of Part IV of the Companies Act, Chapter 50 of Singapore and to persons to whom the Offered Shares may be offered or sold under such exemption.

Each Underwriter has acknowledged and agreed that the Offered Shares have not been and will not be registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan, and (ii) in compliance with any other applicable requirements of Japanese law.

The Offered Shares are being offered and may be offered or sold only to investors of Hong Kong, Macau, Taiwan or any country other than the PRC. The Offered Shares may not be offered or sold to or for the benefit of legal or natural persons of the PRC.

The Company has instructed HKSCC Registrars Limited, its Hong Kong share registrar, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to the share registrar in respect of those shares bearing statements to the effect that the holder:

(i) agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder, to observe and comply with the Company Law, the Special Regulations on Listing Overseas, and the Articles of Association;

(ii) agrees with the Company, each shareholder, Director, Supervisor, manager and officer of the Company and the Company acting for itself and for each Director, Supervisor, manager and officer agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

(iii) agrees with the Company and each shareholder of the Company that shares in the Company are freely transferable by the holder thereof; and

(iv) authorises the Company to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders as stipulated in the Articles of Association.

In connection with the Combined Offering, the Global Coordinator, on behalf of the Underwriters, may over-allot and may cover such over-allotments by exercising the Over-allotment Options or by making purchases in the secondary market. Any such purchase will be made in compliance with all applicable laws and regulatory requirements.

In connection with the Combined Offering, the Global Coordinator, on behalf of the Underwriters, may also effect transactions which stabilise or maintain the market price of the H Shares or the ADSs at levels above those which might otherwise prevail in the open market. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Such transactions, if commenced, may be discontinued at any time.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriter may bid for or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer prices of the securities. The stabilisation price is not higher than the initial public offer price.

Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities on the Hong Kong Stock Exchange are restricted to cases where the underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allotment in the offering. The relevant provisions of the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

Potential shareholders are recommended to consult their professional advisers if they are

COMBINED OFFERING

in any doubt as to the taxation implications of holding and dealing in the H Shares or ADSs. It is emphasised that none of the Company, the Underwriters, any of their respective directors, or any other person involved in the Combined Offering accepts responsibility for any tax effects or liabilities of holders of H Shares or ADSs resulting from the subscription, purchase, holding or disposal of H Shares or ADSs.

The Combined Offering consists of an offer for subscription of H Shares in the Hong Kong Offering, a public offering of ADSs which may, at the option of investors, be delivered in the form of H Shares in the US Offering and an offering of ADSs which may, at the option of investors, be delivered in the form of H Shares in the International Offering. The shares initially offered in the Combined Offering will represent approximately 30% of the Company's enlarged registered share capital immediately following the completion of the Combined Offering (the balance of the registered capital being in the form of Domestic Shares held by the Parent Company). The Company has granted (and will in respect of the US Offering and the International Offering grant) to the Underwriters the Over-allotment Options, exercisable for 30 days from a date expected to be 10th May, 1996, to require the Company to issue up to an aggregate of 186,650,000 additional H Shares (which are deliverable at the option of the Underwriters in the form of H Shares or ADSs), on the terms applicable to each respective offering, solely to cover over-allotments in the US Offering and the International Offering and certain over-subscriptions in the Hong Kong Offering, if any.

The consummation of each of the US Offering, the Hong Kong Offering and the International Offering is conditioned upon a number of factors, some of which are not common to all three offerings. However, because the obligations of the Underwriters under each of the various Underwriting Agreements (as herein defined) are subject to each of the other Underwriting Agreements becoming unconditional, in each case on or before the Price Determination Date, each of the offerings is effectively conditioned upon the satisfaction or waiver of the conditions to the other offerings. Pursuant to Hong Kong practice, the Hong Kong Offering will become unconditional on the Price Determination Date. As a result, the US Offering and the International Offering will also have to become unconditional on that date, rather than, as is typically the case, on the settlement date.

HONG KONG OFFERING

The Hong Kong Offering is a public offer for the subscription in Hong Kong of initially 124,465,000 H Shares, representing 10% of the H Shares being initially offered in the Combined Offering.

If the number of H Shares validly applied for in Hong Kong Offering exceeds 373,395,000, being three times the number of H Shares initially available for allotment under such offering, then additional H Shares will be made available for such purpose. The number of additional H Shares, to be determined by the Global Coordinator, will be equal to one-third of the total excess number of shares applied for above 373,395,000 (rounded down as appropriate so as to avoid the allotment of odd lots), provided that the number of such additional H Shares will not be greater than 93,348,750, 75% of the number of H Shares originally available. In such case, the number of H Shares allocated

COMBINED OFFERING

in the US Offering and the International Offering will be correspondingly reduced, in such manner as the Global Coordinator deems appropriate. In addition, if the Hong Kong Offering is not fully subscribed, the Global Coordinator also has the authority (but not the obligation) to reallocate all or any unsubscribed H Shares originally included in the Hong Kong Offering to the US Offering and the International Offering, in such proportions as it deems appropriate.

If the Underwriters exercise the Over-allotment Options and require the Company to issue up to an aggregate of 186,650,000 additional H Shares, the H Shares so issued will be allocated to the US Offering and the International Offering (but not the Hong Kong Offering) at the sole discretion of the Global Coordinator. Any Over-allotment Option securities allocated to the US Offering or the International Offering may be delivered in the form of either ADSs or H Shares, at the option of the Global Coordinator.

The Hong Kong Offering Price will be based on the Hong Kong dollar equivalent (on the basis described below) of the US dollar price per H Share at which ADSs are to be offered in the US Offering and the International Offering. The price of such ADSs will be fixed by the Underwriters and the Company on the Price Determination Date, which is expected to be 10th May, 1996. The Hong Kong Offering Price will be determined as that amount which, when increased by 1% brokerage and 0.013% stock exchange transaction levy thereon, is (subject to any necessary rounding) equal to the US dollar price per ADS (i) converted into Hong Kong dollars at the average of the bid and offered exchange rates quoted by The Hongkong and Shanghai Banking Corporation Limited at the close of business on the second business day prior to the Price Determination Date, and (ii) divided by 50, being the number of H Shares represented by each ADS. In respect of the Combined Offering, only the applicants in the Hong Kong Offering are required to pay the aforesaid brokerage and transaction levy. The transaction levy otherwise payable by investors in the US Offering and the International Offering on the H Shares purchased by them will be paid by the Company. The Hong Kong Offering Price will be not more than HK\$2.91 and is expected to be not less than HK\$2.45.

Applicants for Offered Shares in the Hong Kong Offering are required to pay the maximum price of HK\$2.91 per Offered Share upon application. If the Hong Kong Offering Price is set below the maximum price, the surplus subscription moneys (including the brokerage and transaction levy attributable thereto) will be refunded to applicants, without interest. Details of the procedure for refund are set out in the section "Procedure for application". The Hong Kong Offering will be subject to the conditions which are summarised in "Conditions of the Hong Kong Offering".

THE US OFFERING AND THE INTERNATIONAL OFFERING

The US Offering and the International Offering are expected to consist of an aggregate of 22,403,700 ADSs, representing 1,120,185,000 H Shares, with 12,446,500 ADSs, representing 622,325,000 H Shares, to be sold in the US Offering in the United States and Canada in a public offering registered under the US Securities Act, and 9,957,200 ADSs, representing 497,860,000 H

CONDITIONS OF THE HONG KONG OFFERING

Shares, to be sold in the International Offering in placements outside the United States, Canada and the PRC and to certain professional investors in Hong Kong. ADSs may be reallocated from the US Offering to the International Offering, or vice versa, at the sole discretion of the Global Coordinator. With respect to the US Offering and the International Offering, at the option of investors, H Shares may be delivered in lieu of ADSs. The prospectus with respect to the US Offering is part of a registration statement filed with the United States Securities and Exchange Commission under the US Securities Act.

Acceptance of all applications will be conditional on:

- (i) the Listing Committee of the Hong Kong Stock Exchange granting, on or before the Price Determination Date, listing of and permission to deal in the H Shares being offered pursuant to the Combined Offering (including the additional H Shares which may be made available pursuant to the exercise of the Over-allotment Options);
- (ii) the execution and delivery of the US Underwriting Agreement and the International Underwriting Agreement on or before the Price Determination Date; and
- (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and such obligations not having been terminated in accordance with the terms of the respective agreements or otherwise, in each case on or before the Price Determination Date.

If the above conditions are not fulfilled, all application moneys will be returned, without interest, on the terms set out in the section "Procedure for application". In the meantime, all application moneys will be held in a separate bank account(s) with the receiving bankers or other licensed bank(s) in Hong Kong.

In the event that the Price Determination Date is not Friday, 10th May, 1996, the Price Determination Date may, in order to co-ordinate the commencement of dealings on the Hong Kong Stock Exchange with the International Offering and the US Offering, be postponed to the following Friday, 17th May, 1996, or such other date falling on or before Wednesday, 5th June, 1996 as the Company and the Underwriters may agree.

SHARE CAPITAL

Issued and to be issued, fully paid:

	RMB
2,904,250,000 Domestic Shares (state legal person shares), issued to the Parent Company	2,904,250,000
<u>1,244,650,000</u> H Shares, to be issued in the Combined Offering	<u>1,244,650,000</u>
<u>4,148,900,000</u>	Total <u>4,148,900,000</u>

The information in the above table takes no account of any H Shares which may be issued pursuant to the Over-allotment Options. The Offered Shares will, subject as mentioned herein, rank pari passu in all respects with all other shares in issue and, in particular, will rank in full for all dividends or other distributions hereafter declared, paid or made on such shares.

H Shares are subscribed for and traded in Hong Kong dollars exclusively by and between investors of Hong Kong, Macau, Taiwan or any country other than the PRC (“Foreign Investors”). On the other hand, Domestic Shares are subscribed for in Renminbi and may not be subscribed for or traded by Foreign Investors.

The Company has no current plan to issue additional Domestic Shares in the foreseeable future.

INDEBTEDNESS

At the close of business on 31st January, 1996, being the latest practicable date in relation to this indebtedness statement, the Company had outstanding unsecured borrowings of approximately RMB2,159.9 million, comprising short-term bank loans of approximately RMB365.4 million, amounts due to affiliates of approximately RMB233.7 million, short-term loans payable to the Parent Company of approximately RMB1,185.8 million and a long-term loan payable to the Parent Company of approximately RMB375.0 million.

Short-term bank loans of approximately RMB30.7 million were guaranteed by the Parent Company, and approximately RMB295.7 million were guaranteed by the Company's subsidiaries.

Save as aforesaid and apart from intra-company liabilities, the Company did not have outstanding, at the close of business on 31st January, 1996, any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Company since 31st January, 1996.

All amounts referred to in this indebtedness statement which are denominated in foreign currencies have been translated into Renminbi at the applicable exchange rate quoted by the People's Bank of China at the close of business on 31st January, 1996.

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Executive directors		
Ge Wenan (葛聞安)	Rm. 608, Gonghe Da Street, Dongshan, Guangzhou, PRC	PRC
Zou Boxing (鄒伯興)	Rm. 406, 7 Binyuan Railway New Village, Shenzhen, PRC	PRC
Zeng Xianzhao (曾憲釗)	Rm. 602, 19 Gonghe Village, Guangzhou, PRC	PRC
Liu Xuezhi (廖學志)	Rm. 501, 88 Dongyuan New Village, Guangzhou, PRC	PRC
Non-executive directors		
Sun Renkun (孫任坤)	Rm. 802, 2-1 Gonghe 2 Road, Guangzhou, PRC	PRC
Zhao Genrong (趙根榮)	Rm. 702, 110 Dongyuan New Village, Guangzhou, PRC	PRC
Zhang Yingmu (張應沐)	Rm. 501, 2 Xinjiao Street, Heping Road, Shenzhen, PRC	PRC
Chang Loong Cheong*.. (張龍翔*)	12B, 3 Chun Fai Road, Hong Kong	Hong Kong
Deborah Kong* (孔黛碧*)	49D, Tower III, Tregunter, 14 Old Peak Road, Hong Kong	Australia

* Independent directors, Hong Kong residents

SUPERVISORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Gu Hongxi (谷鴻溪)	Rm. 402, Block 48 Dongyuan New Village, Guangzhou, PRC	PRC
Shen Jun (沈鈞)	Rm. 605, 12 Laobaoshe, Guangzhou, PRC	PRC
Peng Chi (彭熾)	Rm. 1308, 13 Tiudong Rd., Tianhe, Guangzhou, PRC	PRC
Xu Tiejian (徐鐵健)	Rm. 503, Block 14, Songyuandong Lane 5, Baoan Road, Shenzhen, PRC	PRC
Zeng Xiangqu . . (曾祥秋)	Rm. 603, Block 21, Songyuandong Lane 5, Baoan Road, Shenzhen, PRC	PRC
Zhu Delin (朱德林)	Rm. 304, 16 Yongtai Road, Guangzhou, PRC	PRC

PARTIES INVOLVED AND CORPORATE INFORMATION

PARTIES INVOLVED**Sponsor, lead manager and underwriter**

Bear Stearns Asia Limited
26th Floor, Citibank Tower
3 Garden Road
Central, Hong Kong

Co-sponsors and underwriters

China Development Finance
Co., (H.K.) Ltd.
10th Floor, Bank of China Tower
1 Garden Road
Central, Hong Kong

ABN AMRO HG Asia Limited
31st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

Co-managers and underwriters

Credit Lyonnais Securities (Asia)
Limited
33rd Floor, Peregrine Tower
Lippo Centre, 89 Queensway
Hong Kong

HSBC Investment Bank Asia Limited
Level 15, 1 Queen's Road Central
Central, Hong Kong

Peregrine Capital Limited
23rd Floor, New World Tower
16-18 Queen's Road Central
Central, Hong Kong

SBC Warburg
A Division of Swiss Bank Corporation
25th Floor, One Exchange Square
8 Connaught Place
Central, Hong Kong

Wheelock NatWest Securities Limited
43rd Floor, NatWest Tower
Times Square
1 Matheson Street
Causeway Bay, Hong Kong

C.A. Pacific Capital Limited
Suite 603-6, 6th Floor
9 Queen's Road Central
Central, Hong Kong

Core Pacific Securities International
Limited
Suite 1106-9, Two Pacific Place
88 Queensway
Hong Kong

FOTIC Capital Limited
Suite 2006, Peregrine Tower
Lippo Centre, 89 Queensway
Hong Kong

Guangdong Securities Ltd.
5th Floor, 9 Queen's Road Central
Central, Hong Kong

J & A Securities (Hong Kong) Ltd.
Suite 508-9, 5th Floor
Citibank Tower, Citibank Plaza
3 Garden Road
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New Japan Securities International
(Hong Kong) Limited
30th Floor, One Exchange Square
8 Connaught Place
Central, Hong Kong

Seapower Securities Limited
32nd Floor, Alexandra House
16 Chater Road
Central, Hong Kong

Sun Hung Kai Investment Services Ltd.
3rd Floor, Admiralty Centre
Tower II
18 Harcourt Road
Hong Kong

PARTIES INVOLVED AND CORPORATE INFORMATION

Independent reporting accountants

Arthur Andersen & Co.
25th Floor, Wing On Centre
111 Connaught Road
Central, Hong Kong

Legal advisers to the Company

as to Hong Kong law:

Johnson Stokes & Master
in association with Norton Rose
17th Floor, Prince's Building
10 Chater Road
Hong Kong

as to United States law:

Gibson, Dunn & Crutcher
Two Pacific Place
10th Floor
88 Queensway
Hong Kong

as to PRC law:

Haiwen & Partners
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Likang Hotel
Asian Games Village
Beijing, PRC

Legal advisers to the Underwriters

as to Hong Kong law and United States law:

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10 Harcourt Road
Central, Hong Kong

as to PRC law:

China Legal Affairs Centre
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Capital Hotel
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Beijing, PRC

Valuers

Vigers Hong Kong Limited
8th Floor, Chiwan Tower
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1-23 Kimberley Road
Tsimshatsui, Kowloon, Hong Kong

Receiving bankers

Bank of China
Hong Kong Branch
1 Garden Road
Central, Hong Kong

CORPORATE INFORMATION

Legal address

No. 75 Heping Road
Shenzhen, PRC

Company secretary

Yi Aiguo

Authorised representatives

Ge Wenan
Yi Aiguo

Hong Kong share registrars

HKSCC Registrars Limited
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Principal bankers

China Construction Bank
Shenzhen Railway Branch
1st to 4th Floors, Jinwei Building
Jiabin Road
Shenzhen, PRC

THE PRC RAILWAY INDUSTRY AND THE COMPANY'S MARKET ENVIRONMENT

The information provided here and elsewhere in this prospectus relating to the PRC railway industry is derived in part from various official and unofficial publications, as well as discussions with relevant governmental authorities. The Company makes no representation as to the accuracy of this information, which may not be consistent with other information compiled within and outside the PRC, and the information contained herein may not be accurate and should not be unduly relied upon.

PRC RAILWAY INDUSTRY

Overview

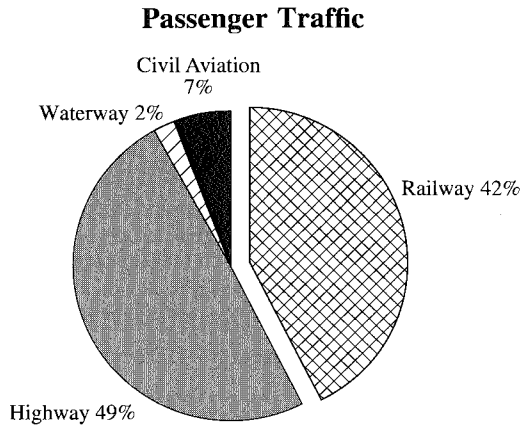
The PRC national railway network is among the world's largest, with approximately 54,000 kilometres of track at the end of 1994, ranking fourth worldwide in terms of total route length at that time. The PRC railway system ranks second worldwide in terms of passenger and freight traffic, and is among the world's leaders in terms of track and equipment utilisation rate for both passenger and freight transport.

Rail transport is the leading mode of transportation in China, accounting for approximately 42% of passenger traffic (in passenger-kilometres) and 37% of freight traffic (in tonne-kilometres) in 1994. The Company believes that the leading position of railroads within the PRC is principally attributable to the following reasons:

- (i) historically, the PRC Government's strategy has been to develop the railroads as a primary means of transportation in China;
- (ii) the PRC railway system provides a generally safe and reliable means of transportation, for both passengers and freight, on an extensive network throughout the country;
- (iii) the PRC does not have a high concentration of trucks, buses or cars, and its road network is limited and conditions are generally inadequate;
- (iv) many regions within China have limited or no access to commercial waterways, and waterway transport is generally slower than rail for medium to long distances;
- (v) the use of air transport in China is still limited and generally expensive; and
- (vi) for medium to long distances, freight transportation by rail is generally more cost effective than highway transport.

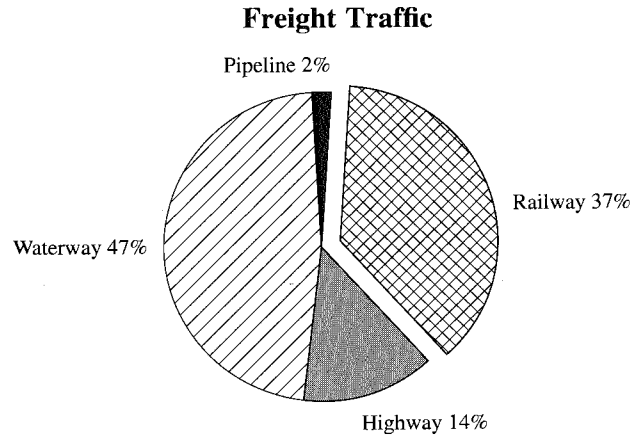
THE PRC RAILWAY INDUSTRY AND THE COMPANY'S MARKET ENVIRONMENT

The following charts set out the market share of various modes of transportation in the PRC in 1994:



Total: 859 billion passenger-kilometres

Source: 1995 China Statistical Yearbook



Total: 3,326 billion tonne-kilometres

Development of the PRC railway system

The PRC railway system extends throughout the country. The main trunk lines of the system are shown on the map below:



THE PRC RAILWAY INDUSTRY AND THE COMPANY'S MARKET ENVIRONMENT

During the period from 1979, when economic reforms were introduced in China, through 1995, the PRC experienced substantial economic development, which resulted in rapid growth in demand for railway transportation. Since 1979, PRC GDP has grown at a compound annual rate of 10%. During the same period, while rail passenger traffic grew nationwide at a compound annual rate of 8% and rail freight traffic nationwide grew at a compound annual rate of 5%, the total operating track length in the PRC grew at a rate of less than 1% per year. While demand has been increasing, the lack of expansion of the railway network has constrained traffic growth.

Concerns about the possible implications of such constraint on China's overall economic growth have caused the PRC Government to adopt an aggressive infrastructure development plan in which the railway sector is a primary focus. The national five-year plan for 1996 to 2000 has named transportation, particularly rail transportation development, as a priority for the next fifteen years. The MOR plans to complete the following projects prior to the end of 2000: (i) adding an aggregate of 8,600 kilometres of new rail lines throughout the country, (ii) electrifying certain existing lines in order to permit the use of heavier and faster (regular speed) trains, (iii) converting certain single-track sections into double-track sections to reduce congestion and (iv) constructing high speed rail lines to provide high speed, premium rail services. The plan contemplates an investment of approximately RMB300 billion on railway development over the next five years.

Two key projects currently underway are the completion of a second north-south railway artery, running between Beijing and Hong Kong, which is scheduled to be operational in 1996, and the electrification of the existing north-south route, the Beijing-Guangzhou line, which project is expected to be completed in 1997. The Beijing-Hong Kong line consists mainly of various sections of rail lines operated by different railway administrations and sub-administrations in the national railway system, including the rail line between Changping and Shenzhen that is operated by the Company, which accounts for approximately one-third of the Company's rail line. The Beijing-Guangzhou line also integrates various sections of rail lines, and connects in Guangzhou with the Company's rail line. These two projects will substantially increase the PRC's railway passenger and freight transportation capacity between northern and southern China, and are expected to increase the Company's freight and passenger traffic.

Regulatory structure and the Ministry of Railways

Railroads in the PRC fall largely into two categories: national railroads and local railroads. The national railway system comprises approximately 93% of all rail lines in China, consisting of a number of separate railroads (such as the Company) operating as a nationwide integrated system under centralised supervision and management by the MOR. Local railroads, on the other hand, consist primarily of regional lines within provincial boundaries, which have been constructed largely under the sponsorship of local government or local enterprises to serve local needs, and spur lines. Local railroads are generally administered by the relevant local government, and the MOR procedures and regulations for national railways regarding their internal management do not generally apply to such railroads. However, MOR approval is required in order for any local railroad to connect with the national railway system. With respect to industry matters, the MOR is mandated to provide local railroads with guidance, coordination, supervision and assistance.

THE PRC RAILWAY INDUSTRY AND THE COMPANY'S MARKET ENVIRONMENT

The MOR's responsibilities include the centralised co-ordination of train routing and scheduling nationwide, the central planning of freight shipments and freight car allocation, overseeing equipment standardisation and maintenance requirements, and financial oversight and revenue clearing system-wide. In general, the State Council exercises the final authority for the setting of passenger and freight transport tariffs for the national railway system. The MOR has authority over the setting of transportation-related miscellaneous fees and charges. In connection with the Restructuring, the Company has been granted by the Parent Company and the MOR special flexibility and autonomy in areas such as obtaining freight cars, scheduling services and determining the mix of passenger seat classes within its service territory, routing trains through bottlenecks beyond its rail line and transporting empty freight cars. In addition, in February 1996, the State Council granted the Company, with effect from 1st April, 1996, increased flexibility and autonomy over the setting of passenger fares and freight tariffs. See "Particulars of the Company — Business description — Principal businesses — Regulatory environment" and " — Pricing".

The MOR divides the national railway system into 12 regions, each overseen by a separate railway administration. These 12 administrations are further subdivided on a geographical basis into 57 railway sub-administrations. The Parent Company was restructured from one of the 12 railway administrations and continues to perform the functions of a railway administration. The Company has performed the functions of a railway sub-administration, although since its establishment in 1984 and increasingly so following the Restructuring, it has been subject to certain exceptional treatment not accorded to other sub-administrations. Sub-administrations are responsible for the coordination and supervision of operations carried out by stations and other operational units. Each of the 12 administrations is responsible for coordinating and supervising the activities of its subsidiary sub-administrations.

In addition to its regulatory role, the MOR also owns and controls, directly or through the railway administrations and sub-administrations, a wide variety of commercial entities in the railroad business and other businesses. These entities include railroads themselves, as well as suppliers of equipment and other goods and services to the railroad industry. The Company conducts business on a regular basis with a number of these entities. The Company deals directly with these entities, without MOR involvement, on a basis equivalent to that with which these other entities deal with all PRC entities, whether or not under MOR control. See "Particulars of the Company — Relationship with the Ministry of Railways".

THE COMPANY'S MARKET ENVIRONMENT

Guangdong Province

The Company's rail line runs between Guangzhou and Shenzhen, the two largest cities in Guangdong Province. Located along the southern coast of China and adjacent to Hong Kong, Guangdong Province is one of the fastest growing provinces in the PRC. Its annual GDP growth rates of 22%, 19% and 15% in 1993, 1994 and 1995, respectively, substantially exceeded the national average growth rates of 14%, 12% and 10%, respectively. Guangdong Province per capita GDP of RMB6,380 in 1994 was one of the highest of all provinces in the PRC, and substantially

THE PRC RAILWAY INDUSTRY AND THE COMPANY'S MARKET ENVIRONMENT

exceeded the overall PRC per capita GDP of RMB3,686. At the end of 1995, Guangdong Province was China's fifth most populous province, with a population of approximately 68.7 million, representing approximately 6% of China's total population.

Rapid growth in Guangdong Province has been driven in part by PRC policy reforms that encouraged foreign investment, particularly in the manufacturing sector, and promoted exports. According to central and provincial PRC Government data, in 1995, Guangdong Province accounted for approximately 28% of total foreign investment in the PRC, and the value of its imports and exports was the highest in the PRC, accounting for approximately 37% of the national total. Approximately three-quarters of the foreign investment in Guangdong Province since 1986 has come from Hong Kong.

Guangzhou-Shenzhen Corridor

The Guangzhou-Shenzhen Corridor is the fastest growing area in Guangdong Province and one of the fastest growing areas in the PRC.

- *Guangzhou.* Guangzhou, the provincial capital of Guangdong Province, with a population of 6.4 million in 1994, is the largest city in southern China. Guangzhou GDP grew at an average annual rate of 20% during the period from 1991 through 1995. In 1995, Guangzhou had an annual household income of approximately US\$3,000, the second highest in China after Shenzhen. Guangzhou is the leading manufacturing centre in Guangdong Province and has a growing service sector.
- *Shenzhen.* Shenzhen, located across the border from Hong Kong, is the second largest city in Guangdong Province with a population of 3.4 million in 1994. During the period from 1991 through 1995, Shenzhen was the fastest growing city in the PRC, achieving an average annual GDP growth rate of 31% during the period. Shenzhen's 1995 household income was approximately US\$5,300, the highest in China. Shenzhen's growth has been spurred by its proximity to Hong Kong and its designation as an SEZ. As part of China's economic reform programme, the PRC Government created SEZs in order to attract foreign investment. SEZs offer incentives to foreign businesses, including favourable tax treatment and land use fees. Shenzhen's strongest growth has been in the area of manufacturing, which grew by 33% in 1994, although tourism and financial services have also grown rapidly. In 1991, Shenzhen's stock market was established as one of only two stock exchanges in China.
- *Between Guangzhou and Shenzhen.* The area between Guangzhou and Shenzhen, consisting principally of the Dongguan municipality, has also been a magnet for direct foreign investment. Dongguan recorded more than US\$3 billion in contracted foreign investment in each of 1993 and 1994.

THE PRC RAILWAY INDUSTRY AND THE COMPANY'S MARKET ENVIRONMENT

Hong Kong

Hong Kong is one of the world's leading financial and international trade centres. With a population of approximately six million in 1994, Hong Kong had a per capita gross national product of approximately US\$21,650, the 14th highest in the world.

The economies of Hong Kong and China are tightly linked. In 1994, Hong Kong accounted for 58% of the total foreign investment in China, and investment from Hong Kong in Guangdong Province amounted to approximately US\$8.7 billion, representing 76% of the total foreign investment in Guangdong Province in that year. In recent years, many Hong Kong enterprises have moved their factories to Guangdong Province to take advantage of lower labour rates and land costs. Hong Kong remains a centre for export processing, with goods manufactured in southern China transported to Hong Kong for inspection and packaging prior to re-export to overseas markets.

Regional ports

Economic growth in the Pearl River Delta has been made possible by the region's developed transportation infrastructure, especially its ports. The Guangzhou-Shenzhen area has a highly developed port system, serving not only Guangdong Province, but also inland China. These ports include (i) Yantian port, one of the first international standard deep water ports in southern China, (ii) Shekou, Chiwan and Mawan ports in Shenzhen, and (iii) Huangpu port, the largest port in the Guangzhou area. These ports, all of which are linked directly or through connecting rail lines (including Pinghu-Yantian rail line and Pinghu-Nantou rail line, both of which are owned and controlled by local railroads) to the Company's rail line are all in the midst of expansion programmes to increase loading and unloading capacity.

Hong Kong's container port (consisting principally of the Kwai Chung port) is the busiest container port in the world, with an annual capacity of 7.8 million twenty-foot equivalent units in 1995. Kwai Chung port serves as the primary import and export port for southern China, with approximately two-thirds of the freight handled at the port originating from or destined for China. Kwai Chung port currently is not served by a rail line. The Hong Kong government is currently reviewing a feasibility plan to construct a new "Western Corridor" line that would connect Kwai Chung port to the Company's rail line, providing direct access to the PRC national railway system. According to the feasibility study, following the requisite approvals, the Western Corridor line would require approximately five years to complete. See "— The Company's transportation market — Freight transport".

THE COMPANY'S TRANSPORTATION MARKET

Passenger transport

The Company's transportation market comprises principally transportation (i) between

THE PRC RAILWAY INDUSTRY AND THE COMPANY'S MARKET ENVIRONMENT

Hong Kong and various cities in the Guangzhou-Shenzhen Corridor, (ii) within the Guangzhou-Shenzhen Corridor and (iii) between the Guangzhou-Shenzhen Corridor and the rest of China.

Border crossings between Hong Kong and China grew from approximately 16 million in 1984 to 56 million in 1994, an average increase of 14% per year. In 1994, approximately 76% of all border crossings were by train, 13% by ferry and the remainder by road and air. Of all border crossings by train in 1994, 94% involved passengers travelling by the KCRC line to and from the Hong Kong-Shenzhen border crossing. Since 1993, growth in border crossings has slowed and 1994 crossings were only 6% higher than those in 1993. The Company believes this slowdown is principally due to macroeconomic control policies applied by the PRC Government since 1993 to control inflation. These policies included restraining expenditures by governmental entities, raising interest rates on bank loans and deposits, restricting lending by PRC financial institutions and imposing constraints on investments in fixed assets by PRC enterprises. Such measures have constricted economic growth nationwide, including in the Pearl River Delta. Passenger traffic has been directly affected by corresponding constraints on travel budgets of governmental and business entities and indirectly affected by the overall slowdown in economic activities.

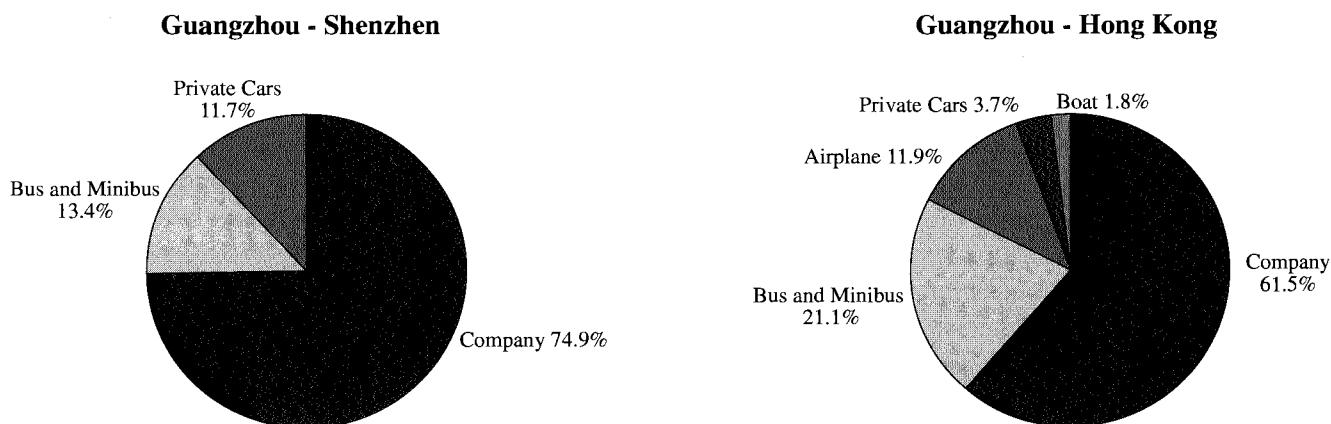
Rapid economic development has also increased travel in Guangdong Province and in the Guangzhou-Shenzhen Corridor. According to PRC Government statistics, between 1990 and 1994, passenger traffic (in passenger-kilometres and including intra-city traffic) by all modes of transportation in Guangdong Province grew at a compound annual rate of approximately 15%. Over the same period, passenger traffic in Guangzhou and in Shenzhen grew at compound annual rates of 12% and 24%, respectively. Despite the strong growth over the period, however, travel in the region also appears to have been negatively affected since 1993 by the macroeconomic control policies. From 1993 to 1994, total passenger volumes in Guangdong Province and Guangzhou increased only 2% and 3%, respectively. In the same period, total passenger volume in Shenzhen dropped by 19%, principally a function of a 21% decline in people travelling by road but also reflecting a 5% decrease in rail passengers.

Based on an independent survey of the transportation market in the Guangzhou-Shenzhen-Hong Kong area conducted in 1996 by Frank Small & Associates, the Company's market share in 1995 for persons travelling between Guangzhou and Shenzhen was 75%, while the Company's market share for persons travelling directly between Guangzhou and Hong Kong was 62%.

**THE PRC RAILWAY INDUSTRY AND THE
COMPANY'S MARKET ENVIRONMENT**

1995 Market Share

(percentage of persons travelling, by mode of transportation)



Source: Frank Small & Associates

Frank Small & Associates estimates that from 1996 through 2000 passenger volumes for persons travelling between Guangzhou and Shenzhen will increase at an annualised rate of 8.3% and for persons travelling directly between Guangzhou and Hong Kong will increase at an annualised rate of approximately 7.5%.

Passenger Market Growth Projections

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Guangzhou-Shenzhen	8.0%	8.4%	8.6%	8.3%	8.0%
Guangzhou-Hong Kong	7.2%	7.4%	7.7%	7.6%	7.4%

Source: Frank Small & Associates

Freight transport

The Company's market focus for its freight business is on the long-haul transport of goods between the Guangzhou-Shenzhen-Hong Kong area and inland provinces. The long-haul freight transport market comprises (i) the transport of goods, principally fuel supplies, raw materials and foodstuffs from inland provinces, destined for the Pearl River Delta and Hong Kong and for export through the Pearl River Delta ports, including Hong Kong, and (ii) the transport of goods, principally finished and semi-finished goods, from the Pearl River Delta and from Hong Kong, and goods that are imported through the Pearl River Delta ports, including Hong Kong, into the PRC. (The short-haul freight transport market comprises goods originating and terminating in the Guangzhou-Shenzhen area or transported between Hong Kong and the Guangzhou-Shenzhen Corridor, which are principally transported by truck.)

According to PRC Government statistics, from 1990 to 1994 freight tonnage in Guangdong

THE PRC RAILWAY INDUSTRY AND THE COMPANY'S MARKET ENVIRONMENT

Province (including intra-city traffic) increased by a compound annual rate of approximately 7%, although such freight tonnage declined 1% from 1993 to 1994. Freight tonnage in Shenzhen grew by a compound annual rate of 18% from 1990 to 1994, including a 26% increase from 1993 to 1994, principally due to greater transport by truck. From 1990 to 1994, freight tonnage in Guangzhou grew at a compound annual rate of 9%, although 1994 freight tonnage increased only 4% over 1993. The Company believes that macroeconomic controls have generally had a dampening effect on freight transport in the Guangzhou-Shenzhen area.

Transport to and from Hong Kong's Kwai Chung port is an important element of long-haul freight in the region. Kwai Chung port is the major import and export port for many provinces in China. See "— The Company's market environment — Regional ports". From 1990 to 1994, cross-border freight transport by truck between Hong Kong and China increased 10% per year on average. However, over the same period, cross-border freight transport by rail declined at an average rate of 9% per year. The Company believes that the majority of international containers received at Kwai Chung port are not transported from the port to China by rail because (i) KCRC's line does not extend to Kwai Chung port, (ii) freight transport by rail is relatively expensive in Hong Kong compared to road transport, (iii) China does not have a developed international intermodal system or facilities for handling such containers in most major cities and (iv) a significant percentage of this freight is short-haul freight destined for or originating from the Guangzhou-Shenzhen area. As a result, most containers are transported across the border by truck or barge, and long distance goods are loaded into or removed from international containers and transferred to and from freight cars principally at the Company's Shenzhen North Station.

Increasingly congested road border crossings have created an opportunity for increased international intermodal rail transport. The MOR, through its wholly-owned subsidiary, China Railway Container Transport Centre, is in the process of expanding China's international container operations.

INTRODUCTION

The Company operates the sole railroad between Guangzhou and Shenzhen in the rapidly developing Pearl River Delta. The Company's railroad is a principal component of the transportation infrastructure of southern China, and the Company is the leading provider of passenger and freight transportation services in the Guangzhou-Shenzhen Corridor. The Company's railroad connects with the rail line to Hong Kong, and the Company operates through train passenger service between Hong Kong and Guangzhou, with limited service to other locations in Guangdong Province. According to an independent market survey conducted by Frank Small & Associates, in 1995 the Company's market share of persons travelling between Guangzhou and Shenzhen was 75%, and for persons travelling directly between Guangzhou and Hong Kong the Company's market share was 62%. Hong Kong through train service is operated jointly with KCRC. The Company's line also connects with the rest of the PRC national railway network as well as with local rail lines to Yantian, Shekou, Chiwan and Mawan ports in Shenzhen and Huangpu port near Guangzhou, the key ports in southern China. In addition to railway transportation, the Company engages in other businesses, principally sales of food, beverages and merchandise to passengers.

The Company believes that its railroad operating margins are among the highest in the world. In 1995, its railroad operating margin was 63%, compared to an average of 17% for Class I railroads in the United States. In 1995, the Company carried 24.2 million passengers and 28.2 million tonnes of freight and generated revenues of RMB2,332.2 million (HK\$2,166.7 million) and net income of RMB1,250.3 million (HK\$1,161.6 million). Passenger and freight transportation represented 48% and 33% of revenues, respectively, while operating income from railroad transportation represented 92% of total 1995 operating income. From 1991 to 1995, the Company's passenger revenues and freight revenues grew at compound annual rates of 22% and 17%, respectively, while revenues from other businesses increased at a compound annual rate of 36% over the same period. Railroad transportation operating income and other businesses operating income grew at compound annual rates of 14% and 54%, respectively, from 1991 to 1995.

The Company's railroad is one of the most modern in the PRC. In addition to operating the only high speed rail line in the PRC, the Company has one of only two triple-tracked rail lines in China. The Company's two high speed tracks and the majority of its third track were constructed in the last three years. Since 1987, the Company has rebuilt or remodelled most of its stations and freight yards.

HISTORY

The railway system between Guangzhou and Shenzhen was part of the original "Kowloon to Canton" railroad, which began operating in 1911. In 1949, following the establishment of the PRC, the railroad was divided into two sections, the first linking Guangzhou to Shenzhen, and the second, across the Hong Kong border and separately owned, linking Lo Wu to Kowloon. The Guangzhou to Shenzhen railroad has been operated since 1949 by a sub-division of the Guangzhou Railway Administration.

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In 1979, the Company, in conjunction with KCRC, commenced joint operation of through train passenger service between Guangzhou and Hong Kong.

In 1984, in response to the rapid growth in the Pearl River Delta, the Predecessor was formed as a state-owned enterprise with the status of a sub-administration under the Guangzhou Railway Administration. At the time, the Company had only one track, on which it operated relatively older equipment. Since then, the Company has made large-scale capital expenditures to upgrade its facilities and to expand services. Because of the magnitude of capital expenditures required in the modification of the railroad, and also because of the Company's location in the relatively affluent Pearl River Delta, from the Company's 1984 inception to 1st April, 1996, the State Council permitted the Company to charge a fixed surcharge of 50% over the standard national pricing guidelines on the Company's regular passenger trains and its freight trains, and allowed prices based on market considerations for its through trains. See “— Business description — Pricing”. In 1987, the Company completed a second track.

In 1991, the Company started the construction of the High Speed Project, the first of its kind in the PRC. The principal facilities of this project were completed at the end of 1994, at which point commercial operation of high speed trains commenced.

In 1994, the State Council Securities Commission issued a notice to permit the Company to pursue an overseas offering and listing. The Company believes it was selected for several reasons: (i) the Company's railroad is among the most profitable in China, (ii) since 1984, the Company has been granted increased responsibility for managing its railway operations, authority to charge premium prices for its passenger and freight transportation services and accountability for profitability, (iii) the Company is based in the high growth Pearl River Delta and headquartered in Shenzhen, where many of China's economic reforms were first introduced, (iv) the Company's railroad is one of the most modern in the PRC and the Company operates the only high speed rail line in the PRC and (v) the Company has specific and substantial capital requirements to complete its high speed rail line, to fund the next phase of its development and to ensure adequate operating capacity in the region.

The Company has received numerous awards in the PRC for its performance. For instance, in 1995, based on financial criteria devised by the PBOC, the Company was designated as a “Class AAA credit enterprise” by the PBOC. In 1994, the Company was presented the “Golden Horse” award by the PRC State Economic and Trade Commission, the PRC National Enterprises Administration Association and the PRC Outstanding Enterprises Evaluation Committee, in recognition of its financial performance and structural reform.

THE RESTRUCTURING

The Restructuring was carried out in preparation for the Combined Offering and to focus the Company on its primary business as a railroad. Prior to the Restructuring, the Predecessor

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was a state-owned enterprise within the national railway system, directly controlled by the Parent Company. Pursuant to the Restructuring, the Company was established as a joint stock limited company pursuant to the Company Law on 6th March, 1996, and the Parent Company received 100% of the equity interest in the form of Domestic Shares in exchange for assets relating to railroad and other businesses transferred to the Company by the Parent Company, certain of its subsidiaries and the Predecessor. The Company assumed from these entities, as from the effective date of the Restructuring on 6th March, 1996, those assets and liabilities which relate to the businesses now conducted by the Company, including the High Speed Project and equity interests in certain subsidiaries and joint ventures whose principal businesses relate to the operation of warehouses or freight yards. The Company assumed from Yang Cheng certain assets including 14 shunting locomotives and certain passenger coaches which Yang Cheng had previously leased to the Company. The Predecessor retained the assets, liabilities and businesses not assumed by the Company, including units providing staff quarters and certain social services such as health care, educational and public security services and other ancillary services, as well as subsidiaries or joint ventures whose businesses do not relate to railroad operations and do not compete with the Company's businesses. The businesses of these subsidiaries or joint ventures include, among other businesses, the operation of hotels, restaurants and quarries and real estate development. Pursuant to the Restructuring, the Predecessor was renamed Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company.

Pursuant to the Restructuring, GEDC, Yang Cheng, and the Parent Company (together with certain of its other subsidiaries) continue to provide certain social services to the Company on a contractual basis. GEDC, Yang Cheng and the Parent Company provide to the Company services including medical care for the Company's employees and their family members, kindergarten, elementary and secondary school education for the children of employees, room and board for the Company's employees travelling on business, employee housing management and maintenance and public security in the Company's stations and on board the Company's trains. GEDC provides most of these services through its facilities in Shenzhen. The Parent Company and Yang Cheng provide to the Company in Guangzhou services including health care, employee training, child care and others. For the services rendered, the Company pays the Parent Company, Yang Cheng or GEDC, as the case may be, reasonable fees. See “ — Relationship with the Parent Company and affiliated companies”.

As part of the Restructuring, the Company assumed two unsecured, short-term loans, payable to the Parent Company. The first obligation, in the principal amount of RMB532.2 million, was incurred in August 1995 and has been bearing interest at an annual rate of 13.3%. The second obligation, in the principal amount of RMB690.0 million, which represents other indebtedness incurred by the Company to the Parent Company from time to time, bore interest at an annual rate of 13.3% until 1st October, 1995, and has been interest-free since that date. Each of these loans are repayable by the Company within three months of the completion of the Combined Offering. Liabilities assumed by the Company pursuant to the Restructuring also included an unsecured, long-term loan from the Parent Company in the amount of RMB375.0 million, repayable on 30th June, 1997, which bore interest at an annual rate of 13.3% until 1st January, 1996, and has been interest-free since that date. Upon completion of the

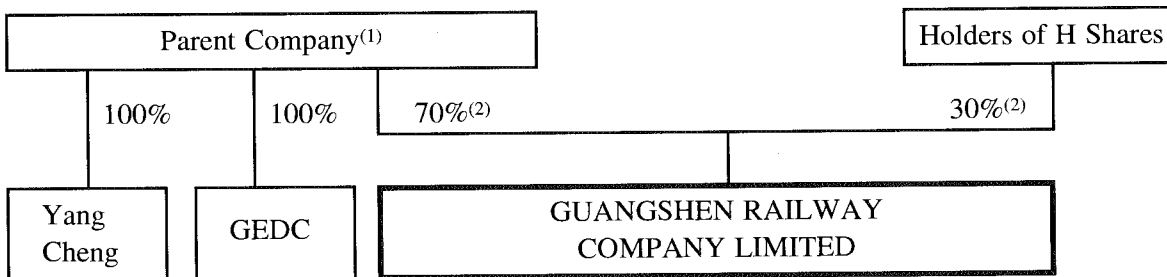
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Combined Offering, the Company will use approximately HK\$1,135 million (RMB1,222 million) of net proceeds to repay all of its short-term indebtedness to the Parent Company.

The Parent Company and GEDC on the one hand and the Company on the other have agreed to certain mutual indemnities arising from or in respect of the various assets and liabilities transferred to or retained by the parties. The purpose of the indemnities is to ensure that neither the Company, the Parent Company nor GEDC will bear liabilities which it has not agreed to assume, even in cases where third parties have not consented to the division of liabilities among them and continue to make claims against an entity which has not assumed the relevant liability. The Parent Company and GEDC have agreed to indemnify the Company against any claims arising from facts or events prior to the Restructuring as well as any claims against the Company in respect of assets and liabilities retained by them in the Restructuring.

Further details of the continuing relationship among the Company, the Parent Company and GEDC are set out under the section headed “ — Relationship with the Parent Company and affiliated companies”. Further details of the Restructuring are set out in Appendix X.

The following table sets out the Company’s shareholding structure immediately after the completion of the Combined Offering:

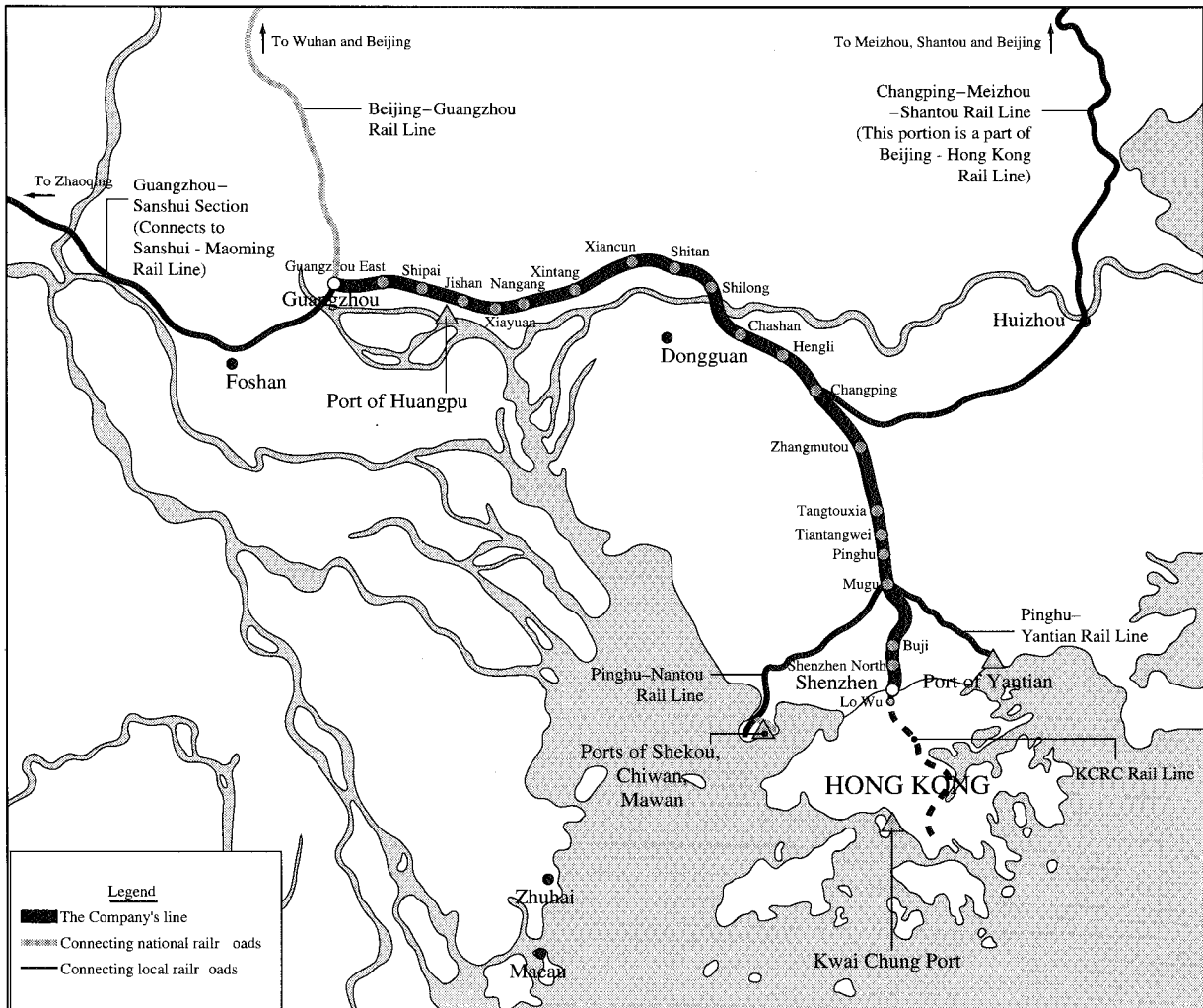


(1) Through a number of entities (including Yang Cheng, GEDC and many others), the Parent Company engages in a variety of businesses, both railroad businesses and others, which do not compete with the Company or any of the Company’s businesses. See “ — Relationship with the Parent Company and affiliated companies — Guangzhou Railway (Group) Company”.

(2) Assumes that the Over-allotment Options are not exercised. If the Over-allotment Options are exercised in full, the respective percentage ownership of the Company by the Parent Company and the holders of H Shares will be 67% and 33%, respectively.

BUSINESS DESCRIPTION

Service territory



The Company has 21 freight and passenger stations on its rail line, serving major cities along the railway corridor, including Guangzhou, Dongguan and Shenzhen, as well as key ports along the line, and Hong Kong, in conjunction with KCRC.

The Guangzhou-Shenzhen railroad is an integral component of the PRC national railway network, which provides nationwide access to passenger and freight traffic from southern China as described below:

- *Northbound.* In Guangzhou, the Company's railroad connects with the Beijing-Guangzhou line, which is currently the major trunk line connecting southern China with Beijing and northern China. In addition, the Beijing-Hong Kong rail line, which was completed in the second half of 1995 and will become operational in 1996, and which includes a section of the Company's line from

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Changping to Shenzhen, will form another trunk line between northern and southern China.

- *Southbound.* The Company's line connects at Shenzhen with the rail line running to Hong Kong owned by KCRC.
- *Westbound.* The Company's line connects with the Sanshui-Maoming rail line operated by Sanmao Railway Company, a local railroad under the administrative supervision of the Guangdong provincial government, which runs through the Guangzhou-Sanshui rail line operated by Yang Cheng. The Sanshui-Maoming rail line runs through the western part of Guangdong Province, connecting with other rail lines that continue on into Guangxi Zhuang Autonomous Region, thereby providing access to southwestern China.
- *Eastbound.* The Company's railroad intersects at Changping with the Changping-Meizhou-Shantou rail line operated by Guangmeishan Railway Company, a local railroad under the administrative supervision of the Guangdong provincial government, which rail line runs through the cities of Huizhou and Meizhou and terminates in Shantou, the principal seaport in eastern Guangdong Province and one of the original SEZs. A section of this line will be included, along with the Company's Changping to Shenzhen segment, as a part of the Beijing-Hong Kong rail line.

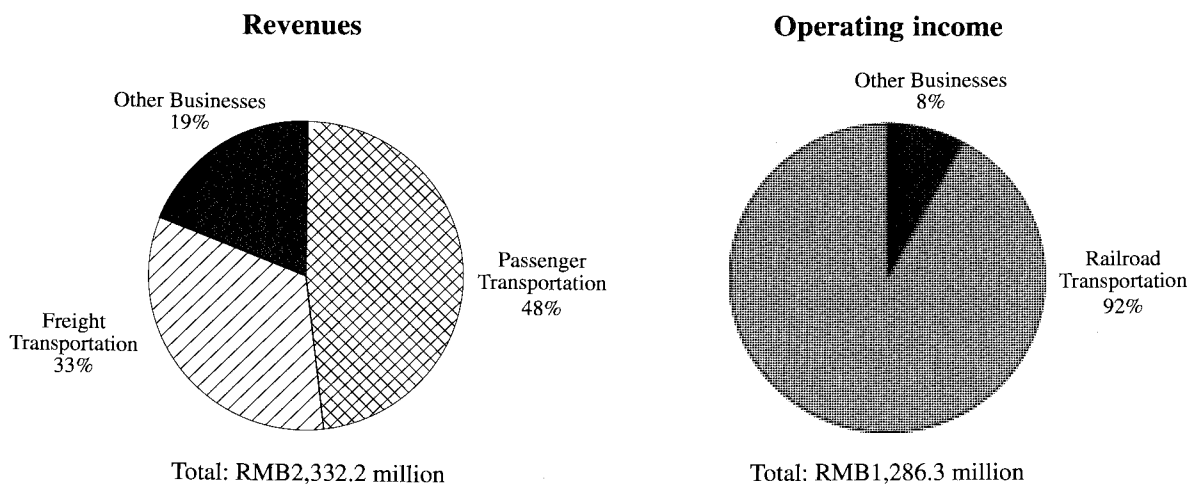
At Pinghu, the Company's railroad connects with two local port lines, one servicing three ports located in western Shenzhen, Shekou, Chiwan and Mawan, and the other intended to provide access to Yantian port, located in eastern Shenzhen, once the rail line becomes operational, which is expected to be in 1997. The Company's rail line also connects with certain industrial districts, commercial districts and the facilities of many of its customers through spur lines which are generally owned by such customers and maintained by the Company. In 1994, freight tonnage originating or terminating on these spur lines represented 55% of total freight handled by the Company. The Company believes that customers connected to these spur lines are likely to utilise the Company's services on a long-term basis.

Principal businesses

The Company's principal businesses are railroad passenger and freight transportation. In addition, the Company operates certain other businesses, including sale of food, beverages and merchandise aboard the trains and in the stations. The Company operates the railroad between Guangzhou and Shenzhen, and also operates through train service to Hong Kong jointly with

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KCRC. The following charts set out the percentage of the Company's revenues derived from each principal business in 1995, and the percentage of operating income derived from railroad and other businesses in the same year:



Since its inception in 1984, the Company has continually invested in upgrading its railway infrastructure and improving its services, in order to meet demand and enhance its competitive position. The Company completed the construction of the principal facilities of its High Speed Project at the end of 1994. By the second half of 1996, when the Company expects to have upgraded most of its passenger trains to high speed trains, this project is expected to produce more frequent passenger service, substantially shorter passenger travel times, increased passenger and freight railroad capacity and higher quality railroad transportation service. See “— Passenger transport— High Speed Project”. Revenues from the Company's passenger transportation services grew at a compound annual rate of 22% from 1991 to 1995, while freight transportation revenues grew at a compound annual rate of 17% over the same period.

The table below summarises the Company's railroad revenues, volumes and traffic since 1991:

	Year ended 31st December,				
	1991	1992	1993	1994	1995
Passenger Transportation					
Total passenger revenues (RMB millions) ⁽¹⁾	496.3	609.6	820.1	1,147.9	1,117.3
Total passengers (millions)	23.0	29.3	30.3	28.3	24.2
Total revenues per passenger (RMB)	21.58	20.81	27.07	40.56	46.17
Total passenger-kilometres (millions)	2,870.0	3,537.2	3,558.0	3,257.9	2,689.2
Total revenues per passenger-kilometre (RMB)	0.17	0.17	0.23	0.35	0.42
Freight Transportation					
Total freight revenues (RMB millions) ⁽¹⁾	408.0	447.7	546.6	639.4	771.8
Total freight tonnes (millions)	23.9	26.3	27.8	28.6	28.2
Total revenues per tonne (RMB)	17.07	17.02	19.66	22.36	27.37
Total tonne-kilometres (millions)	1,875.5	2,098.9	2,215.7	2,247.4	2,167.0
Total revenues per tonne-kilometre (RMB)	0.22	0.21	0.25	0.28	0.36

⁽¹⁾ Audited for 1993, 1994 and 1995; all other figures in the table are unaudited.

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Passenger transport

Passenger transport is the Company's largest business segment, accounting for 48% of total revenues and 59% of railroad revenues in 1995. The Company operates (i) through trains between Hong Kong and Guangzhou, with limited service to other locations in Guangdong Province, and (ii) domestic trains, including Guangzhou-Shenzhen trains and domestic long distance trains that run along certain sections of the Company's line originating and/or terminating in PRC locations that are not within the Guangzhou-Shenzhen Corridor. The majority of the Company's passenger service relates to relatively short distance travel within the Guangzhou-Shenzhen Corridor. As of 31st December, 1995, the Company had 36 pairs (one pair represents trains making one round trip between two points) of passenger trains scheduled daily, of which (i) five pairs were Hong Kong through trains, (ii) 20 pairs operated between Guangzhou and Shenzhen and (iii) 11 pairs were domestic long distance trains.

The table below sets out passenger revenues and volumes for the Company's Hong Kong through trains and domestic trains in each of 1993, 1994 and 1995:

	Passenger revenues			Passenger volumes			Revenues per passenger		
	1993	1994	1995	1993	1994	1995	1993	1994	1995
	(RMB millions)			(millions)			(RMB)		
Hong Kong through trains	267.6	443.3	330.2	2.7	2.7	2.1	99.11	164.19	157.24
Domestic trains	552.5	704.6	787.1	27.6	25.6	22.1	20.02	27.52	35.62
Combined passenger operations	820.1	1,147.9	1,117.3	30.3	28.3	24.2	27.07	40.56	46.17

Hong Kong through trains. The Company jointly operates with KCRC through trains between Hong Kong and Guangzhou, with limited service to Changping, Foshan and Zhaoqing. Service beyond Guangzhou to Foshan and Zhaoqing is provided jointly by the Company and Sanmao Railway Company and Yang Cheng, respectively, which are connecting railroads. Revenues from the operation of these through trains are shared in proportion to the percentage ownership of the railway line over which the through train travels. With respect to the Guangzhou-Hong Kong through train, the revenues are split 81.2% to the Company and 18.8% to KCRC. In addition, the Company and KCRC share the costs for the operation of the through train service. This arrangement has prevailed since the inception of the Hong Kong through train service, and is not expected to change in the foreseeable future. Currently, two of the five pairs of through trains operated daily are high speed. The high speed train takes one hour and fifty-nine minutes from Hong Kong to Guangzhou, while regular trains take two hours and forty minutes. The Company plans to utilise high speed trains for all of its Guangzhou-Hong Kong through trains by the end of 1996.

In 1995, 2.1 million passengers travelled on the Hong Kong through trains. The Company's share of the revenues from these trains was RMB330.2 million in 1995, accounting for approximately 30% of the Company's total passenger revenues, although the through trains carried only 9% of the Company's passengers. This differential was the result of higher fares charged for the Hong Kong through trains. In 1995, the Company's average revenues per passenger on the Hong Kong through trains was RMB157.24, compared to RMB35.62 for average

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revenues per passenger on the Company's domestic routes. Since 1993, revenue per passenger on the through trains has grown at a compound annual rate of 26%, compared to 33% for the Company's domestic trains. See "— Pricing". Based on a customer survey conducted by the Company in October 1995, approximately 80% of Hong Kong through train passengers are residents of Hong Kong, Macau, Taiwan or foreign countries, while the remaining passengers are PRC citizens. Approximately two-thirds of Hong Kong through train passengers surveyed travel for commercial or governmental business, while the remaining passengers are leisure travellers.

Guangzhou-Shenzhen trains. Of the 20 pairs of trains running between Shenzhen and Guangzhou every day, six pairs are non-stop trains, including two pairs of high speed trains. The high speed train currently takes one hour and eight minutes to travel between Shenzhen and Guangzhou. The regular non-stop train takes one hour and fifty-nine minutes.

Based on a passenger survey done by the Company in October 1995, approximately 50% of passengers on the Guangzhou-Shenzhen trains travel on commercial or governmental business, while the remaining passengers are leisure travellers. Approximately two-thirds of the passengers are PRC residents, with the remaining passengers principally residents of Hong Kong. The Company's market survey indicates that approximately 40% of passengers have taken the Company's Guangzhou-Shenzhen train seven or more times in the previous year.

Domestic long distance trains. The 11 pairs of long distance trains daily connect to cities in Guangdong and Hunan Provinces. Two of the 11 pairs start within the Company's service territory and run north of Guangzhou on part of the Beijing-Guangzhou line. Six pairs start within the Company's service territory and run east and west, connecting the Guangzhou-Shenzhen line with other points in southern China. The remaining three pairs both start and end outside the Company's service territory, passing through the Company's rail line. The majority of the routes in which the Company participates in this service run wholly within Guangdong and Hunan Provinces. However, the Company anticipates that it may offer additional domestic long distance routes in the future, particularly in light of the development of the Company's Guangzhou East Station and the opening of the Beijing-Hong Kong line, scheduled for late 1996. Currently, all of the domestic long distance trains are operated by other PRC railroads. Revenues received by the Company from these trains are net of operating costs and are based on the proportion of route length owned by the Company and the fares charged by the various railroads on their own rail lines. The Company believes that the operating income it receives from the trains operated by other railway companies on the Company's rail line is not materially different from the operating income the Company would generate if the Company operated such trains. See "— Sales — Passenger transport".

High Speed Project. In 1991, the Company embarked on the construction of a high speed rail line, the first of its kind in the PRC. The Company's high speed trains are capable of running at 160 kilometres per hour, 45% faster than its regular trains. As part of this project, the Company rebuilt its two existing tracks, preparing them for use primarily by high speed passenger trains. In addition, the Company built a third track along a portion of the corridor between Guangzhou and Pinghu. This third track is intended for use primarily by freight trains, in order to improve traffic flow. The Company also upgraded signalling and communications systems and reinforced the structures of most of the viaducts along its rail line.

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In December 1994, the Company completed the construction of the principal facilities of the high speed rail line and began operating high speed trains. Since January 1996 the Company has been operating four pairs of high speed trains per day, two of which are Hong Kong through trains and two of which are Guangzhou-Shenzhen trains. The Company believes that passengers in its market generally desire shorter travel times, more frequent service and greater overall comfort and convenience, and expects that the high speed rail line will substantially address these preferences. As part of the High Speed Project, the Company plans to replace all of its Guangzhou-Hong Kong through trains and certain of its regular Guangzhou-Shenzhen trains with high speed trains, and to add other high speed trains. The Company also plans to increase the frequency of its trains, particularly during peak times. With this increase in frequency, the length of the Company's trains may be adjusted to maximise train seat utilisation. The Company expects to operate approximately 25 pairs of high speed trains daily in 1997.

The Company is purchasing an additional 49 high speed passenger coaches and 10 high speed locomotives. All of these passenger coaches and locomotives are currently on order and are scheduled to be delivered by August 1996. In addition, the Company will lease an additional 30 high speed passenger coaches from the Parent Company, pursuant to a five year lease, which commenced on 6th March, 1996, for an annual rental amount equal to 6% of the Parent Company's purchase price for the coaches, approximating the Parent Company's depreciation expense. The lease provides that the Company will bear all costs of maintenance and overhaul of the coaches during the term of the lease. Certain of these passenger coaches have been delivered to the Company and the remainder are expected to be delivered in the first half of 1996. The Company plans to establish track maintenance stations and extend the third track to cover its entire Guangzhou-Shenzhen route, which projects are expected to be completed in 1997. Total planned investment in the High Speed Project is RMB4.80 billion, of which approximately RMB3.12 billion had been invested as of 31st December, 1995. See “—Track, equipment and maintenance” and “— Properties and facilities”.

Major stations. The Company is currently constructing Guangzhou East Station in Guangzhou, which is expected to be completed in 1996. Guangzhou East Station is intended to serve several objectives, including (i) enabling the Company to operate significantly more frequent service between Guangzhou and Shenzhen and between Guangzhou and Hong Kong, by increasing overall station capacity dedicated to the Company, (ii) creating new revenue opportunities for other businesses and (iii) serving as a new hub for long distance trains to locations throughout China. Guangzhou East Station will also be connected to the Guangzhou municipal subway, which is currently under construction and is scheduled to commence operation in 1998. Pursuant to the Yang Cheng Agreement, Yang Cheng provides the Company and its passengers with certain services at Guangzhou Station, including, among other things, passenger boarding, ticket collection and on-board water supply. See “— Relationship with the Parent Company and affiliated companies — Yang Cheng Railway Company”.

The expansion and renovation of the Company's Shenzhen Station was completed in 1991, and the Company currently plans to expand the existing station area by approximately 60% by 2000. More than 20 million passengers passed through Shenzhen Station in 1994.

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The Company's intermediate station in Changping is the point of connection between the Company's line and the neighbouring Changping-Meizhou-Shantou rail line. Changping Station will also connect the Company's rail line to the Beijing-Hong Kong line when that line is fully operational. Changping is located in the Dongguan municipality, the location of substantial foreign investment from Hong Kong. As a result of these factors, the Company expects the volume of traffic at Changping Station to increase.

Freight transport

Freight transport accounted for 33% of total revenues and 41% of railroad revenues in 1995. The Company's principal market for freight is long-haul freight, which originates and/or terminates outside the Guangzhou-Shenzhen Corridor.

The vast majority of the freight transported by the Company is received from and/or transferred to other rail lines. Virtually none of the freight transported by the Company both originates and terminates in the Guangzhou-Shenzhen Corridor. The Company classifies its freight business into three categories: (i) inbound freight, which is primarily southbound freight unloaded at stations along the Company's rail line, at the region's ports or in Hong Kong, (ii) outbound freight, which is primarily northbound freight loaded at the Company's stations, the major ports in the region or Hong Kong, and (iii) pass-through freight, which refers to freight originating or terminating on the Changping-Meizhou-Shantou line that passes through the Company's line to or from the Beijing-Guangzhou rail line or the Guangzhou-Sanshui-Maoming rail line. Inbound freight travels an average overall distance of approximately 840 kilometres and outbound freight travels an average overall distance of approximately 1,700 kilometres.

Between 1991 and 1995, freight transport volumes on the Company's railroad increased from 23.9 million tonnes to 28.2 million tonnes, a compound annual growth rate of 4%. In 1993, 1994 and 1995, the Company transported, respectively, 17.0 million, 16.2 million and 14.6 million tonnes of inbound freight, 10.1 million, 10.6 million and 10.8 million tonnes of outbound freight and 753,000, 1.8 million and 2.8 million tonnes of pass-through freight. Since 1991, revenue per tonne has grown at a compound annual rate of 13%.

The Company's freight trains serve a broad customer base, shipping products in a wide variety of categories. The Company's freight revenues are not dependent upon specific customers or industries. In 1995, the aggregate revenues from freight transportation to the Company's five largest customers accounted for less than 4% of total revenues of the Company, and less than 12% of total revenues from freight transportation.

Freight composition. The Company transports a broad range of goods, which can generally be classified into the following categories: construction materials, energy products, food products, chemicals, manufactured goods, containers and other goods. Inbound freight is more heavily weighted toward raw materials and essential production inputs, while outbound freight consists of higher percentages of manufactured or processed goods destined for consumption throughout China. The following table shows the composition of the Company's freight volume.

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Freight Composition

(based on tonnes transported)

	Outbound freight year ended 31st December,			Inbound freight year ended 31st December,		
	1993	1994	1995	1993	1994	1995
Construction materials	22%	19%	15%	36%	38%	35%
Energy products	13%	12%	7%	13%	13%	14%
Food products	8%	10%	12%	16%	16%	17%
Chemicals	14%	17%	23%	6%	6%	8%
Manufactured goods	10%	10%	11%	10%	9%	9%
Containers	14%	13%	12%	7%	7%	6%
Other goods	19%	19%	20%	12%	11%	11%
Total	100%	100%	100%	100%	100%	100%

Construction materials. Inbound construction materials are primarily high grade cement produced in southern China provinces and steel from major manufacturers around the country. Outbound construction materials consist mostly of mined construction products as well as high grade wood and steel imported through the major ports within the Company's service territory.

Energy products. Inbound energy products consist of coal from Hunan Province and northern China used as energy sources in local factories and power plants and local petroleum products. Outbound energy products consist mostly of imported and locally produced petroleum products.

Food products. Inbound trains transport mostly grain, vegetables and fruit for local consumption and livestock, seafood and specialised food products destined for export to Hong Kong. Outbound trains carry primarily beverages, processed food and refrigerated products and fruit consumed in other provinces, especially those in northern China.

Chemicals. Inbound chemicals are mostly chemical raw materials and products for local use. Outbound chemicals consist of locally produced and imported chemical fertilisers and imported petrochemical products to be consumed in other provinces.

Manufactured goods. Both inbound and outbound trains transport manufactured goods, including machinery, spare parts, medical equipment, pharmaceutical products, electrical and electronics goods, paper and consumer products.

Containers. The Company believes that the containers it transports carry mostly higher value-added or fragile manufactured goods, such as electronics and apparel. Due to the high density of manufacturing and processing plants within the Company's service territory, the number of outbound containers significantly exceeds that of inbound containers.

Other goods. Outbound products consist mainly of imported iron ore for inland iron and steel factories. Inbound freight consists primarily of minerals and iron ore.

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Freight yards, container yards and warehouses. The Company owns freight yards, container yards and warehouses with an aggregate area of approximately 998,800 square metres. Most of these facilities are located at the Company's Shenzhen North, Pinghu, Changping and Guangzhou East stations. Of the 18 freight yards operated and owned by the Company either directly or through its subsidiaries or affiliates, three handled more than one million tonnes of freight each in 1995. The Company charges its customers for storing their freight at the Company's freight yards, container yards or warehouses starting from the third day after the freight is unloaded. The charges for using the Company's freight yards, container yards and warehouses are subject to Guangdong provincial government regulation. In 1995, revenues from the operation of the Company's freight yards, container yards and warehouses amounted to RMB214.4 million, accounting for 28% of the Company's freight revenues for that year.

The MOR is currently constructing a major new marshalling facility north of Shenzhen at Mugu. When the facility is completed (construction is currently scheduled to be completed in the second half of 1997), the Company expects that it will enter into an arrangement with the MOR to manage and operate the Mugu marshalling yard, which will increase the Company's capacity for sorting freight cars into trains. The terms of this management arrangement have not yet been agreed. The Mugu facility will be strategically located at the intersection of the Pinghu-Nantou rail line, which connects to the Shekou-area ports, and the Pinghu-Yantian rail line, which connects to the Yantian port (although the line is not currently in service). The Mugu facility will also facilitate movement of freight in and out of Hong Kong.

Other businesses

The Company engages in certain service businesses principally related to its transport business. These other businesses include (i) sales aboard the trains and in the stations of food, beverages, newspapers and magazines and other merchandise, (ii) services in the stations, including operating restaurants, operating a travel agency and a hotel in the Company's Shenzhen Station, providing kiosks and advertising boards in the stations for commercial advertising and leasing space to independent retailers, and (iii) other businesses, principally railroad-related construction.

The table below sets out the revenues for the Company's other businesses, by category of activity, in each of 1993, 1994 and 1995:

<u>Category of activity</u>	<u>Revenues</u>			<u>Percentage of total other businesses revenues</u>		
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
	(RMB millions)					
On-board and station sales	107	143	117	38%	43%	26%
Station services	121	146	164	42%	43%	37%
Others	56	48	162	20%	14%	37%
Total	284	337	443	100%	100%	100%

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The Company believes that there will be significant opportunities to expand its other business activities. In particular, the Company's new Guangzhou East Station, which is expected to be completed in the second half of 1996, should allow the Company to expand its retail, leasing, restaurant and advertising businesses, taking advantage of significant passenger flows. The new Guangzhou East Station will have six floors of space available for restaurants and retail space. The existing station in Guangzhou (which will be utilised by the Company after the completion of Guangzhou East Station on a diminishing basis) is owned by Yang Cheng, which limits the Company's ability to generate revenues from other businesses at this location.

The Company also intends to strengthen sales of food, beverages and merchandise on its trains. Because the high speed trains will reduce travel time for passengers, the Company believes it is important to improve its product mix and selling approach in order to build sales of such items. Accordingly, the Company has formed a marketing group to review the products currently offered by the Company on its trains and in its stations and to identify new products that are attractive to passengers and for which margins will be higher. As part of this effort, the Company is evaluating the sales process and incentives of its onboard personnel to maximise effectiveness while increasing overall standards of customer service.

Compared to its railroad businesses, the Company has historically been allowed greater autonomy in the operation of these other businesses, and expects to continue to have such autonomy for the foreseeable future.

Regulatory environment

The transport operations of the PRC national railway system are organised under the centralised control and management of the MOR. In order to promote efficient utilisation of the railway network nationwide, the MOR directly manages and coordinates traffic flow on national trunk lines and through several bottlenecks in the system. Each railway sub-administration is required to submit to its governing railway administration, on a monthly basis, information regarding its requirements for freight cars and the number of its trains that will go through particular bottlenecks in the coming month. The railway administration then consolidates and coordinates such information and submits it to the MOR, also on a monthly basis. Based on route capacity, available equipment and national priorities, the MOR allocates to the 12 railway administrations authority to make certain routings on trunk lines and through bottlenecks, allocates certain numbers and types of freight cars to the administrations and specifies requirements to despatch empty freight cars to designated locations in order to facilitate freight car circulation within the national railway system. Within the allocations set by the MOR, each of the 12 railway administrations manages and coordinates traffic within its own jurisdiction. See "The PRC railway industry and the Company's market environment — PRC railway industry — Regulatory structure and the Ministry of Railways".

Historically, the Company's passenger and freight operations that involved long-distance routing through national bottlenecks, such as the routing of freight trains to Shanghai, were conducted, in general, pursuant to quota allocations from the Parent Company based on the quota

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allocations the Parent Company received from the MOR. The Company's passenger and freight operations solely within the geographical territory of the Parent Company were subject to overall planning and scheduling at the Parent Company level.

In connection with the Restructuring, starting from March 1996, the MOR and the Parent Company have accorded the Company substantially greater latitude in its transport operations. The MOR has eliminated all restrictions applicable to the Company for routing trains through bottlenecks. It has agreed to allocate to the Company all the freight cars it requires to meet its shipping needs. It has also exempted the Company from otherwise applicable requirements to despatch empty freight cars. With these special dispensations, the Company now enjoys substantial autonomy in its freight transport operations.

The Parent Company has granted the Company full autonomy over services on the Company's own line, including autonomy over scheduling, frequency and train car mix. Where the Company's service runs beyond its own line, clearance and coordination with the Parent Company is still necessary. Because the Company's passenger service operates predominantly within the Parent Company's jurisdictional territory, the flexibilities granted by the Parent Company substantially enhance the Company's autonomy in its passenger operations. Nevertheless, to the extent that the Company operates long distance services beyond the Parent Company's jurisdiction, these remain subject to coordination and clearance through the MOR. In addition, in order to enable the Parent Company and the MOR to allocate freight cars and control traffic going through bottlenecks, the Company is required to provide the Parent Company with prior written notice, on a monthly basis, of the numbers and types of freight cars it will require, as well as the number of its trains that will go through particular bottlenecks. Further, the Company must still carry out special shipping tasks, such as emergency aid and military and diplomatic transport, as directed by the MOR or the Parent Company. Revenues from military and diplomatic transport generally account for less than 1% of the Company's total transportation revenues. Emergency aid transport is required only during periods of rare natural disasters declared by the PRC Government, and is free of charge.

Sales

Passenger transport

The Company's passenger tickets are currently sold primarily at ticket counters located at train stations. Additionally, tickets are sold through ticket agents, travel agents and at hotels, at prices corresponding to the Company's pricing plus nominal commissions, in Hong Kong and major cities in Guangdong Province.

As part of its sales strategy, the Company is implementing plans to improve convenience for the purchase of tickets by its passengers and improve the efficiency of the allocation of tickets to match demand. Currently, tickets are allocated to designated ticketing locations throughout the Company's sales network, which commonly leads to understocking and overstocking. The

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Company is planning to install a centralised computer ticketing system by the end of 1996, which should substantially minimise this problem, as well as allow the Company to monitor the flow of its passengers on a more accurate basis. Except for Hong Kong through train tickets, the Company has full authority to determine the manner in which passenger tickets for its railroad are sold, including any sales agents or outlets it may use in the process.

Passengers whose journeys both begin and end on the Company's line purchase tickets at the originating station or from a ticket agent. All revenues derived from these passengers belong to the Company. Where a passenger travels on a domestic long-distance train that runs partly on the Company's line, the passenger purchases a ticket at the originating station, and the Company shares the ticket revenues with the operators of the other lines through a settlement system agreed either directly with the relevant operators or with the Parent Company. Each railroad is entitled to receive revenues on a monthly basis based on the distance travelled on such railroad's line and the fares charged by such railroad, minus a proportionate cost calculated based on an agreed formula. Substantially all passenger ticket sales are made in cash.

Hong Kong through train tickets are sold in Guangdong Province through outlets operated by the Company, as well as by various hotels and travel agents. In Hong Kong, such tickets are sold exclusively through China Travel Service (HK) Ltd. ("CTS"). The exclusive agency of CTS is pursuant to an agreement between CTS and KCRC, which latter company, under an agreement with the Company, has been delegated the full authority to determine the manner in which through train tickets are sold in Hong Kong. In addition to being the exclusive ticket agent in Hong Kong for the through trains, CTS also operates bus services from Hong Kong to Guangzhou. The Company believes, and will continue to assess the role of CTS to assure, that this conflict has no material adverse effect on sales of through train tickets. Further, the Company and KCRC have discussed modification of the CTS agency to make it non-exclusive, so that through train tickets may be sold in Hong Kong through other outlets. No timetable for this modification has been set.

Freight transport

Generally, the Company deals directly with its customers in collecting payment for freight service, and typically receives payment prior to, or immediately following, delivery of service. For inbound freight, the Company collects from the receiving party prior to the release of the freight. For outbound freight, the Company collects full payment from the despatching party, retains the portion allocable to transportation on the Company's line, and remits the remainder to the other railroad operators on a monthly basis either directly or through a national settlement procedure involving the Parent Company. These collection procedures also apply to freight imported from and exported to Hong Kong. Substantially all payments for inbound and outbound freight are in cash.

For pass-through freight, payments are collected at either the originating or terminating stations, and allocable portions for the use of the Company's rail line, minus a proportionate cost incurred for the operation of the relevant freight train, are remitted to the Company through the national settlement process. Generally, the Company receives such funds within a month after service is provided. The Company has not been required to write off any material amount of bad debts.

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Freight customers in the Guangzhou-Shenzhen area deal directly with the Company or use shipping agents. In general, freight cars must be booked approximately one month in advance, as part of the national ordering process. Customers may also be able to book empty cars on short notice, if they are available. The MOR has historically limited freight traffic through certain bottlenecks. In addition, the MOR requires the transport of empty freight cars to designated locations in the PRC to ensure availability of cars. As a result of its newly-granted autonomy, the Company is now able to have unrestricted use of a sufficient number of empty cars to satisfy its needs. In addition, restrictions on the Company's ability to ship freight through certain bottlenecks have been removed. The Company believes that this new autonomy will enable it to better serve its freight customers, ensuring improved availability of cars, particularly on short notice. See “—Regulatory environment”.

Pricing

The State Council, taking into account national policy considerations, prescribes from time to time certain baseline pricing standards for the entire national railway system with respect to freight and passenger transportation. Because railway transportation is basic to the national economy, the national pricing standards have historically been set below market levels. The Company has historically been granted by the MOR and the State Council the right to charge passenger fares and freight tariffs which have, in most instances, exceeded these national pricing standards. In connection with the Restructuring, the State Council has granted the Company additional flexibility and, with respect to high speed trains, complete autonomy over pricing.

Passenger transport

Hong Kong through trains. The pricing of Hong Kong through train service is determined by the Company, in consultation with KCRC, independent of PRC national pricing standards or adjustments made in domestic pricing. Currently, regular passenger fares for the Company's Hong Kong through trains between Hong Kong and Guangzhou range from HK\$200 for soft-seats on regular trains to HK\$250 for first class seats on high speed trains.

Domestic trains. The State Council holds primary responsibility for setting passenger fares and freight tariffs for the PRC national railway system. Prior to the Restructuring, although the Company was subject to State Council regulation, it was granted special authority to set passenger fares at a fixed rate of 50% above national pricing standards. In connection with the Restructuring, the State Council granted the Company full autonomy to set and adjust passenger fares for its high speed trains, subject only to provision of notice to the State Council. For its other passenger trains, the Company was granted flexibility to set and adjust pricing within a range up to an additional 50% above its previous levels (equivalent to 125% above national pricing standards). In addition, the Company may price its services below the national standard based on market conditions or in implementation of its business strategy. These new pricing policies took effect on 1st April, 1996. Currently, however, passenger fares for the Company's domestic trains remain the same as those in effect prior to the Restructuring.

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The Company intends to take advantage of the new pricing flexibility and autonomy to increase its revenues. Specifically, the Company plans to (i) increase the frequency of trains in its service, (ii) replace certain regular trains with high speed trains, and add other high speed trains, (iii) adjust passenger fares for certain routes in accordance with overall market demand and (iv) more precisely tailor pricing to react to changes in demand resulting from seasonality and peak times of day.

Freight transport

The determination of freight transportation tariffs, like passenger fares, is subject to PRC Government regulation. National pricing guidelines were first established in 1955 and were adjusted once in 1990, and again on 1st April, 1996. The national pricing guidelines set forth freight charges based on the type of commodity, its weight and the distance shipped. Generally, higher value products carry higher transport tariffs. Under the national pricing guidelines, surcharges are applicable to shipments that require special handling or that take up less than one full freight car. Prices for freight shipment on a Renminbi per tonne-kilometre basis decline with the increase in the distance shipped, reflecting both the economics of freight transport and the PRC Government's policy of encouraging the use of railroads for long distance freight shipments.

From its inception to 31st March, 1996, the Company was granted the right to charge tariffs at a fixed 50% over the national guidelines for freight transport. Such preferential pricing treatment was modified in connection with the Restructuring to give the Company flexibility, since 1st April, 1996, to adjust its freight tariffs in its discretion anywhere in the range between 50% below and 50% above national levels. Effective 1st April, 1996, the State Council instituted nationwide an approximately 19% increase in rail freight tariffs. In view of this adjustment in the national pricing guidelines, as of 1st April, 1996 the Company increased its freight tariffs by a similar percentage.

The Company receives payment for freight transport on the basis of a minimum 100 kilometre travel distance on its rail line, even though (as is frequently the case) the distance actually travelled by a given shipment may be less than 100 kilometres. Such minimum 100 kilometre policy is applicable to all freight transported in the national railway system. Unlike other railroads in the PRC national railway system, however, the Company calculates freight charges based only on the total distance the freight travels on the Company's line (subject to the 100 kilometre minimum) and not the total distance the freight travels overall. As short-haul freight transport tariffs per tonne-kilometre are substantially higher than those for long-haul transport, the Company derives significant benefits from this policy. As a result of the minimum 100 kilometre policy, the independent calculation of distance travelled and premium pricing, the Company's freight revenues per tonne-kilometre were significantly higher in 1995 than the PRC national average.

Competition

The Company is the sole railway operator along the Guangzhou-Shenzhen Corridor and therefore does not face any direct competition from other railroads. The Company does not foresee

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any direct railway competitor emerging in the foreseeable future due to (i) the difficulty of obtaining the required regulatory approvals to establish such a competing railroad, (ii) the substantial cost of railway development, (iii) the difficulty in obtaining the land use rights necessary to complete a full rail line and (iv) the Company's established presence between Guangzhou and Shenzhen. Further, the Company has received an undertaking from the Parent Company that the Parent Company (i) will not authorise any competing railway company to operate passenger or freight transport service in the Company's service area and (ii) will treat the Company fairly and equally on the same basis as other PRC railroads under its control or supervision. The Company does, however, face competition from the providers of a variety of other means of transportation in both the passenger and freight transport businesses.

Passenger transport

The Company is the largest provider of passenger transportation services on both of its primary routes: Guangzhou-Shenzhen and Guangzhou-Hong Kong. The Company believes the principal competitive factors in the passenger transport business are comfort, reliability, convenience, travel time, price, frequency of service and safety.

Until 1994, the Company faced limited competition from road transportation service providers due to generally unsatisfactory road conditions between Guangzhou and Shenzhen. In July 1994, a new Guangzhou to Shenzhen toll road opened that connects to a highway into Hong Kong. Also in 1994, the existing Guangzhou-Shenzhen road was widened, increasing its traffic capacity. As a result of these improvements to the road system, the Company has faced substantially increased competition from bus and minibus operators, and the Company has lost market share to such operators.

There is currently frequent bus service between Guangzhou and Hong Kong and Guangzhou and Shenzhen, and minibus service between Guangzhou and Shenzhen. Bus fares are lower than certain classes of the Company's rail service, and buses can offer added convenience to passengers by departing from or arriving at locations other than central terminals, such as hotels. However, train service generally offers greater comfort, better safety and more reliability. In addition, scheduled travel time by bus is approximately one and one-half hours longer on the Guangzhou to Shenzhen route than the Company's high speed service, and approximately 40 minutes longer than the non-stop regular train. For service between Hong Kong and Guangzhou, scheduled travel time by bus is approximately 90 to 120 minutes longer than the high speed through trains and approximately 50 to 80 minutes longer than the Company's regular speed trains. Actual travel time by road on both routes may be substantially increased due to traffic congestion.

Currently, there is limited commercial air and sea hovercraft passenger transport service operating between Guangzhou and Hong Kong. Due to reasons relating to cost and/or convenience, the Company does not believe that it will face significant competition from these services in the foreseeable future.

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As an alternative to taking the Hong Kong through trains, travellers between Guangzhou and Hong Kong may choose to take KCRC trains from Hong Kong to the Hong Kong/PRC border and switch to the Company's Guangzhou-Shenzhen trains or alternative modes of transportation, thus reducing or eliminating entirely revenues that the Company would have received had these travellers taken the Hong Kong through trains. According to market analysis conducted by Frank Small & Associates in 1996, approximately three-fourths of persons travelling between Hong Kong and Guangzhou took the Company's trains: 21% took Hong Kong through trains, and an additional 54% took KCRC trains and switched to or from the Company's Guangzhou-Shenzhen trains. Approximately 14% of passengers took KCRC trains to the border and switched to alternative (non-rail) forms of transportation, while the remaining 11% of passengers took other means of transport for the entire route.

The Company may face certain direct negative effects resulting from changes in border controls following the reunification of Hong Kong with the PRC. For example, if the PRC opens the border to private automobile traffic from Hong Kong, this could lead to direct competition to the Company's passenger transport business. See "The PRC railway industry and the Company's market environment — The Company's market environment — Hong Kong".

Freight transport

The Company believes it faces limited competition in its principal market, long-distance freight transport. In general, most long-distance freight in China is currently shipped by rail. Long-distance freight terminating or originating in the Guangzhou-Shenzhen Corridor is primarily transported by the Company. The Company believes that the principal competitive factors for freight transport are price, reliability, lead time for orders, protection of goods and time to destination.

The Company's primary freight transport competition comes from barges and ships. Although waterway transport is generally comparable in price to rail transport, barges and ships tend to take considerably longer time than rail to cover a given route, and the multiple handling usually required for waterway transport may lead to greater loss or damage to goods. Long-distance trucking is extremely limited, due to generally unsatisfactory road conditions and the shortage of heavy-duty trucks in China. Trucks are generally used only in cases where rail capacity is unavailable or when goods must be transported on short notice. Long-distance truck transport is generally more expensive than rail transport, and goods transported by truck are generally more susceptible to loss or damage.

Although it is possible for long-distance rail freight arriving from inland China to be off-loaded in the Guangzhou area, and switched to either barge or truck for transport to its ultimate destination in the Guangzhou-Shenzhen Corridor, the Company believes that such transfers account for an immaterial portion of the freight transport business in the Guangzhou-Shenzhen Corridor.

Track, equipment and maintenance

Track

As of 31st December, 1995, the Company had approximately 645 kilometres of track in operation, consisting of approximately 420 kilometres within its main rail line from Guangzhou to Shenzhen, and approximately 225 kilometres of track in stations and serving other ancillary purposes, such as switching locomotives and marshalling trains. Approximately 200 kilometres of this track are constructed of 60 kilogram per metre welded rails, which are required for the operation of high speed trains, and the remainder is constructed of 50 kilogram per metre regular rails. All rails were manufactured by domestic steel companies. These rails generally have a useful life of approximately 45 years, and most of the rails were installed within the past three years.

The Company uses concrete ties, except in switching areas where it uses wooden ties. The ties were all purchased from domestic manufacturers. Railway ties generally have a useful life similar to that of rails. Most of the ties along the Company's main rail line have been replaced within the last three years. The Company uses ballast purchased from Zhangmutou Quarry, which is owned by GEDC. Nearly all the ballast along the Company's main rail line was also put in place within the last three years.

In addition, there are six steel bridges and 178 reinforced concrete viaducts along the Company's rail line. Other than routine inspection and maintenance, the Company does not expect to incur any significant cost in connection with these structures in the foreseeable future.

Equipment

Currently, the Company owns 14 shunting locomotives, 66 high speed passenger coaches and 50 regular speed double-decker passenger coaches. All of the passenger and freight locomotives currently used by the Company are owned by Yang Cheng. The Company leases these locomotives and certain of its other passenger coaches from Yang Cheng pursuant to the Yang Cheng Agreement. In 1993, 1994 and 1995, the Company paid to Yang Cheng RMB112.0 million, RMB163.6 million and RMB144.4 million, respectively, for the leasing of locomotives and passenger coaches and other services, such as usage of Yang Cheng's Guangzhou Station. The Company has executed purchase orders for 10 high speed locomotives and 49 additional high speed passenger coaches, to be purchased from PRC manufacturers and paid for primarily out of the proceeds of the Combined Offering, as part of the High Speed Project, which will reduce its dependence on Yang Cheng. The Company will also lease an additional 30 high speed passenger coaches from the Parent Company. See “— Principal businesses — Passenger transport — High Speed Project”, “— Relationship with the Parent Company and affiliated companies”, “— Future plans and prospects” and “— Use of Proceeds”. The Company's locomotives and passenger coaches generally have useful lives of approximately 15 years.

After the electrification of its rail line, the Company plans to use both electric locomotives and its existing diesel locomotives, which will be used mainly for freight transport or regular speed passenger transport until retired or sold.

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All freight cars used by the Company are owned by the MOR, and the Company pays to the MOR a usage fee which is inclusive of maintenance costs and depreciation. Such usage fee is calculated on the same basis as that for other railroads in the national railway system, and is adjusted, from time to time, by the MOR. The Company uses various types of freight cars, such as box cars, gondolas, flat cars and others. In 1993, 1994 and 1995, the total usage fees paid by the Company to the MOR were RMB6.8 million, RMB24.1 million and RMB25.6 million, respectively. In addition, the Company pays the MOR a usage fee for using containers and wagon covers owned by the MOR. This usage fee is also calculated on the same basis as that for other railroads in the national railway system.

The Company's rail system utilises a modern signalling and communications network that provides traffic control for both its passenger and freight transportation services. The Company is currently in the process of replacing its copper cable-based communications equipment with a fibre optic communications system, which project is expected to be completed at the end of 1996. The Company's communications system is currently supported by a digital wireless microwave communications system imported from Italy, which provides back-up communications capability in the event of a network failure. In addition, the Company utilises a radio communications system for communications between on-train personnel and stations.

The Company believes that its signaling system, utilising automatic blocking signal systems over the high speed tracks between the Company's Guangzhou East Station and Pinghu Station, is currently the most advanced system in China. These blocking signal systems provide traffic signals to train operators to ensure safe and sufficient spacing between trains. The Company is in the process of extending the automatic blocking system over the entire line, which project is expected to be completed in 1997. In addition, the Company plans to install a central control system to facilitate the scheduling, despatching and monitoring of its trains.

Maintenance

The ongoing maintenance of the Company's tracks, facilities and equipment is an essential component of the Company's efforts to improve service, ensure passenger safety and reduce operating costs. The Company has special maintenance units that are responsible for the maintenance of buildings and facilities, railway structure, automobiles and electricity and water supply facilities. In general, maintenance of the Company's tracks, facilities and equipment does not interfere with the Company's operations.

The Company's equipment maintenance includes inspections, maintenance and overhauls at regular intervals and on the occurrence of specified events. The Company conducts daily inspection and maintenance and annual major repairs for its rails. The Company conducts daily inspection and maintenance and undertakes major repairs every one and one-half years for its high speed passenger coaches. Track inspection and maintenance is carried out using an ultrasonic track inspection car, a second inspection car and an advanced tamper machine to inspect and maintain the Company's rail line. In addition, the Company has installed monitoring and surveillance systems to ensure the reliability of its signaling and communications equipment.

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Pursuant to the Yang Cheng Agreement, Yang Cheng has agreed to maintain the leased locomotives and passenger coaches. In accordance with the agreement, the Company pays maintenance fees for these locomotives and passenger coaches. Yang Cheng has also agreed, for maintenance fees which the Company believes to be reasonable, to provide the Company with maintenance service for the Company's shunting locomotives and double decker passenger coaches. See "— Relationship with the Parent Company and affiliated companies". The Company has constructed a new high speed passenger coach maintenance facility, and therefore will not rely on Yang Cheng for maintenance of these coaches. In addition, the Company is currently constructing a maintenance centre expected to be completed in July 1996 for daily maintenance of its new high speed locomotives.

As of 31st December, 1995, the Company employed approximately 2,200 employees to conduct the daily maintenance and repair of its tracks, facilities and equipment. In 1993, 1994 and 1995, the Company spent approximately RMB9.6 million, RMB5.9 million and RMB18.0 million, respectively, on maintenance, excluding maintenance fees paid to Yang Cheng. Because most of the tracks and facilities of the Company were built, installed or remodelled within the past three years, the Company does not expect to incur substantial maintenance expenses for its track and facilities over the next five years.

Suppliers

All manufacturers of locomotives, rolling stock and major railway supplies and equipment in the PRC are owned directly or indirectly by the MOR. The Company may purchase such equipment by making purchases from foreign vendors or other domestic suppliers or by placing orders through the Parent Company. The Company purchased its high speed passenger coaches from three domestic manufacturers, which have cooperative technological relationships with producers in South Korea, Germany and Japan, respectively. While these three manufacturers are under the supervision of the MOR, they are not closely related to the Parent Company. The Company acquired its double-decker regular speed passenger coaches from a domestic manufacturer. The ultrasonic track inspection car was purchased from a company located in the United States. Prices charged by domestic manufacturers and suppliers have been set by the MOR, taking into consideration prices charged by foreign manufacturers. The MOR has proposed to have its locomotive and rolling stock manufacturers provide such equipment in the future based on terms determined through competitive bidding. Similarly, the terms at which railway industry materials are supplied by domestic suppliers may also be deregulated, although the timing and effect of any such deregulation are not currently ascertainable. The suppliers of the Company which are under the control of the MOR deal directly with the Company, rather than through the MOR, on the same basis that they deal with other PRC entities, whether or not under MOR control. See "— Relationship with the Ministry of Railways".

The electricity used by the Company is supplied through various entities under the jurisdiction of the Guangdong provincial power bureau at regular rates applicable to all commercial electricity users. The Company is currently in discussions with the Guangdong provincial power bureau regarding power supplies that will be required after the Company's rail line is electrified. In 1993, 1994 and 1995, the Company paid approximately RMB9.1 million, RMB13.8 million and RMB13.7 million, respectively, in electricity expenses.

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In 1995, fees paid to Yang Cheng and the MOR for the use of locomotives and rolling stock accounted for 16% of the Company's total operating expenses. The Company does not rely to a material degree on any other single supplier.

Research and development

The Company does not generally conduct research and development with respect to its railroad business or other businesses. In the past, in connection with the High Speed Project and electrification, the Parent Company has contracted for the engineering and technical services of research institutes under the MOR, with no direct cost to the Company. The Company does not anticipate significant need for research and development services in the foreseeable future, and does not expect to require any such services in connection with its other businesses. To the extent that such services are needed, the Company expects that it would contract with outside service providers to satisfy such need.

Environmental protection

The Company believes that it has been in material compliance with applicable PRC national and local environmental protection regulations. The Company has not been fined for activities that cause environmental damage. The Company operates two waste water treatment facilities, one in Jishan and the other in Shenzhen, to treat waste water generated by the cleaning of special freight cars. The Company pays regular fees to local authorities for the discharge of waste substances. In 1993, 1994 and 1995, the Company's environmental protection-related expenses were approximately RMB856,000, RMB407,000 and RMB 435,000, respectively.

Insurance

The Company does not currently maintain any insurance coverage with third party carriers against third party liabilities. Pursuant to applicable PRC regulations and the practice of national railway companies, the Company is liable for (i) personal injury to or death of its passengers, in the case of accidents and regardless of fault, for up to RMB40,000 per passenger and (ii) personal injury to or death of non-passengers, for hospital and/or funeral expenses and a payment of up to RMB40,000 per person, and/or property damage to non-passengers (exclusive of damage to freight shipped by the Company), but in each case only to the extent that the Company is at fault. Since its inception in 1984, the Company has not been subject to any liability for injury to or death of a passenger. Although the Company has not been found liable in any case involving the injury to or death of a non-passenger, the Company has agreed to make certain payments to such persons or their families in certain cases. In 1993, 1994 and 1995, the Company paid approximately RMB1.6 million, RMB1.4 million and RMB816,000, respectively, in connection with personal injuries to and deaths of non-passengers. With respect to loss of or damage to baggage, parcels and freight, the Company's customers may elect to purchase insurance administered by the MOR for up to their declared value. Passengers who do not elect to purchase insurance in respect of

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their baggage and/or parcels may nevertheless recover up to RMB13 for each kilogramme of damaged baggage and/or parcels. Similarly, freight transport customers who elect not to purchase insurance may recover up to RMB2,000 for each tonne of damaged freight. No material amounts were paid by the Company in 1993, 1994 or 1995 in connection with damage to property of any passenger or non-passenger (exclusive of freight). Further, the Company has not made any payments with respect to damaged freight in the last three years.

Given the low recovery ceilings provided by applicable regulations and the relatively small amount of expenses relating to personal injury, death and freight damage claims filed against the Company, the Company believes that its exposure to third party liability as a railroad operator is currently relatively insignificant. However, there is no assurance that such regulations or the interpretation thereof will not change, that the number of claims will not increase or that the Company's exposure to personal injury or freight damage claims will not increase significantly in the future. In addition, for personal injuries, deaths or property damage related to the Company's through train service that occur in Hong Kong, Hong Kong laws may apply, in which case such recovery ceilings will not be applicable and the Company may be subject to significantly higher damage awards.

Consistent with what it believes to be the customary practice among railroad operators in the PRC, the Company does not maintain insurance coverage for its property and facilities (other than for its automobiles), for business interruption or for environmental damage arising from accidents on Company property or relating to Company operations. As a consequence, in the event of an accident or other event causing loss, destruction or damage to the Company's property or facilities, causing interruption to the Company's normal operations or causing liability for environmental damage or clean-up, the Company will be reliant on its own resources to cover losses and damages. In a major flood in Shenzhen in 1993, the Company suffered approximately RMB7.5 million in property damage for which it received no third party compensation.

With respect to its employees, the Company does not maintain medical insurance or disability insurance with any third party insurance carriers. The Company's employees participate in an unemployment insurance scheme pursuant to which the Company contributes 1.0% of employee salaries. In 1995, the total contribution made by the Company was RMB301,000. In addition, the Company has adopted internal rules to provide for medical and disability benefits to its employees, consistent with MOR regulations and practices and relevant regulations of the Shenzhen municipality. The Company has entered into service agreements with the Parent Company and GEDC pursuant to which the health care facilities owned by these entities provide the Company's employees and their families with medical services. See "— Relationship with the Parent Company and affiliated companies".

No assurance can be given that losses incurred or payments required to be made by the Company which are not fully insured will not have a material adverse effect on the Company's financial condition.

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Legal proceedings

The Company is not a party to any material litigation, and no material litigation is known to the Company to be pending against the Company or with respect to any of its properties. The Parent Company and GEDC have agreed to indemnify the Company against any claims arising out of any facts or events prior to the Restructuring, as well as any claims against the Company in respect of the assets and liabilities retained by them in the Restructuring.

TRADING RECORD

The following discussion and analysis should be read in conjunction with the Accountants' Report contained in Appendix I of this Prospectus. It presents the results of the Company as if the Company had been in existence throughout the relevant periods, and as if the railroad and other businesses were transferred to the Company as of 1st January, 1993 and were conducted by the Company throughout the relevant periods.

General

The Company operates the sole railroad between Guangzhou and Shenzhen in the PRC's rapidly developing Pearl River Delta, and is the leading provider of passenger and freight transportation services in the Guangzhou-Shenzhen Corridor. Passenger transport, the Company's largest business segment, accounted for 48% of total revenues and 59% of railroad revenues in 1995. The Company operates through trains between Hong Kong and various cities in Guangdong Province, and domestic trains, including Guangzhou-Shenzhen trains and domestic long distance trains that originate or terminate in or travel through the Company's service territory. The Company's freight transport business, which accounted for 33% of total revenues and 41% of railroad revenues in 1995, relates principally to long-haul freight which originates and/or terminates outside its service territory in other regions of the PRC or in Hong Kong. In 1995, railroad business revenues accounted for 81% of total revenues and 92% of operating income. The Company also operates certain other businesses, including sales of food, beverages and other merchandise aboard its trains and in its stations. These other businesses accounted for 19% of the Company's total revenues and 8% of operating income in 1995.

The Company's operations and financial performance were historically subject to and significantly affected by regulatory measures and public policy considerations. Certain aspects of the Company's operations, including transportation prices, train schedules and configuration, capital expenditure budgets and equipment purchases, among others, were subject to the control of or approval by various government authorities, which restricted the Company's ability to respond to changes in market conditions, to increase revenues and to reduce costs.

In 1994, the PRC Government announced its intention to permit the Company to pursue an overseas offering and listing. Following the Restructuring, the Company, while remaining subject to MOR jurisdiction, has been granted greater flexibility and autonomy in managing its

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businesses, including in connection with the setting of transportation prices, in scheduling and certain other operational decisions and in making equipment procurement decisions. The new autonomy and flexibility allow Company management to make a variety of strategic and operational decisions, which in combination are intended to enable the Company to be more responsive to market forces in order to increase revenues and control costs. Because of the broad range of alternatives from which the Company's management may choose (for instance, the setting of passenger fares will reflect not only the new pricing autonomy but also operational considerations, seat utilisation and general service improvements aboard the Company's trains), the effects of the Restructuring on the Company's future results of operations or cash flows are not certain. See "— The Restructuring" and "— Future plans and prospects". Several categories of changes which are more predictable are discussed in Appendix II.

Effective 1st April, 1996, the State Council approved a general freight tariff increase of approximately 19% for all PRC rail freight. See "—Business description — Pricing — Freight transport".

Results of operations

Overview

Since 1993, the Company's railroad business revenues have grown at a compound annual rate of 18% to RMB1,889.2 million in 1995, and other business revenues have grown at a 25% compound annual rate to RMB443.1 million in 1995. Passenger transportation revenues grew at a compound annual rate of 17%, and freight transportation grew at a compound annual rate of 19% over this period. Principally due to these higher revenues, railroad operating income and other businesses operating income grew at compound annual rates of 11% and 24%, respectively, during this period.

The following table sets forth the revenues from passenger transportation and the number of passengers for the last three fiscal years:

	Year ended 31st December,				
	1993	1994	Increase (decrease) from 1993	1995	Increase (decrease) from 1994
Revenues from passenger transportation (RMB thousands)	820,068	1,147,868	40%	1,117,328	(3)%
Total passengers (thousands)	30,294	28,263	(7)%	24,229	(14)%
Revenues per passenger (RMB)	27.07	40.56	50%	46.17	14%
Total passenger-kilometres (millions)	3,558.0	3,257.9	(8)%	2,689.2	(17)%
Total revenues per passenger-kilometre (RMB)	0.23	0.35	52%	0.42	20%

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The growth of the Company's passenger transportation revenues was mainly attributable to increases in revenues per passenger and revenues per passenger-kilometre, resulting, largely, from fare increases, a one-time devaluation of the Renminbi in January 1994 and a shift in seat mix as passengers moved to more expensive classes of seats. The increase in the proportion of higher-priced seats on its passenger trains reflects the Company's strategy of providing high quality transportation services. The Company has upgraded and continues to improve its trains to offer higher quality coaches, additional air-conditioning and more high speed service. As a result, the Company has been able to sell more higher-priced seats.

Although revenues from passenger transport have increased overall since 1993, passenger volumes and passenger-kilometres have declined since 1993. The Company believes that these declines were principally due to (i) substantial increases in ticket prices on the Company's line, (ii) the national economic slowdown due to the onset of the PRC Government's austerity programme in mid-1993, (iii) increased competition, particularly from road transportation, and (iv) service delays caused by the construction in connection with the High Speed Project. The decline in passenger-kilometres is also partly attributable to a decline in average distance travelled on the Company's line per passenger.

The following table sets forth the revenues from freight transportation and the tonnage of commodities shipped for the last three fiscal years:

	Year ended 31st December,				
	1993	1994	Increase (decrease) from 1993	1995	Increase (decrease) from 1994
Revenues from freight transportation					
(RMB thousands)	546,575	639,380	17%	771,843	21%
Freight tonnage (thousand tonnes)	27,837	28,650	3%	28,184	(2)%
Revenues per tonne (RMB).....	19.66	22.36	14%	27.37	22%
Total tonne-kilometres (millions)	2,215.7	2,247.4	1%	2,167.0	(4)%
Total revenues per tonne-kilometre					
(RMB)	0.25	0.28	12%	0.36	29%

The growth in freight transportation revenues between 1993 and 1995 was principally attributable to significant revenue increases from the Company's warehousing and storage businesses, which rose to RMB214.4 million in 1995 from RMB96.4 million in 1993. During this period, the Company constructed new warehouses and expanded its storage businesses, and also increased its pricing in these businesses. The increase in freight revenue can also be attributed in part to shifts in the mix of products transported to a greater percentage of goods for which higher tariffs are permitted. Base freight tariffs remained unchanged during this period.

Revenues from the Company's other businesses have been negatively affected by lower passenger volumes, offset in part by initiation of certain new businesses and completion of a major construction contract in 1995. Because of quicker travel times on high speed trains, implementation of high speed trains in 1995 contributed to reduced on-board sales, a trend which may continue in the future.

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The Company's operating expenses increased from RMB622.3 million in 1993 to RMB1,046.0 million in 1995. The Company's combined operating margins decreased from 62% in 1993 to 55% in 1995, due primarily to significantly higher equipment lease and service payments, higher depreciation expenses and growth in employee compensation.

The following table sets forth as a percentage of total railroad revenues the principal operating expenses associated with the Company's railroad businesses:

	Year ended 31st December,		
	<u>1993</u>	<u>1994</u>	<u>1995</u>
Railroad revenues (RMB millions)	1,367	1,787	1,889
Labour and benefits	7%	10%	10%
Equipment lease and service	9%	10%	10%
Materials and supplies	3%	3%	3%
Depreciation	4%	5%	7%
General and administrative expenses	3%	3%	3%
Other	4%	4%	4%
Operating ratio ⁽¹⁾	30%	35%	37%
Railroad operating margin	70%	65%	63%

⁽¹⁾ Total railroad operating expenses as a percentage of railroad revenues.

Equipment lease and service expenses for the Company's railroad businesses, mainly comprising payments to Yang Cheng, increased at a compound annual rate of 25% during the three year period. Since 1992, the basis for determination of amounts paid to Yang Cheng pursuant to annual agreements between the Company and Yang Cheng has changed from Yang Cheng's costs, at a state-subsidised level, to such costs on an actual cost level in 1993, to a cost-plus basis reflecting a substantial mark-up in 1994 and 1995, to the current cost-plus basis agreed upon by the Company and Yang Cheng in the Yang Cheng Agreement. See "— Relationship with the Parent Company and affiliated companies — Yang Cheng Railway Company". The Yang Cheng Agreement stipulates for the first time a detailed method of calculating charges and paying for equipment leased and services rendered. Pursuant to the Yang Cheng Agreement, the Company pays annually to Yang Cheng a fee comprising fuel expenses, service fees, asset depreciation and an agreed profit margin. The profit margin charged in accordance with the Yang Cheng Agreement is 8% of aggregate chargeable costs (fuel expenses, asset depreciation and water utility fees are not counted as chargeable costs for purposes of this calculation). This margin (unlike the cost element, which is adjusted annually) will remain unchanged throughout the term of the agreement. From 1994 to 1995, amounts paid by the Company to Yang Cheng declined as a result in decreases in usage of relevant equipment and services. Substantially all of the locomotives and passenger coaches currently used by the Company are maintained and serviced by Yang Cheng and a majority of the passenger coaches and other equipment is owned by Yang Cheng.

The Company is purchasing a number of passenger coaches and has constructed its own passenger coach maintenance facility, which will reduce the Company's reliance on Yang

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Cheng. However, in the near term the Company intends to continue to lease passenger coaches and locomotives from Yang Cheng and to rely on Yang Cheng for certain maintenance services.

Historically, compensation to the Company's railroad employees included a fixed base salary and a bonus calculated based on a formula which was largely a function of the Company's revenues from other businesses, including certain businesses which were not transferred to the Company in the Restructuring. Total compensation expenses have increased significantly since 1993 as a result of the expansion of these other businesses. In connection with the Restructuring, the Company has modified the compensation scheme to eliminate this formula and thus the connection between railroad employee compensation and performance of the Company's non-railroad businesses. Instead, the Company is instituting procedures to link bonuses to employees' performance in their specific areas of responsibility in order to control the growth rate of total compensation expense. Such procedures are expected to become effective as soon as practicable after the Restructuring.

The Company has not paid corporate income taxes in the past other than those paid to the Shenzhen Municipal Tax Bureau in an amount agreed on an annual basis. For the years 1993, 1994 and 1995, the Company paid RMB3.8 million, RMB3.9 million and RMB4.0 million, respectively, to the Shenzhen Municipal Tax Bureau. Pursuant to regulatory approval, the Company is subject to a 15% corporate income tax rate. This rate, which is substantially lower than the 33% corporate income tax rate generally applicable in the PRC, is applicable to the Company in view of its incorporation in the Shenzhen SEZ. To the extent that the Company engages in other businesses through subsidiaries, those other businesses are subject to corporate income tax rates of either 15% or 33%, depending mainly on the places of incorporation of these companies. Further, certain subsidiaries engaged in other businesses are Sino-foreign joint ventures which are entitled to full exemption from 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. See "Risk factors — Tax laws and regulations" and "Appendix I — Accountants' Report".

Year ended 31st December, 1995 compared with year ended 31st December, 1994

Total revenues from railroad businesses increased 6% to RMB1,889.2 million in 1995 from RMB1,787.2 million in 1994. Operating income grew 2% to RMB1,286.3 million in 1995 from RMB1,257.6 million in 1994. Net income increased modestly to RMB1,250.3 million in 1995 from RMB1,242.3 million in 1994. Combined operating margins decreased from 59% to 55%.

Passenger transportation revenues declined 3% to RMB1,117.3 million in 1995 from RMB1,147.9 million in 1994, due primarily to a 14% decrease in the total number of passengers, largely offset by a 14% increase in average revenues per passenger. The increase in average revenues per passenger was a result of nationwide price increases of 50% for basic hard seat fares effective 1st January, 1995 and a further 33% for all domestic train fares on 1st October, 1995. The Company believes that the decline in passengers related principally to increased fares, the

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national economic austerity policies and increased competition from road transportation, especially from a Guangzhou-Shenzhen highway which has been in service since the latter half of 1994. See “— Overview”.

Freight transportation revenues increased 21% to RMB771.8 million in 1995 from RMB639.4 million in 1994, due primarily to continued significant growth in freight warehousing and storage revenues and the initiation of freight pick-up and delivery businesses. Total freight volume declined slightly, due primarily to the impact of the austerity program on national freight volumes, partially offset by an increase of pass-through volume to and from the neighbouring Guangmeishan Railway Company.

Revenues from other businesses increased 32% to RMB443.1 million in 1995 from RMB336.6 million in 1994, due primarily to realisation in the fourth quarter of 1995 of RMB79.4 million in revenue derived from completion of a significant project by the Company's construction subsidiary. Total revenues increased 10% to RMB2,332.2 million in 1995 from RMB2,123.9 million in 1994 as a result of the foregoing factors.

Total operating expenses increased 21% to RMB1,046.0 million in 1995 from RMB866.3 million in 1994. Railroad operating expenses increased 13% to RMB702.8 million in 1995 from RMB623.2 million in 1994. Labour and benefits expenses increased 8%. Equipment lease and service expenses declined slightly, attributable to a small decline in payment to Yang Cheng as total usage, as calculated pursuant to the Company's agreement with Yang Cheng for 1995, declined. Materials and supplies expenses increased 26% to RMB58.4 million in 1995 from RMB46.4 million, reflecting rising maintenance requirements associated with the new high speed facilities and newly-acquired locomotives and rolling stock. Depreciation expenses increased 49% to RMB126.4 million in 1995 from RMB85.0 million, as a result of the initiation of usage (and therefore the commencement of depreciation) of substantial fixed assets relating to the High Speed Project, and the acquisition of new rolling stock. Other expenses increased by approximately RMB10.9 million in 1995 compared to 1994 primarily due to a one-time expenditure for upgrading railroad stations pursuant to a system-wide MOR directive.

Cost of sales of other businesses increased to RMB258.2 million in 1995 from RMB154.9 million in 1994, attributable primarily to realisation of expenses of RMB77.8 million in connection with the completion of a significant project by the Company's construction subsidiary. As was the case with the revenues, these expenses were realised upon completion of the relevant contract. General and administrative expenses declined slightly in 1995 from RMB88.2 million to RMB84.9 million due to a reduction in labour and benefits expenses in the Company's on-board food and merchandise sales business.

The Company's overall operating income increased 2% to RMB1,286.3 million in 1995 from RMB1,257.6 million in 1994, and operating margin declined from 59% to 55%, as a result of the foregoing factors. Operating margin on railroad businesses decreased to 63% in 1995 from 65% in 1994, and operating margin on other businesses also decreased, to 23% in 1995 from 28% in 1994. In 1995, the railroad businesses contributed 92% of total operating income, whereas in 1994 the railroad businesses contributed 93% of total operating income.

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Interest expenses net of interest income increased to RMB18.9 million in 1995 from RMB3.9 million in 1994, principally due to an increase in average short-term indebtedness and a decrease in average cash balances. The Company's interest income was derived mainly from bank accounts and advances to affiliates. After the completion of the Combined Offering, the Company does not intend to make further advances to other companies (other than to its subsidiaries and associated companies, on an as-needed basis).

Income before taxes decreased slightly to RMB1,273.8 million in 1995 from RMB1,274.2 million in 1994. Taxes decreased slightly, reflecting mainly reduced taxable income from other businesses. Net income rose to RMB1,250.3 million in 1995 from RMB1,242.3 million in 1994.

Year ended 31st December, 1994 compared with year ended 31st December, 1993

Revenues from railroad businesses grew 31% to RMB1,787.2 million in 1994 from RMB1,366.6 million in 1993. Operating income grew 22% to RMB1,257.6 million in 1994 from RMB1,028.6 million in 1993. Net income increased 24% to RMB1,242.3 million in 1994 from RMB999.8 million in 1993, although combined operating margins decreased from 62% to 59%.

Revenues from passenger transportation grew 40% to RMB1,147.9 million in 1994 from RMB820.1 million in 1993, attributable to a number of factors, including (i) an improvement in the mix of passenger tickets sold to include more higher-priced seats, (ii) an approximately 50% Renminbi depreciation in January 1994 following the unification of the PRC's dual currency system, which increased revenues stated in Renminbi from the Company's Hong Kong through train service, (iii) a 19% increase in Hong Kong through train fares effective October 1993 and (iv) the commencement of additional long-distance train service. These factors led to an increase of revenues per passenger from RMB27.07 to RMB40.56 and an increase in revenues per passenger-kilometre from RMB0.23 to RMB0.35 and more than offset the effects of declining passenger volumes in 1994 on both the Hong Kong through trains and Guangzhou-Shenzhen trains, which were adversely affected by the opening in July 1994 of a new Guangzhou-Shenzhen highway, by the macroeconomic slowdown caused by the national austerity programme that was effected in order to reduce inflation and alleviate problems relating to the availability of credit and by service delays during the construction in connection with the High Speed Project.

Revenues from freight transportation grew 17% to RMB639.4 million in 1994 from RMB546.6 million in 1993, due primarily to a change in freight cargo mix to more goods for which higher tariffs are charged and higher revenue from warehousing and other freight services. During this period, freight tonnage and tonne-kilometres remained essentially flat due primarily to tight monetary conditions in the PRC, as small increases in outbound and pass-through freight were largely offset by a slight decrease in inbound freight.

Railroad business revenues are presented net of turnover tax. The rate of such turnover tax was reduced from 5.35% to 3.24% effective 1st January, 1994. This reduction allowed the Company to retain a greater portion of its ticket sale receipts, contributing to the growth in railroad business revenues in 1994.

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Revenues from other businesses grew 18% to RMB336.6 million in 1994 from RMB284.3 million in 1993, due primarily to a 34% increase in revenues from on-board and station sales. On-board and station sales accounted for 43% of the revenues of other businesses in 1994.

Overall operating expenses grew 39% to RMB866.3 million in 1994 from RMB622.3 million in 1993. Operating expenses of railroad businesses grew 54% as equipment lease and service payments rose 58% and labour and benefits expenses rose 91% during this period. In 1994, approximately RMB163.6 million of such equipment lease and service payments were made to Yang Cheng, compared with approximately RMB112.0 million of such payments in 1993. This increase primarily reflected a change in Yang Cheng's method of determining its charges from a cost-only to cost-plus basis. Other lease payments included usage fees paid to the MOR for rental of freight cars, which in the aggregate increased over two and one-half times in 1994 compared with 1993 largely as a result of a near doubling in per car usage charges uniformly implemented by the MOR. Labour and benefits expenses increased 91%, principally due to higher employee compensation as a result of the expansion of certain other businesses, some of which were not transferred to the Company in the Restructuring. See "— Overview". Depreciation expenses increased 42% to RMB85.0 million from RMB60.0 million as a result of the Company's putting into service certain equipment and other assets relating to the high speed rail service, which commenced in 1994. Materials and supplies expenses increased slightly due primarily to price increases. General and administrative expenses increased by RMB16.1 million, reflecting primarily higher pension, selling expenses and office expenses. Other operating expenses increased 30%, mainly attributable to the establishment of more freight warehouses and higher water and electricity tariffs.

Operating expenses of other businesses increased 11% to RMB243.1 million in 1994 from RMB218.9 million in 1993. General and administrative expenses increased 52% or RMB30.3 million to RMB88.2 million in 1994 due to the establishment of more businesses during the year and significant increases in labour and benefits expenses. The increase in general and administrative expenses was partially offset by a decrease of 4% or RMB6.1 million in cost of sales.

As a result of the foregoing factors, operating income increased 22% to RMB1,257.6 million in 1994 from RMB1,028.6 million in 1993, while the Company's overall operating margin decreased slightly from 62% to 59%. Operating margin on the railroad businesses decreased from 70% in 1993 to 65% in 1994, while operating margin on the other businesses increased, from 23% in 1993 to 28% in 1994. In 1994, the railroad businesses contributed 93% of total operating income, whereas in 1993 the railroad businesses contributed 94% of total operating income.

Interest expenses net of interest income decreased to RMB3.9 million in 1994 from RMB8.5 million in 1993. The Company suffered a slight currency exchange loss in 1994, caused by the devaluation of the Renminbi in connection with the unification of the PRC dual exchange rate.

Income before taxes increased 24% to RMB1,274.2 million in 1994 from RMB1,030.3 million in 1993. Taxes increased moderately, due primarily to income taxes paid in connection

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with other businesses. Net income increased 24% to RMB1,242.3 million in 1994 from RMB999.8 million in 1993.

Liquidity and capital resources

The Company's primary capital requirements are for the upgrade and expansion of its facilities. Historically, the Company has relied on funds from operations, domestic bank loans, contributions from the Parent Company and borrowings from the Parent Company to finance its capital expenditure programme. Such bank loans were generally subject to interest rates ranging from 9.8% to 14.5% per annum during 1995, none of which was on a subsidised basis. The borrowings from the Parent Company as of 31st December, 1995 included two unsecured, short-term loans, one of which was incurred in August 1995 and has been bearing interest at an annual rate of 13.3%, and the second of which, representing certain other indebtedness incurred from time to time, bore interest at an annual rate of 13.3% until 1st October, 1995, becoming interest-free thereafter. The Company also has long-term indebtedness to the Parent Company which bore interest at an annual rate of 13.3% until 1st January, 1996, becoming interest-free thereafter. Upon the completion of the Combined Offering, the Company will use approximately HK\$1,135 million (RMB1,222 million) to repay all of its short-term indebtedness to the Parent Company. See "— Use of proceeds".

The Company has historically paid out large dividends each year to the Parent Company. The Parent Company also has made a significant equity contribution each year. Dividends to the Parent Company in 1993, 1994 and 1995 were RMB998.9 million, RMB1,317.2 million and RMB1,314.4 million respectively, while contributions from the Parent Company during the same periods were RMB859.6 million, RMB517.8 million and RMB211.1 million, respectively. After the Restructuring, the Company plans to pay dividends based on its new dividend policy. See "— Profit forecast and dividend policy".

Substantially all of the Company's railroad business revenues are received in cash, with accounts receivable arising primarily from transactions originated by other railroads whose lines connect to the Company's line for inbound passenger and pass-through freight transportation. Similarly, some accounts payable arise from payments for railway transportation services that the Company collects on behalf of other railroads. Accounts receivable and payable are generally settled either quarterly or once a month between the Company and other railroads, although, in the case of the Hong Kong through train operations, the accounts are settled every five days. Most of the Company's other business revenues are received in cash; however, these businesses do have payables associated with purchases of materials and supplies. As of the years ended 31st December, 1994 and 1995, accounts receivable were equivalent to 12 and seven revenue days, respectively.

In 1991, the Company began implementing an approximately RMB7.35 billion, multi-year capital expenditure programme comprising the High Speed Project as well as a significant upgrade of its existing infrastructure. As of 31st December, 1995, the Company had invested

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approximately RMB4.31 billion in this programme. The Company expects its capital expenditure requirements to continue at similarly high levels in 1996 and 1997, including purchases of locomotives and passenger coaches, construction of the Company's Guangzhou East Station and electrification of the Company's rail line. The Company estimates that its capital expenditure programme, which is expected to be completed in 1998, will require additional expenditures of an aggregate of approximately RMB3.04 billion. The Company expects to finance this programme primarily from the proceeds of the Combined Offering and cash flow from operations.

In 1995, the Company generated RMB1,344.8 million in cash from operations and used RMB1,067.3 million and RMB444.0 million in investing and financing activities, respectively, resulting in a reduction of RMB166.4 million in its cash balances. The Company's major external sources of funds in 1995 were borrowings from the Parent Company and, to a lesser extent, short-term bank loans. Investing and financing activities related primarily to the Company's capital expenditure programme.

The Company does not plan to borrow additional funds from the Parent Company, the MOR or its affiliates after the completion of the Combined Offering, although it may ultimately do so if such option is made available to it and it believes that such borrowing is economically advantageous to it. Based on the Company's expectations regarding future cash flows, the Company does not believe that it will be required to replace affiliate borrowings with bank debt, which would otherwise lead to materially higher interest expenses in the future.

At 31st December, 1995, the Company's short-term bank loans totaled RMB388.0 million. At 31st December, 1995, the Company's indebtedness totaled RMB1,985.2 million. All of the Company's short-term bank loans are from domestic banks.

Currency exchange

Ticket sales for the Company's Hong Kong through train service are principally in Hong Kong dollars, whereas other revenues and expenses are principally denominated in Renminbi. Prior to the Restructuring, the Parent Company converted Hong Kong dollar ticket sale receipts into Renminbi and remitted funds in that currency to the Company. Since the Restructuring, although the Company has been receiving foreign currency directly, the Company has been required to sell such currency to PRC banks in exchange for Renminbi. However, while the Company has not been able to retain foreign currency, in all cases the Renminbi amounts ultimately remitted to the Company were and are determined based on then-applicable currency exchange rates. Any devaluation of the Renminbi against the Hong Kong dollar and the United States dollar would have a negative effect on the value, translated into such currencies, of the Company's Renminbi revenues and net income. However, this negative effect will be offset, to an extent, by the appreciation in value (in Renminbi terms) of the Company's Hong Kong through train revenues which would follow any devaluation of the Renminbi. In 1995, Hong Kong through train revenues accounted for 14% of the Company's total revenues. Fluctuations in cash flows in the Company's business as a result of exchange rate fluctuations would follow closely fluctuations in net income. Following the

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completion of the Combined Offering, the Company will be eligible and intends to apply for the status of a foreign investment joint stock limited company. If the Company obtains such status (which it expects to), it will be permitted to keep its Hong Kong dollar revenues in foreign currency. As a foreign investment joint stock limited company located in Shenzhen, the Company would be permitted to purchase foreign exchange at designated PRC foreign exchange banks to meet any foreign currency operational expenses. In addition, the Company would be permitted, with the approval of the SAEC, to purchase foreign currency at designated foreign exchange banks for payment of dividends.

The Company has been, and will continue to be, affected by changes in exchange rates in connection with its ability to meet its foreign currency obligations (which are not material as of the date of this Prospectus) and, in the future, will be affected by such changes in connection with its ability to pay dividends on the H Shares in Hong Kong dollars to international investors. However, the Company believes that it will be able to obtain sufficient foreign exchange to satisfy its foreign currency liabilities and pay dividends to its overseas shareholders in the future.

The Company does not engage in any financial contract or other arrangement to hedge its currency exposure.

Inflation

The general average inflation rate in China was approximately 13.2%, 21.7% and 14.8% in 1993, 1994 and 1995, respectively. The Company's operations are affected by inflation, particularly through rising labour costs, its leasing arrangements with Yang Cheng (which include an inflation adjustment) and increases in fuel, equipment and other costs. From 1993 to 1995, increases in the Company's passenger ticket prices outpaced inflation, although freight tariffs did not increase during this period. There can be no assurance that the Company will be able to continue to increase ticket prices or freight tariffs to keep pace with inflation in the future.

PROPERTIES AND FACILITIES

The Company's corporate headquarters, train stations, track, freight yards and ancillary facilities occupy an area of approximately 11.2 square kilometres along the Guangzhou-Shenzhen Corridor. The total gross floor area of the Company's buildings and facilities is approximately 1,043,000 square metres.

The Company owns all of the buildings and facilities on its premises in Guangdong Province. The Company has freely transferable land use rights for terms ranging from 36.5 to 50 years, terminating between 2031 and 2045, in respect of the land upon which its buildings, facilities and rail line are located. Pursuant to relevant PRC regulations currently in effect, such land use rights are renewable at the end of their term upon execution of relevant documentation and payment of applicable fees.

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Railroad operators such as the Company typically require substantial land rights for dedication to track, freight and maintenance yards, stations and related facilities. The availability of convenient rail transportation generally enhances the value of land along a rail line. The Company has not engaged and does not have any current plans to engage in commercial development of any of its land rights for use other than in connection with existing businesses. The Company does not at present intend to contribute capital to engage in any land development projects in the future. However, the Company may contribute land use rights not otherwise being fully utilised by it for equity stakes in such projects if the Company believes such opportunities are economically sound. Any such development projects will require approval from PRC Government authorities responsible for regulating land development.

The Company has 21 train stations, three of which are for passengers only, three of which are for freight transportation only and 15 of which are for both passenger and freight operations. These stations occupy an area of approximately 3.6 million square metres. The total gross floor area of these stations is approximately 190,000 square metres. The Company's Guangzhou East Station, currently under construction, is intended to be the largest of the 21 stations.

The Company has an area of 143,000 square metres of warehouses and an area of 44,000 square metres of container yards. In 1995, the Company's freight yards had a loading and unloading volume of 10.1 million tonnes.

Valuation

Vigers Hong Kong Limited, an independent valuer, valued the property interests of the Company at approximately RMB1,881.3 million, and the machinery and equipment of the Company at approximately RMB4,451.1 million, as of 31st December, 1995. Vigers Hong Kong limited has also issued to the Company letters indicating that, based on certain enquiries made, it is of the opinion that market value of such property interests increased by approximately RMB32.5 million between 31st December, 1995 and 29th February, 1996, and valuation of such machinery and equipment suffered no material adverse change during such period. The text of the letters and the valuation certificate issued by Vigers Hong Kong Limited in connection with its valuation are set out in Appendix III and Appendix IV to this prospectus.

DIRECTORS AND MANAGEMENT

Certain information concerning the Company's Directors, executive officers and members ("Supervisors") of the supervisory committee of the Company (the "Supervisory Committee") and certain other officers who make or are expected to make significant contributions to the Company's business is set forth below. All Directors were elected to serve three-year terms beginning 6th March, 1996 or until the election of their respective successors. The General Manager and Deputy General Managers are appointed by the Board of Directors. The current terms of office with the Company for all executive officers commenced on 6th March, 1996.

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Executive directors

Ge Wenan, aged 54, is the Chairman of the Board of Directors of the Company. Mr. Ge graduated from the Shanghai Railway Institute in 1964, and since then has served in various technical and managerial capacities at the Parent Company and subsidiaries thereof. From 1964 to 1981 he served in capacities including operator, technician and manager at the Shaoguan Station and the Xinhua traffic control section under the Guangzhou Railway Administration (now the Parent Company). From 1981 to 1989, he served as deputy director, director, assistant to the head and deputy head of the transportation department of Huaihua Railway Sub-administration (now called Guangzhou Railway Group Huaihua Company), and director of the Guangzhou Railway Sub-administration (now Yang Cheng), both under the Guangzhou Railway Administration. From 1989, Mr. Ge served as chief engineer, deputy general manager and director of the Parent Company and its predecessor. He continues to serve as deputy general manager and director of the Parent Company. During his tenure as chief engineer and deputy general manager of the Parent Company, Mr. Ge oversaw key technological improvement projects including the Beijing-Guangzhou line technological improvement project and the High Speed Project.

Zou Boxing, aged 52, is the General Manager and a Director of the Company. A graduate of the Nanjing Transportation Academy, Mr. Zou from 1964 to 1983 served in various technical and managerial capacities including operator, station controller, technician, deputy station master, deputy party secretary and station master at the Company's Shenzhen Station and Shenzhen North Station. In 1983, he served as assistant director and then deputy director of the Guangzhou Railway Sub-administration. From October 1983 to March 1987, Mr. Zou served as deputy manager and then manager of the transportation company within the Company. Since March 1987, Mr. Zou has served as Assistant General Manager, Deputy General Manager, and General Manager of the Company. During his tenure as General Manager, the Company has received several enterprise excellence awards from Guangdong provincial and PRC national authorities.

Zeng Xianzhao, aged 53, is the Chief Accountant and a Director of the Company. A graduate of the Beijing Railway Institute, Mr. Zeng served as accountant and financial controller in the Zhuzhou Locomotive Section under the Guangzhou Railway Administration between 1966 and 1980. From 1980 to 1995, Mr. Zeng served in various capacities from managing accountant and chief accountant to deputy director and deputy head in the accounting department of the Parent Company. Since March 1995, Mr. Zeng has served as Chief Accountant of the Company.

Liu Xuezhi, aged 43, is a Deputy General Manager and a Director of the Company. A graduate of the Southwest Communications University in Chengdu in Sichuan Province majoring in transportation, Mr. Liu has served in various operational and managerial positions in construction and engineering divisions under the Guangzhou Railway Sub-administration from 1971 to 1981. From 1981 to 1983, he studied at the Transportation Department of Southwest Communications University. From 1984 to 1989, Mr. Liu served as assistant to station master and then deputy station master of Guangzhou North Station and station master of Huangpu Station on the Company's rail line. Since 1989, Mr. Liu has served as Assistant General Manager and Deputy General Manager of the Company.

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Non-executive directors

Sun Renkun, aged 48, is a Director of the Company. He attended the MOR Communist Party Academy in Jinzhou in 1992. From 1964 to 1984, Mr. Sun served in various operational and labour organisational capacities at the Yuantan and the Xinjie Stations under the Guangzhou Railway Sub-administration. From 1984 to 1991, Mr. Sun served as deputy director of the Communist Party organizational department of the Guangzhou Railway Sub-administration and the Party Secretary of the Guangzhou West Station. Since 1991, he has served as section chief then deputy director of the Communist Party organisational department of the Parent Company.

Zhao Genrong, aged 51, is a Director of the Company. A graduate of the Beijing Railway Institute majoring in accounting, Mr. Zhao served as trainee accountant, accountant, managing accountant, deputy chief accountant and section chief of the financial section of the Hengyang Railway Sub-administration from 1968 to 1983. Since 1983, Mr. Zhao has served as deputy director then director of the financial department of the Parent Company.

Zhang Yingmu, aged 57, is a Director of the Company. From 1968 to 1982, Mr. Zhang conducted and supervised labour union activities of the Guangzhou Railway Sub-administration labour union. From 1982 to 1984, he served as deputy secretary and then secretary of the Communist Party committee at Shenzhen Station. From 1984 to 1986, he served as director of the propaganda department of the Company. From 1986 to 1990, he served as the secretary of the Communist Party committee at Shenzhen North Station. Since 1990, Mr. Zhang has served as chairman of the labour union at the Company.

Chang Loong Cheong, aged 50, is a director of Xinhua Iron & Steel Company Limited and Orient International (Shanghai) Limited. Mr. Chang holds a management certificate from the Hong Kong Management Association. From 1979 to 1980, Mr. Chang served as manager of Cathay Restaurant in Lagos, Nigeria. From 1980 to 1982, he was the chief representative of Island Navigation Corporation International Limited ("INCIL") and Orient Overseas Container Line Limited in West Africa. From 1983 to 1988, he served in managerial positions at INCIL including as assistant general manager. From 1988 to 1990, he served as general manager and then director of Noble Ascent Company Limited. Mr. Chang has been a consultant to INCIL since 1989 and to Orient Overseas Developments Limited since 1992.

Deborah Kong, aged 36, is a director of Global Avenue Limited, C&D International Limited and Crown Textiles Australia Proprietary Limited. Ms. Kong holds a bachelor of arts degree from Sydney University and a master of finance degree from Macquarie University in Australia. Ms. Kong has experience in international finance, property investment, garment manufacturing and international commodity trading. She is a member of the Chinese People's Political Consultative Conference in Shandong Province.

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Supervisory Committee

Gu Hongxi, aged 49, is the Chairman of the Supervisory Committee of the Company. A graduate of Zhejiang University majoring in machinery manufacturing, Mr. Gu served as a technician at the No. 4 Engineering Company of the PRC Ministry of Petroleum from 1969 to 1974. From 1974 to 1984, he served in various technical and managerial capacities at the Lukoupu Station and the quality control office and locomotive section of the Changsha Railway Sub-administration (now called Changsha Railway Company). From 1984 to 1995, Mr. Gu served as the deputy director of the Changsha Railway Sub-administration and the director of the welfare and education departments of the Parent Company. Since December 1995, Mr. Gu has served as chief economist and is a director of the Parent Company.

Shen Jun, aged 46, is a Supervisor of the Company. A graduate of the Nanjing Railway Transportation Academy majoring in accounting, from 1968 to 1975, Mr. Shen served as trainee and then accountant at the Yueyang construction section under the Changsha Railway Sub-administration. From 1975 to 1985, he served as accountant at the Zhuzhou Railway Hospital and the infrastructural construction brigade of the Changsha Railway Sub-administration. From 1985 to 1992, Mr. Shen served as accountant and deputy director of the financial department of the Guangzhou Railway Administration. Since 1992, Mr. Shen has served as assistant director, deputy director and director of the audit department of the Parent Company.

Peng Chi, aged 40, is a Supervisor of the Company. A graduate of the Communist Party Academy of the Guangzhou Railway Administration, Mr. Peng served as a signalling and communications operator in the Huaihua Railway Sub-administration from 1972 to 1983. From 1983 to 1988, he served as an administrator in the Communist Party office and then as the director of personnel of the Huaihua signalling and communications section. From 1989 to 1991, Mr. Peng served as the director of administration of the Communist Party committee at the signalling and communications section of the Company. Since 1991, he has served as administrator, deputy director and then director of the Communist Party office of the Company.

Xu Tiejian, aged 56, is a Supervisor of the Company. A graduate of the Beijing Railway Institute majoring in cable communications, from 1965 to 1984, Mr. Xu served as technician, assistant engineer and engineer at the Zhuzhou signalling and communications section. From 1984 to 1987, he served as deputy director of the equipment section of the Company. From 1987 to 1989, he served as a union supervisor at the Company. Since 1989, Mr. Xu has served as chief of the disciplinary review office of the Company.

Zeng Xiangqu, aged 54, is a Supervisor of the Company. A graduate of the Beijing Railway Institute majoring in telecommunications, from 1968 to 1985, Mr. Zeng served as trainee, technician, assistant engineer and engineer at the signalling and communications section and related survey and design organisations under the Qunming Railway Administration. Since 1985, Mr. Zeng has served as engineer of the construction company and equipment department of the Company. He currently also serves as the director of this equipment department.

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Zhu Delin, aged 33, is a Supervisor of the Company. A graduate of the Hunan Light Industry Academy, from 1978 to 1984, Mr. Zhu served as trainee and then technician of the signalling and communications engineering section of the Changsha Railway Sub-administration. From 1985 to 1988, he served as signal technician at the Guangzhou Electrical Engineering Company. From 1988 to 1995, Mr. Zhu served as technician, assistant engineer and engineer of the signalling and communications section of the Company, and since 1995, he has served as assistant chief of this section.

Other executive officers

Yi Aiguo, aged 33, is secretary for the Board of Directors of the Company. Mr. Yi holds a masters degree in transportation management from the Southwest Communications University in Chengdu in Sichuan Province. From 1987 to 1991, Mr. Yi served as an instructor in railway professional training at the training centre of the Guangzhou Railway Administration. From 1991 to 1994, he served as an economist and administrator in the enterprise management office of the Parent Company. Since 1994, Mr. Yi has served as deputy director and then director of the comprehensive research section of this enterprise management office.

Chen Songsheng, aged 57, is a Deputy General Manager of the Company. A graduate of the Northern Communications University in Beijing majoring in transportation, Mr. Chen served as operator at the Qingdao Station under the Jinan Railway Administration from 1961 to 1969. From 1969 to 1986, Mr. Chen served as technician at the traffic control section of the Guangzhou Railway Sub-administration and the deputy chief and then chief of the passenger car section of the Company. From 1986 to 1992, he served as deputy director and then director of the safety inspection office of the Company. Since 1992, Mr. Chen has served as Assistant General Manager and then Deputy General Manager of the Company.

Liu Yanyu, aged 59, is a Deputy General Manager of the Company. A graduate of the Chengdu Railway Engineering Academy, from 1972 to 1983, Mr. Liu served as engineer and technical supervisor and held other positions of managerial responsibility in the engineering and construction sections of the Guangzhou Railway Sub-administration. From 1983 to 1988, Mr. Liu served as deputy manager and then manager of Shentu Company. Since 1988, Mr. Liu has served as deputy manager and then manager of the construction company within the Company and Deputy General Manager of the Company.

Wen Jiyuan, aged 44, is a Deputy General Manager of the Company. From 1969 to 1994, Mr. Wen served in the People's Liberation Army and was conferred the rank of colonel. Since 1994, Mr. Wen has served as Deputy General Manager of the Company.

Zhu Weilin, aged 59, is the Chief Engineer of the Company. A graduate of the Hengyang Engineering Academy specialising in railway engineering, from 1957 to 1983, Mr. Zhu served as trainee, technician, engineer, deputy director, director and then deputy head at the infrastructural construction section of the Changsha Railway Sub-administration, the survey and design institute and the statistical department of the Parent Company. From 1983 to 1987, he served as deputy

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manager and then manager of the construction and engineering company within the Company. Since 1987, Mr. Zhu has served as Chief Engineer of the Company.

There is no family relationship between any Director or executive officer and any other Director or executive officer of the Company.

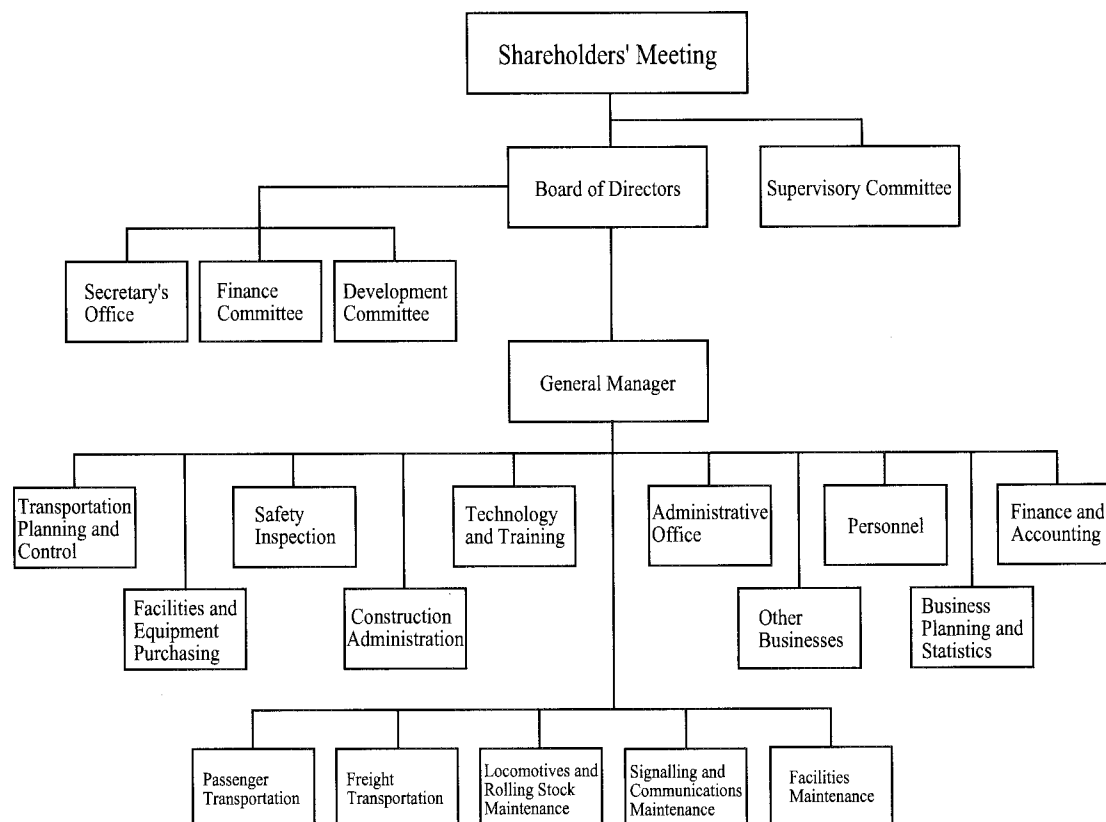
Compensation of Directors and officers

The aggregate amount of cash remuneration paid by the Company and its affiliates during the year ended 31st December, 1995 to all individuals who are currently the Company's Directors and officers was approximately RMB382,000. Only four of the Company's current Directors were employed by or otherwise directly involved in the businesses of the Company in the year ended 31st December, 1995 and the aggregate cash remuneration paid to them in 1995 was approximately RMB185,000. During 1995, the Company and its affiliates set aside RMB11,000 in non-cash remuneration (consisting solely of pension and retirement benefits) with respect to such individuals. The aggregate amount of cash remuneration paid by the Company to the five highest-paid employees of the Company in 1995 was approximately RMB250,000, and the aggregate amount of non-cash remuneration (consisting solely of pension and retirement benefits) paid to such persons in 1995 was RMB15,000. The aggregate amount of cash remuneration to be paid to such individuals during the year ended 31st December, 1996 is estimated to be approximately RMB506,000. The Company estimates that the aggregate amount set aside by the Company and its affiliates during the year ended 31st December, 1995 for pension and retirement benefits for all individuals who are currently the Company's Directors and officers was approximately RMB23,000. In addition, Directors or Supervisors who are also officers or employees of the Company receive certain other benefits in kind, such as subsidised or free health care services, housing management and transportation, customarily provided by enterprises in the PRC to their employees. See " — Employees".

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Management structure

The following chart sets out the management structure of the Company:



Joint ventures

The Company owns majority interests in seven joint venture enterprises and minority interests in four joint venture enterprises. A description of these enterprises is set out in the paragraph headed “Joint venture arrangements” in Appendix X.

EMPLOYEES

As of 29th February, 1996, approximately 9,050 persons were employed by the Company (including approximately 2,650 temporary employees). Of this number approximately 650 were management and administrative personnel, approximately 450 were engineers and technicians and approximately 7,950 (including the 2,650 temporary employees) were railway operation personnel, ancillary service workers and others. Approximately 9% of the Company’s work force graduated from universities or technical colleges.

As part of the trade union structure of the Parent Company, the Company has a trade union which protects employees’ rights, aims to assist in the fulfilment of its economic objectives,

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encourages employee participation in management decisions and assists in mediating disputes between the Company and union members. Each of the Company's stations has a separate branch of the trade union. Most of the Company's employees belong to the trade union. Since its inception in 1984, the Company has not been subjected to any strikes or other labour disturbances which have interfered with the Company's operations, and the Company believes that its relations with its employees are good.

Total remuneration of the Company's employees includes wages and bonuses. The Company paid its employees an aggregate of approximately RMB163.1 million, RMB248.9 million and RMB 264.3 million in remuneration in 1993, 1994 and 1995, respectively. Employees and their families also receive certain housing, education and health care services from the Parent Company and GEDC. Pursuant to service agreements, the Company pays certain fees to the Parent Company and GEDC for the provision of such services. See "— Relationship with the Parent Company and affiliated companies — Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company".

The Company and its employees participate in a pension plan managed by the MOR, pursuant to which the Company and the employees pay quarterly contributions to the plan. The annual contribution paid by the Company currently equals 19% of the total base salaries plus certain supplemental amounts for its employees. Each employee currently pays 4% of his or her annual total compensation (subject to adjustment in certain instances) as an additional contribution. These percentages can be adjusted from time to time by the MOR. Upon retirement, the Company's employees are entitled to the payment of pensions from the plan. The Parent Company has been entrusted by the MOR with collecting contributions and making payments under the plan. The Company, in turn, acts as an agent for the Parent Company in collecting contributions and making pension payments. The Company also pays the cost of retiree medical benefits. In 1995, the aggregate cost of these retiree medical benefits was approximately RMB251,000.

RELATIONSHIP WITH THE MINISTRY OF RAILWAYS

The MOR, a government ministry under the State Council, is the primary industry regulator of all railroads in the PRC. With respect to the national railway system, the MOR is mandated by the railway law of the PRC to implement a transportation management system with highly centralised and unified command. The MOR articulates strategic objectives for the industry and organises and manages the daily operations of the national railroads with respect to transportation, infrastructural construction and industrial manufacturing.

The Company is a part of the national railway system. As such, it must coordinate with the rest of the system with respect to, for example, routing and scheduling, equipment use and maintenance, and revenue allocation. The routing and scheduling of trains beyond the Company's line are contingent upon the MOR's allocation of space on key trunk lines and through bottlenecks. In addition, because all freight cars and most of the containers in the system are owned by the MOR, the Company must comply with relevant terms and procedures for obtaining

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and using such equipment. Where a train arrives from or goes to a location beyond the Company's line, the Company shares revenues with operators of the other lines. In the national railway system, such sharing is done through a settlement procedure managed by the MOR.

As a consequence of the Restructuring, the Company is the only entity in the national railway system organised as a joint stock limited company in a manner consistent with being listed on the Hong Kong Stock Exchange and New York Stock Exchange, with clarified property rights and corporate powers and responsibilities. As such, the Parent Company's receipt of funds from the Company is no longer subject to the common vagaries and potential arbitrariness of revenue sharing arrangements between the 12 railway administrations and the other sub-administrations under their control. Instead, the Company may distribute dividends to its shareholders, subject to necessary board of directors and shareholder approvals and in compliance with the Company's Articles of Association and applicable laws.

The MOR exercises control over a number of non-railroad entities with which the Company regularly conducts business, such as suppliers of equipment and other goods necessary for the Company to conduct its railroad operations. Although the Company and these other entities are under the common control of the MOR, the Company's dealings with such entities are carried out without the involvement of the MOR in the process. These entities do business with the Company on the same basis as with other PRC entities, whether or not under MOR control.

Since the Restructuring, the MOR has exempted the Company from regulatory restrictions in respect of freight car allocations, routing through bottlenecks and despatching of empty freight cars. Compared to other railroads in the national railway system, the Company also has broad discretion over expenditure, equipment purchase and material supply decisions and labour and employment decisions. Moreover, the Company has been granted limited discretion in the pricing of its services. See “ — Business description — Principal businesses — Regulatory environment”.

RELATIONSHIP WITH THE PARENT COMPANY AND AFFILIATED COMPANIES

Guangzhou Railway (Group) Company

The Parent Company is a state-owned enterprise under the administration of the MOR. It has been confirmed by the State Assets Administration Bureau to be the sole holder of the Domestic Shares (in the form of state legal person shares) in the Company and is entitled to exercise its rights as the controlling shareholder of the Company according to relevant PRC laws, rules and regulations.

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The following table sets forth certain information regarding ownership of the Company's share capital as of 31st March, 1996 by (i) all persons who own more than 10% of the share capital and (ii) the total amount of capital stock owned by the officers and Directors of the Company as a group:

<u>Identity of person or group</u>	<u>Class of Shares</u>	<u>Amount owned</u> (millions)	<u>Percentage of capital stock</u>	
			<u>Before Combined Offering</u>	<u>After Combined Offering</u>
Guangzhou Railway (Group) Company	Domestic Shares (state legal person shares)	2,904.25	100%	70%
Officers and Directors of the Company as a group	Not applicable	0	0%	0%

The Parent Company is not offering or selling any of its Domestic Shares in connection with the Combined Offering. The percentage equity ownership of the Company by the Parent Company will be reduced from 100% to 70% (assuming no exercise of the Over-allotment Options) as a result of the offering of newly issued H Shares in the Combined Offering.

No Director or officer of the Company is a legal or beneficial owner of any shares of the Company's capital.

The Company is not aware of any arrangement which may at a subsequent date result in a change of control of the Company.

In connection with the Restructuring and in anticipation of the Combined Offering, the Company has been granted increased operational and financial flexibility and autonomy by the Parent Company, the MOR and the State Council. However, the Parent Company will have substantial influence over the Company's operations as a result of both its substantial shareholding and its responsibility as an administrative agent of the MOR to control and coordinate railway operations in Guangdong Province, Hunan Province and Hainan Province. For example, the Parent Company retains authority to schedule and control Company trains that run beyond the Company's rail line. The Parent Company also supervises and oversees the Company's interactions with operators of neighbouring rail lines in matters such as coordination of transportation operations, equipment lease and maintenance service and revenue settlement. As an instrumentality of the MOR, the Parent Company performs direct regulatory oversight functions with respect to the Company, such as in devising and enforcing technical standards and implementing special transportation directives.

The Company has received an undertaking from the Parent Company that the Parent Company (i) will not authorise any competing railway company to operate passenger or freight transport service in the Company's service area and (ii) will treat the Company fairly and equally on the same basis as other PRC railroads under its control or supervision.

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The Company has entered into agreements with operators of neighbouring lines — including Yang Cheng, Changsha Railway Company, Sanmao Railway Company, Guangmeishan Railway Company, Pingnan Railway Company and KCRC — relating to cooperation in providing transportation services. Of these, Sanmao Railway Company, Guangmeishan Railway Company and Pingnan Railway Company are local railway companies in which the Parent Company owns minority interests, with the remaining interests owned by the Guangdong provincial government, the MOR or certain private entities, while Yang Cheng and Changsha Railway Company are wholly-owned subsidiaries of the Parent Company. The Parent Company oversees the implementation of these contracts and the coordination among these entities with respect to railroad operations generally. The Company believes that the terms of these contracts are consistent with those which could be obtained through arms' length negotiations.

The Company's operations are also substantially affected by two wholly-owned subsidiaries of the Parent Company, GEDC and Yang Cheng. The relationships between the Company and these two companies are as follows.

Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company

Pursuant to the Restructuring, GEDC retained responsibility for certain social services previously provided by the Predecessor, including the provision and management of employee housing, health care, education for the children of employees and public security services. GEDC will continue to provide these services to the Company on a contractual basis for a fee. Under the current contract, which carries a 10-year term commencing on 6th March, 1996 and expiring on 5th March, 2006, the fee payable by the Company to GEDC is based on the actual cost incurred in providing such services. In addition, GEDC retains the right to sell duty free goods in connection with the Hong Kong through trains for which it pays the Company a fee based on the space occupied and assistance it receives from the Company.

After the Restructuring, GEDC owns and operates a wide range of smaller-scale businesses, such as clothing manufacturing and operation of restaurants, hotels and quarries (none of which is engaged in the railroad business or otherwise competes with the businesses of the Company). Given the relatively small scale of GEDC's current operations and the condition of its revenue-generating assets, the Company does not expect any substantial change in GEDC's financial condition in the foreseeable future, although GEDC plans to improve its operating efficiency by streamlining its workforce.

In connection with the Restructuring, the Parent Company, the Company and GEDC have entered into a restructuring agreement for the purpose of, among other things, defining and giving effect to the division of the Predecessor's business among the Parent Company, the Company and GEDC. The restructuring agreement also contains mutual indemnities given by the Parent Company and GEDC on the one hand and the Company on the other. See “ — The Restructuring”. In addition, in the restructuring agreement each of the Parent Company and GEDC has given undertakings to the Company that, as long as the Parent Company remains the controlling shareholder of the Company, it will not engage, directly or indirectly, in any railroad

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transport or related business within or outside the PRC which may compete with the business or activities of the Company, provided that they may continue to hold interests in or control their subsidiaries or investments which exist as at 6th March, 1996.

Yang Cheng Railway Company

Yang Cheng operates the railroads from Guangzhou to Pingshi and Sanshui and operates locomotive and rolling stock service and repair facilities and other businesses such as freight and container yard operations. Pursuant to the Yang Cheng Agreement, Yang Cheng provides to the Company most of the locomotives and passenger coaches used by the Company. Yang Cheng also provides the Company with maintenance service for the Company's 14 shunting locomotives and 50 double decker passenger coaches. Yang Cheng provides the Company and its passengers with certain services at Guangzhou Station, including, among other things, passenger boarding, ticket collection and on-board water supply. The total amount of fees paid by the Company to Yang Cheng in 1993, 1994 and 1995 amounted to RMB112.0 million, RMB163.6 million and RMB144.4 million, respectively. Yang Cheng also provides the Company with certain educational services for the children of the Company's employees for which the Company pays Yang Cheng a fee based on the cost of providing such services. The terms of the prior agreements between the Company and Yang Cheng have not been comparable to terms which could have been arranged on an arms' length basis. As the current agreement between the parties is meant to correspond to arms' length terms, amounts payable by the Company to Yang Cheng are likely to increase in the future, although the Company does not expect such increase to be material in the near term. See "— Trading record — Results of operations — Overview". The Company's relationship with Yang Cheng is crucial to the Company's railroad operations.

The service area of the Company's railroad does not overlap with that of Yang Cheng and, therefore, the Company's railroad businesses do not compete with Yang Cheng. However, Yang Cheng operates several freight yards and container yards in the northern, southern and western districts of Guangzhou, while the Company operates a freight yard in eastern Guangzhou. Revenues from the operation of the Company's freight yard in eastern Guangzhou accounted for less than 2% of the Company's total revenues in each of 1993, 1994 and 1995. Yang Cheng's freight and container yards are located between 14 and 21 kilometres from the Company's freight yard in Guangzhou. As generally customers utilise yards that are closest and therefore most convenient to them, the effective service areas of Yang Cheng and the Company do not overlap, and there is no competition between them. The Company has no present plan to expand its freight yard operations in eastern Guangzhou.

Continuing relationships

As was the case prior to the Restructuring, certain transactions between the Company and the Parent Company and its subsidiaries continue after the Restructuring, in the form of cross-provision of goods and services. The principal goods and services to be provided by the Parent

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Company and certain of its subsidiaries (including Yang Cheng and GEDC) to the Company include the following:

- locomotives, railcars and operating personnel;
- commencing in 1996, leasing of certain high speed passenger coaches;
- maintenance services for locomotives and passenger coaches;
- railroad transportation related services;
- fuel for the operations of locomotives;
- railway related materials;
- overhaul and emergency repair of the Company's track and bridges;
- medical and health care services;
- public security;
- educational services;
- employee housing; and
- advertising at the Company's Shenzhen Station.

The aggregate cost to the Company of these goods and services was RMB202.1 million in 1995.

Pursuant to the Restructuring (and after the intended use of the proceeds of the Combined Offering by the Company), the Company will have indebtedness to the Parent Company in the aggregate sum of approximately RMB375.0 million, which sum shall be repayable by 30th June, 1997. See “ — Use of proceeds” and “ — The Restructuring”.

The principal goods and services to be provided by the Company to the Parent Company and its subsidiaries include the following:

- railroad transportation related services;
- sale of duty free goods on board the Company's Hong Kong through trains and at Guangzhou Station; and

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- advertising space at the Company's Shenzhen Station.

The prices at which such goods and services are provided are different in each case. In general,

- (i) the prices for railroad transportation related services are determined in accordance with the cost incurred in providing such services plus a profit margin of 8% of aggregate chargeable costs (fuel expenses, asset depreciation and water utility fees are not counted as chargeable costs for purposes of this calculation), which amount, the Company believes, is consistent with that which would be charged in arms' length transactions;
- (ii) the rental amounts for the high speed passenger coaches leased to the Company by the Parent Company equal 6% of the Parent Company's purchase price for the coaches, approximating the Parent Company's depreciation expenses; the Company will also bear all costs of maintenance and overhaul of these coaches;
- (iii) the prices for social and related services provided by Yang Cheng (i.e. educational) and GEDC (i.e. security, medical, educational and accommodations) are determined based on the actual cost of providing such services;
- (iv) the prices for social and related services provided by the Parent Company are determined on the following basis:
 - (a) medical services— in accordance with the relevant local standards, subject to a 20% discount (except in respect of medicine and registration fee);
 - (b) educational services— in accordance with the standards set by the Parent Company;
 - (c) baby-sitting services— in accordance with the actual cost incurred for providing such service;
 - (d) newspaper supply services— at an agreed cost of RMB24 per year per copy of newspaper supplied which cost may change based on cost changes to the Parent Company;
- (v) the prices for the supply of railroad transportation related materials are determined in accordance with the relevant regulations issued by the Parent Company (which regulations are applicable to other railroads under the jurisdiction of the Parent Company);
- (vi) the prices for the provision of overhaul and large scale maintenance services for the Company's track and bridges are based on the relevant approved estimate plus a profit margin of 8% and the prices for other maintenance services are to be agreed by the parties on a case-by-case basis;
- (vii) the Company shall be entitled to 45% of the profits derived from the advertising business at its Shenzhen Station.

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Connected transactions

Certain of the transactions contemplated by the restructuring agreement and the relevant agreements concerning the supply of goods and services described above will be connected transactions under the Listing Rules once the H Shares are listed on the Hong Kong Stock Exchange and so long as the Parent Company remains a “substantial shareholder” of the Company within the meaning of the Listing Rules. Connected transactions include any agreement or arrangement made between the Company and the Parent Company (or any of its subsidiaries), a promoter, director, supervisor or substantial shareholder of the Company (or an associate of any of them).

The Company has applied to the Hong Kong Stock Exchange for waivers to comply with the Listing Rule requirements, in relation to the following connected transactions, subject to the conditions stated below:

- (i) The mutual indemnities contained in the restructuring agreement with the Parent Company and GEDC are exempted from compliance with the connected transaction requirements of the Listing Rules.
- (ii) The transactions contemplated by each of the relevant service or supply agreements are exempted from compliance with the connected transaction requirements of the Listing Rules.
- (iii) In addition to the above, given the historical relationship between the Company and the Parent Company and its subsidiaries, railway-related transactions apart from those described above may be entered into in the ordinary course of business between them, which transactions will be connected transactions. Any such transactions which have been specifically cleared by the Hong Kong Stock Exchange and under which the aggregate consideration paid or payable by the Company in each year does not exceed 3% of the net tangible asset value of the Company as shown in the latest published audited accounts of the Company are exempted from the connected transaction requirements of the Listing Rules.

After reviewing and based on the documents and information provided by the Company, Bear Stearns, China Development Finance Co., (H.K.) Ltd. and ABN AMRO HG Asia Limited, as sponsors to the Company, are of the view that the connected transactions referred to in (ii) above, which are subsisting and are of a commercial nature, have been entered into in the ordinary course of business of the Company and on normal commercial terms and on terms that are fair and reasonable as far as the shareholders of the Company are concerned, and that the mutual indemnities referred to in (i) above are on terms that are fair and reasonable as far as the shareholders of the Company are concerned.

Conditions

The conditions on which the above waivers were granted are that:

- (i) Details of each of the transactions in each year as required by rule 14.25(1)(A) to (D) of the Listing Rules, *i.e.* the date or period of the transaction, the parties thereto and a

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description of their relationship; a brief description of the transaction and the purpose of the transaction; the total consideration and the terms; and the nature and extent of the interest of the connected person in the transaction, shall be disclosed in the Company's annual report and accounts for that year.

(ii) The Company's independent non-executive Directors shall review annually the transactions and confirm in the Company's annual report and accounts for the year in question that:

- (a) the transactions have been entered into by the Company in the ordinary and usual course of its business;
- (b) the transactions have been entered into either (A) on normal commercial terms (by reference to transactions of a similar nature made by similar entities within China) or (B) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) the transactions have been entered into either (A) in accordance with the terms of the agreement governing each such transaction or (B) (where there is no such agreement) on terms no less favourable than terms available to third parties.

(iii) The auditors of the Company shall review annually the transactions, details of which shall be set forth in the Company's annual report and accounts as referred to in condition (i) above, and confirm to the Board of Directors in writing that:

- (a) the transactions have received the approval of the Board of Directors; and
- (b) the transactions have been entered into in accordance with the terms of the agreements governing such transactions.

If there is no such agreement, the auditors of the Company shall confirm to the Board of Directors that they are not aware of any transactions which do not appear to have been entered into on normal commercial terms.

FUTURE PLANS AND PROSPECTS

The Company's principal objective is to enhance its position as the leading provider of passenger and freight transportation services in the Guangzhou-Shenzhen Corridor. The Company believes that demand for transportation services will increase in its service territory as a result of several factors, including:

- continued strong economic growth in the region, especially in the Guangzhou-Shenzhen Corridor;

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- the addition of substantial new rail capacity connecting with the Company's line, including completion of the Beijing-Hong Kong, Pinghu-Yantian and Pinghu-Nantou lines;
- the impending reunification of Hong Kong with China in July 1997, which the Company believes will spur trade and promote economic activity both between Hong Kong and Shenzhen and between Hong Kong and Guangzhou;
- increased port capacity along the Company's service territory, including ongoing port development programmes in Hong Kong and along the Guangzhou-Shenzhen Corridor; and
- an increase in long distance intermodal container shipments by rail in the PRC.

To take advantage of anticipated market growth and build on its leadership position, the Company is in the process of significantly upgrading its transportation services, particularly its passenger service, through the full implementation of frequent, convenient, high speed passenger trains. This upgrade in service will be achieved in part by investments in new infrastructure and through changes in the way the Company manages its businesses, made possible by new autonomy granted to the Company's management by the PRC Government.

The Company's strategy for enhancing its leading market position includes the following key elements:

Investments in infrastructure

The Company intends to invest in new infrastructure that supports its objectives of improving the quality of its service and increasing revenues. Major projects that the Company has started include:

The High Speed Project. The High Speed Project is a key part of the Company's plan to upgrade the quality of its train operations and enhance its competitive position. In December 1994, the Company completed the construction of the principal facilities and commenced operation of its high speed rail line. The Company is purchasing additional high speed coaches and locomotives and replacing certain of its regular speed passenger trains with high speed trains. In addition, the Company intends to, over time, substantially increase the frequency of overall train service (including its high speed trains). The Company believes that such added frequency will encourage travel along the Company's routes and increase total ridership. The Company will continue to invest in the remaining portions of the High Speed Project, all of which are expected to be completed in 1997.

Electrification. The Company intends to electrify its high speed line, enabling faster and more frequent service to be implemented. The electrification project is expected to be completed in 1998.

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Guangzhou East Station. The Company's new Guangzhou East Station will become the hub for service between Guangzhou and Shenzhen, and (subject to regulatory approvals by the MOR or the Parent Company) may enable the Company to initiate new long-distance service to other parts of China. Guangzhou East Station will be substantially larger and more modern than the existing Guangzhou Station (which is not owned or operated by the Company). The construction of the Guangzhou East Station is expected to be completed in the second half of 1996. The station has been partially operational since 1995.

See “— Use of proceeds”.

New autonomy

In connection with the Restructuring, the Parent Company, the MOR and the State Council have granted the Company significant increased flexibility and new autonomy in the pricing of its train fares and management of its operations. The Company intends to utilise such autonomy to make substantial changes to many aspects of its operations, including (i) increasing the frequency of passenger train service, (ii) altering train schedules and seat mix to accommodate customer travel patterns and seating preferences, (iii) setting fares based on market demand and (iv) assuming greater control of the allocation of freight cars to its customers.

Customer service

The Company continually seeks ways to improve service to its customers. In addition to making service improvements that are part of the High Speed Project, the Company intends to upgrade the quality of service on board its trains, increase the number of ticket outlets to allow passengers to purchase tickets at more locations and to improve its computer reservation system to facilitate advance bookings. For its freight customers, the Company intends to shorten the lead time required of its customers to reserve freight cars and to provide more accurate and timely information on freight location and delivery status.

Cost management and organisational improvement

The Company believes that it has an opportunity to contain costs in the future and to further modernise its organisation. The Company has implemented measures to control equipment lease and service costs currently associated with Yang Cheng by purchasing locomotives and rolling stock and by maintaining high speed passenger coaches in-house. The Company also intends to limit increases in labour and administrative costs. Further, while the Company previously obtained most of its supplies and equipment through MOR-owned suppliers, the Company intends to evaluate alternative suppliers in an effort to reduce purchasing costs. The Company also intends to continue to improve the quality and effectiveness of its organisation by linking compensation and performance, expanding staff training and applying more advanced management practices to both planning and operations.

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Opportunities for other businesses

The Company believes that there are significant opportunities to expand its other business activities. The Company plans to operate restaurants and lease space to retailers at its Guangzhou East Station, benefiting from significant passenger flows through this new station. The existing station in Guangzhou is owned by Yang Cheng, limiting other business sales and operating income from this location. The Company also intends to strengthen sales of food and merchandise on its trains. The Company has formed a marketing group to review the products offered by the Company on its trains and to select products for which demand and margins will be higher.

WORKING CAPITAL

Taking into account the net proceeds of the Combined Offering and available supplier financing and banking facilities, the Company believes it will have sufficient working capital for its present requirements. See “— Trading record” and “— Use of proceeds”.

PROFIT FORECAST AND DIVIDEND POLICY

Profit forecast

The Directors believe that, in the absence of unforeseen circumstances and on the bases and assumptions set out in Appendix V, the combined profit after taxation and minority interests but before extraordinary items of the Company for the year ending 31st December, 1996 is unlikely to be less than RMB1,077 million based on IAS. The Directors do not expect that the Company's turnover for the year ending 31st December, 1996 will be materially different from the pro forma turnover for the year ended 31st December, 1995. See “Unaudited Pro Forma Combined Results of Operations for the year ended 31st December, 1995” set out in Appendix II. The Directors are not aware of any extraordinary items which have arisen in the year ending 31st December, 1996.

On the basis of such forecast profit and the weighted average number of 3,693,208,470 Shares in issue during 1996, the forecast earnings per Share is RMB0.29. On a pro forma fully diluted basis and (i) on the assumptions that the Company has been listed since 1st January, 1996 and a total of 4,148,900,000 Shares were issued on 1st January, 1996 at a price of HK\$2.71 per H Share (including 1% brokerage and 0.013% stock exchange transaction levy, which are payable by applicants in the Hong Kong Offering, but not those in the US Offering and the International Offering, and equivalent to a Hong Kong Offering Price of HK\$2.68 per H Share) and (ii) on the basis that interest income would have been earned on the proceeds of the Combined Offering at prevailing interest rates on 1st January, 1996, the estimated earnings per Share is RMB0.27.

The texts of the letters from the independent reporting accountants, Arthur Andersen & Co., and from Bear Stearns, China Development Finance Co., (H.K.) Ltd. and ABN AMRO HG Asia Limited in respect of the profit forecast are set out in Appendix V.

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Dividend Policy

The Company intends to declare a dividend of RMB0.05 per share for 1996, payable in or about June 1997, subject to applicable law, the Articles of Association and the decision of the Board of Directors in view of the 1996 financial results. Thereafter, dividends will be considered on an annual basis. Any such dividends will be paid at the discretion of the Company's Board of Directors, which will make a recommendation in this regard to be confirmed at the Company's shareholders' meeting. The Articles of Association permit the Company to distribute dividends from profits more than once a year. The amount of such interim dividends cannot exceed 50% of the Company's distributable profits as stated in its interim profit statements. In accordance with the Articles of Association, the amounts available to the Company for the purpose of paying dividends will be deemed to be the lesser of (i) net after-tax income determined in accordance with PRC accounting standards and regulations and (ii) net after-tax income determined in accordance with either IAS or the accounting standards of the countries in which its shares are listed. See "Appendix VII — Taxation" for a discussion of the tax consequences of receipts of dividends.

The Company made distributions to the Parent Company in respect of the year ended 31st December, 1995 in the aggregate amount of approximately RMB1,314.4 million. The Company did not, and does not intend to, declare or pay an interim dividend in 1996 prior to completion of the Combined Offering.

The Articles of Association prohibit the Company from distributing dividends without first making up for cumulative losses from prior periods (determined in accordance with PRC accounting standards) and making all tax and other payments required by law. Further, prior to payment of dividends, profits of the Company are subject to deductions such as allocations to the PRC statutory common reserve fund and the PRC statutory public welfare fund. The common reserve fund may be used to make up losses or to be converted into share capital or reinvested by the Company.

The Articles of Association require that cash dividends in respect of H Shares be declared in Renminbi and paid in Hong Kong dollars at the average of the PBOC Rate for each day of the calendar week preceding the date of the dividend declaration. To the extent that the Company is unable to pay dividends in Hong Kong dollars from its own foreign exchange resources, it will have to obtain Hong Kong dollars through the interbank system or by other permitted means. Hong Kong dollar dividend payments will be converted by the Depositary and distributed to holders of ADSs in US dollars.

USE OF PROCEEDS

Assuming that the H Shares being offered pursuant to the Hong Kong Offering are issued at the price of HK\$2.68 per H Share and the ADSs in the US Offering and the International Offering are issued at US\$17.50 per ADS, the net proceeds from the Combined Offering after payment of the underwriting discount and commissions and offering expenses (assuming no exercise of the Over-allotment Options) are estimated to be approximately HK\$3,136 million. The proceeds will be received in United States dollars for the US Offering and the International

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Offering and in Hong Kong dollars for the Hong Kong Offering. The Company intends to apply the net proceeds received from the Combined Offering substantially as follows:

- (i) approximately RMB1,330 million (HK\$1,236 million) will be used to partially finance completion of the High Speed Project, including payment for the purchase of high speed locomotives and passenger coaches and extension of the Company's third track over the remainder of the line;
- (ii) approximately RMB170 million (HK\$158 million) will be used to finance completion of the Company's Guangzhou East Station;
- (iii) approximately RMB370 million (HK\$344 million) will be used to finance the electrification of the Company's rail line;
- (iv) approximately RMB1,222 million (HK\$1,135 million) will be used to repay certain indebtedness;
- (v) approximately RMB171 million (HK\$159 million) will be used for certain other capital expenditures, including expenditures to upgrade facilities and improve computer systems; and
- (vi) the remainder will be used for working capital and other general corporate purposes.

To the extent that the net proceeds of the Combined Offering are not immediately used for the above purposes, the Company intends to place the net proceeds in foreign currency-denominated short-term deposits or short-term government bonds.

The indebtedness to be repaid as soon as practicable upon the completion of the Combined Offering pursuant to item (iv) above includes two unsecured, short-term obligations to the Parent Company, which will constitute all of the short-term indebtedness of the Company to the Parent Company as of the date of repayment. The first such obligation, in the principal amount of RMB532.2 million, was incurred in August 1995 and has been bearing interest at an annual rate of 13.3%. The second obligation, in the principal amount of RMB690.0 million, representing other indebtedness incurred by the Company to the Parent Company from time to time, bore interest at an annual rate of 13.3% until 1st October, 1995, and has been interest-free since that date. Each of these two loans are repayable by the Company within three months of the completion of the Combined Offering. The Company has specifically agreed with the Parent Company to repay this indebtedness from the net proceeds of the Combined Offering. The Company incurred these obligations to finance, in part, its capital expenditure programme, including the High Speed Project.

In accordance with the PRC accounting rules applicable to joint stock limited companies, the net proceeds from the Combined Offering received by the Company in US dollars and Hong Kong dollars will be accounted for in the Company's financial statements at the PBOC Rate in

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effect at the time when the net proceeds are received. The Renminbi equivalent for the Company's accounting purposes of the net proceeds, based on the PBOC Rate in effect as of 8th April, 1996, is anticipated to be approximately RMB3,376.1 million.

The Company's planned uses of proceeds have been approved by relevant PRC authorities. However, application of foreign currency funds is subject to formal confirmation by the SAEC.

DISTRIBUTABLE RESERVES

Since the Company had not been incorporated as of 31st December, 1995, there were no distributable reserves attributable to equity owners.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Company is based on the combined net tangible assets of the Company as at 31st December, 1995 as set out in Appendix I, adjusted as described below:

	RMB'000
Combined net tangible assets of the Company as at 31st December, 1995 as set out in the Accountants' Report in Appendix I	2,649,575
Combined net profit after taxation for the two months ended 29th February, 1996 based on the Company's unaudited management accounts	172,822
Surplus arising on valuation of the Company's machinery and equipment set out in Appendix III ⁽¹⁾	696,225
Surplus arising on valuation of the Company's properties set out in Appendix IV ⁽¹⁾	795,960
Estimated net proceeds from the Combined Offering ⁽²⁾	<u>3,376,078</u>
Adjusted net tangible assets	<u>7,690,660</u>
Adjusted net tangible asset value per Share (based on 4,148,900,000 Shares in issue immediately after the Combined Offering) ⁽²⁾	<u>RMB1.85</u>

(1) The surplus arising on valuation of the Company's machinery and equipment and properties as of 29th February, 1996 will be incorporated into the Company's financial statements for the year ending 31st December, 1996.

(2) No account has been taken of the H Shares which may be issued pursuant to Over-allotment Options. The estimated net proceeds from the Combined Offering assume a Hong Kong Offering Price of HK\$2.68 per H Share and an offering price in the US Offering and the International Offering of US\$17.50 per ADS.

(3) If the Over-allotment Options are exercised in full, the adjusted net tangible asset value per Share will be increased, while the earnings per Share will be diluted correspondingly. However, the Company believes that this will not have any material effect on the shareholders.

The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from the independent reporting accountants, Arthur Andersen & Co., Certified Public Accountants, Hong Kong. As described in Section 16 of Appendix X, a copy of the accountants' report is available for inspection.

ARTHUR ANDERSEN

Arthur Andersen & Co.
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

6th May, 1996

The Directors
Guangshen Railway Company Limited
Bear, Stearns & Co. Inc.
Bear Stearns Asia Limited
China Development Finance Co., (H.K.) Ltd.
ABN AMRO HG Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to Guangshen Railway Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the three years ended 31st December, 1995 for inclusion in the prospectus of the Company dated 6th May, 1996 (the "Prospectus").

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 6th March, 1996 to take over and operate certain railroad and other businesses. Prior to the formation of the Company, the businesses were carried on by its 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. All of such businesses were transferred to the Company pursuant to the Restructuring (as defined in Section 1 below). The Predecessor was controlled by, and under the administration of, the Parent Company.

No audited accounts have been prepared for the Company since its establishment. However, we have reviewed all relevant material transactions of the Company since its establishment to the date of this report.

The principal activities of the Group are railroad passenger and freight transportation. The Group also engages in certain other businesses as described in "Business Description" of "Particulars of the Company" of the Prospectus.

The Predecessor and its group companies, now comprising the Group, were not subject to independent audit. The management accounts of these companies were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises. For the purpose of this report, we have undertaken our own independent audit of the financial statements of the Predecessor and its group companies, now comprising the Group, in accordance with Auditing Standards and Guidelines issued by the Hong Kong Society of Accountants ("HKSA") for each of the three years ended 31st December, 1995, or from their respective dates of establishment where this is a shorter period, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKSA.

The summaries of the combined results of operations of the Group for each of the three years ended 31st December, 1995 and the combined net tangible assets of the Group as of 31st December, 1995 (the "Summaries") set out in Sections 4 and 5 below have been prepared based on the management accounts of the Predecessor and its group companies, now comprising the Group, and on the basis set out in Section 2 below as if the Restructuring had been completed as of the beginning of the periods presented and the business activities had been performed by the Group throughout the relevant periods. Adjustments have been made for the purpose of the Prospectus to restate those financial statements to conform to the accounting policies as referred to in Section 3, which are in compliance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee and after making such adjustments as we considered appropriate.

In our opinion, the Summaries together with the notes thereon give, for the purpose of the Prospectus, a true and fair view of the combined results of operations of the Group for each of the three years ended 31st December, 1995 and of the combined net tangible assets of the Group as of 31st December, 1995.

1. COMPANY RESTRUCTURING

As described in "The Restructuring" of "Particulars of the Company" of the Prospectus, the Predecessor underwent a group restructuring on 6th March, 1996 in preparation for a combined offering of the Company's shares (the "Combined Offering"). Pursuant to the Restructuring, the Company issued 100% of its equity interest in the form of Domestic Shares in exchange for assets and liabilities transferred to the Company by the Predecessor and certain of its subsidiaries, and the Parent Company and certain of its subsidiaries. The Company assumed from the Parent Company and the Predecessor the businesses now conducted by the Company, including the High Speed Project and equity interests in certain subsidiaries and joint ventures whose principal businesses relate to the operation of warehouses or freight yards. The Predecessor

retained certain assets, liabilities and businesses not assumed by the Company, including units providing staff quarters, certain social services and government functions such as health care, educational and public security services and other ancillary services, as well as subsidiaries or joint ventures whose businesses do not relate to railway operations and do not compete with the Company's businesses.

2. BASIS OF PRESENTATION

The Summaries were prepared based on the management accounts of the Predecessor and its group companies, now comprising the Group, as restated under the accounting policies as referred to in Section 3 below and after making such adjustments as we considered appropriate. The Summaries include the results of operations of the Group for each of the three years ended 31st December, 1995, or from their respective dates of establishment where this is a shorter period, and the assets and liabilities of the Group as of 31st December, 1995, as if the Restructuring had been completed as of the beginning of the periods presented and the business activities had been performed by the Group throughout the relevant periods. The assets acquired have been stated at historical net book value.

All material intercompany accounts and transactions among group companies have been eliminated on combination.

The Summaries have been prepared in accordance with IAS. This basis of accounting differs from that used in the management accounts of the Predecessor and its group companies, now comprising the Group, which were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises.

The principal adjustments to the management accounts made to conform to IAS include the following:

- Additional depreciation charges on fixed assets to reflect more realistic economic useful lives;
- Reclassification of certain items, designated as "Appropriations to reserves from net profit", as charges to profit before taxation;
- Restatement of the financial statements for those items denominated in foreign currencies by using the market exchange rates prevailing at the period end dates or the transaction dates, as applicable; and
- Capitalisation of interest charges arising from borrowings used to finance construction-in-progress during the construction period.

As of the date of this report, the Company had direct or indirect interests in the following companies. All of these entities were established by the Predecessor or the Parent Company in the PRC:

<u>Name of the entity</u>	<u>Date of incorporation/ establishment</u>	<u>Percentage of equity interest attributable to the Group</u>	<u>Paid-up capital</u>	<u>Principal activities</u>
Subsidiaries				
Changping Station Service Company	1st April, 1995	100%	RMB800,000	Warehousing
Guang Jiu Station Passenger Services Company	7th February, 1994	100%	RMB630,000	Sales of merchandise
Guangshen Engineering Section Comprehensive Project Service Company	22nd July, 1987	100%	RMB815,000	Repair and maintenance of equipment
Guangshen Railway Company Guangzhou East Station Comprehensive Service Company	9th July, 1990	100%	RMB518,000	Warehousing
Guangshen Railway Electric Section Service Company	21st February, 1994	100%	RMB580,000	Repair and maintenance of railroad communications systems
Guangzhou Anyu Comprehensive Services Company	20th September, 1995	100%	RMB497,000	Warehousing
Guangzhou East Station Dongqun Trade and Commerce Service Company	23rd November, 1992	100%	RMB20,000	Freight transport agency
Guangzhou East Station Passenger Services Company	23rd November, 1988	100%	RMB469,942	Food services and travel agency
Guangzhou Railway Car Utilisation Section Comprehensive Service Company Shipai Service Section	2nd September, 1992	100%	RMB560,000	Freight transport agency, cargo loading and unloading, warehousing
Guangzhou Railway Huangpu Service Company	15th March, 1985	100%	RMB358,500	Cargo loading and unloading, warehousing
Guangzhou Railway Xiayuan Service Company	29th July, 1986	100%	RMB400,000	Cargo loading and unloading, warehousing, freight transportation
Shenzhen Fu Yuan Enterprise Development Company	1st November, 1991	100%	RMB18,000,000	Hotel management
Shenzhen Guangshen Construction Pricing Consulting Service Company	23rd December, 1994	100%	RMB150,000	Construction consulting
Shenzhen Guangshen Railway Civil Engineering Company	1st March, 1984	100%	RMB6,660,000	Construction of railroad properties
Shenzhen Guangshen Railway Travel Service Ltd.	16th August, 1995	100%	RMB2,400,000	Travel agency
Shenzhen Jian Kai Trade Company	6th December, 1993	100%	RMB2,000,000	Construction materials trading

<u>Name of the entity</u>	<u>Date of incorporation/ establishment</u>	<u>Percentage of equity interest attributable to the group</u>	<u>Paid-up capital</u>	<u>Principal activities</u>
<u>Subsidiaries (Cont'd)</u>				
Shenzhen North Station Auto Repair Plant*	19th April, 1993	100%	RMB3,500,000	Repair and maintenance of vehicles
Shenzhen North Station Loading and Unloading Transportation Company*	20th September, 1993	100%	RMB3,750,000	Cargo loading and unloading, freight transportation
Shenzhen North Station Passenger Services Company	2nd January, 1985	100%	RMB400,753	Cargo packaging and storage
Shenzhen North Station Railway Industry Technology Development Company*	10th March, 1993	100%	RMB1,640,000	Maintenance of equipment
Shenzhen Railway Station Passenger Services Company	18th December, 1986	100%	RMB909,752	Food services and sales of merchandise
Shenzhen Xiang Qun Enterprise Company	30th June, 1994	100%	RMB2,000,000	Sales of merchandise
Guangzhou Donglian Travel Service Company Limited*	6th April, 1991	70%	RMB6,393,965	Food services
Shenzhen Railway Station Travel Service Company	1st January, 1990	70%	RMB6,720,000	Food services and sales of merchandise
Shenzhen Hongdali Auto Repair Company Limited*	3rd January, 1995	60%	RMB1,300,000	Repair and maintenance of vehicles
Shenzhen Road Multi-modal Transportation Company Limited*	17th March, 1994	60%	RMB1,000,000	Freight transportation
Shenzhen Longgang Pinghu Qun Yi Railway Store Loading and Unloading Company	11th September, 1993	55%	RMB10,000,000	Cargo loading and unloading, warehousing, freight transportation
Shenzhen Huasheng Container Transportation Company Limited	4th December, 1991	53%	RMB13,488,000	Warehousing
Dongguan Changsheng Enterprise Company	22nd May, 1992	51%	RMB5,686,000	Warehousing
<u>Associated Companies</u>				
Guangzhou Tielian Economy Development Company Limited	27th December, 1994	34%	RMB1,000,000	Warehousing and freight transport agency
Guangzhou Huangpu Yuehua Freight Transportation Joint Venture Company Limited*	20th July, 1990	33.3%	RMB6,610,000	Cargo loading and unloading, warehousing, freight transport agency
Shenzhen Huatie Enterprise Company Limited	31st August, 1993	32%	RMB19,933,000	Production of construction materials
Zengcheng Lihua Stock Company Limited	30th July, 1992	27%	RMB100,000,000	Real estate, warehousing, cargo loading and unloading

* These are subsidiaries or associated companies which are indirectly owned by the Company through its subsidiaries.

A subsidiary is an enterprise in which the Company directly or indirectly (i) holds more than 50 percent of the equity interests as a long-term investment or (ii) has the power to cast the majority of votes at meetings of the board of directors.

3. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies, which conform to IAS, were adopted by the Group in arriving at the financial information set out in this report:

(a) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation except for certain reclaimed rails resulting from rail improvement projects that are written down to estimated net realisable values based on prices for used rails established by the Ministry of Railways in the PRC. Repair costs are charged to expenses as incurred. Depreciation of fixed assets is provided using the straight-line method over their estimated useful lives, after deducting the estimated residual value of 4 to 10 percent of cost. The estimated useful lives are as follows:

Land use rights	over the land use right period of 36.5 to 50 years
Buildings	25 to 40 years
Track, bridges and service roads	44 years
Locomotives and rolling stock	16 years
Communications and signaling systems	8 to 20 years
Other machinery and equipment	7 to 10 years

All land in the PRC is state-owned and no individual land ownership right exists. As part of the Restructuring, the Group acquired the right to use certain land for its rail line, stations and other businesses. The costs of these rights are being amortised over the land use right periods.

(b) Construction-in-progress

Construction-in-progress represents facilities, including railroad stations and maintenance facilities, under construction and plant and machinery pending installation, and is stated at cost. This includes the costs of construction, the costs of plant and machinery, and interest charges and exchange differences arising from borrowings used to finance these assets during the period of construction or installation and testing. When the assets concerned are brought into use, the costs are transferred to fixed assets and depreciated in accordance with the policy as stated above.

(c) Investments in associated companies

An associated company is an enterprise, not being a subsidiary, in which the Company or a subsidiary of the Company holds at least 20 percent, but not more than 50 percent of the equity interests as a long-term investment, and exercises significant influence over its management.

Investments in associated companies are stated at cost less provision for permanent diminution in value, if any, plus the Company's shares of undistributed post-acquisition profit less losses.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits with banks.

(e) 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.

(f) Foreign currency translation

The Group maintains its books and records in Renminbi ("RMB"), which is not freely convertible into foreign currencies. Transactions denominated in currencies other than RMB are translated into RMB at the applicable rates of exchange prevailing at the dates of the transactions, quoted by the Foreign Exchange Adjustment Centre ("Swap Centre"). Monetary assets and liabilities denominated in other currencies are translated into RMB at rates of exchange quoted by the Swap Centre prevailing at the balance sheet date. Exchange differences that are attributable to the translation of borrowings denominated in currencies other than RMB and used for financing the construction of fixed assets, are included in the costs of the related construction-in-progress. Other exchange gains or losses arising from changes in exchange rates subsequent to the transaction dates for monetary assets and liabilities denominated in other currencies are included in the determination of net profit for the respective periods.

All the amounts were translated into Hong Kong dollars ("HK\$") at the rate of HK\$1.00 = RMB 1.0764 based on the exchange rate quoted by the People's Bank of China on 8th April, 1996 and are presented for information purposes only. There is no assurance that the assets and liabilities or profit and loss items can be converted to HK\$ at that rate.

(g) Turnover

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

(h) Taxation

The Group companies provide for taxation on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes. Taxation of the Group was based on the relevant tax laws and regulations applicable to PRC enterprises.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(i) Leases

Leases where substantially all of the risks and rewards of ownership of the assets remain with the lessors are accounted for as operating leases. Operating lease rentals are charged on a straight-line basis over the lease term. Cash payments are made as incurred. The Group has no capital leases.

4. COMBINED RESULTS OF OPERATIONS

The following is a summary of combined results of operations of the Group for the periods as stated, prepared on the bases set out in Sections 2 and 3 above, and after making such adjustments as we considered appropriate:

	Notes	Year ended 31st December,			
		1993 RMB'000	1994 RMB'000	1995 RMB'000	1995 HK\$'000
Revenues from railroad businesses					
—passenger		820,068	1,147,868	1,117,328	1,038,023
—freight		546,575	639,380	771,843	717,060
Sub-total		1,366,643	1,787,248	1,889,171	1,755,083
Revenues from other businesses		284,288	336,625	443,055	411,608
Turnover		1,650,931	2,123,873	2,332,226	2,166,691
Operating expenses:					
Railroad businesses					
Labour and benefits		(97,335)	(186,317)	(200,468)	(186,239)
Equipment leases and services	(b)	(118,854)	(187,712)	(185,056)	(171,921)
Materials and supplies	(b)	(41,456)	(46,400)	(58,383)	(54,239)
Depreciation		(59,951)	(85,044)	(126,409)	(117,437)
General and administrative expenses	(b)&(d)	(33,552)	(49,650)	(53,583)	(49,780)
Other		(52,212)	(68,036)	(78,940)	(73,337)
Sub-total		(403,360)	(623,159)	(702,839)	(652,953)
Other businesses					
Cost of sales		(161,057)	(154,949)	(258,194)	(239,868)
General and administrative expenses	(b)&(d)	(57,885)	(88,155)	(84,926)	(78,899)
Sub-total		(218,942)	(243,104)	(343,120)	(318,767)
Total operating expenses		(622,302)	(866,263)	(1,045,959)	(971,720)
Operating profit		1,028,629	1,257,610	1,286,267	1,194,971
Other income, net	(g)	4,307	13,744	152	141
Interest expense, net	(b)	(8,478)	(3,897)	(18,932)	(17,588)
Share of profit of associated companies		5,829	6,769	6,275	5,830
Profit before taxation	(a)	1,030,287	1,274,226	1,273,762	1,183,354
Provision for taxation	(c)	(18,078)	(23,845)	(18,495)	(17,182)
Minority interests		(12,409)	(8,047)	(4,923)	(4,574)
Net profit	(f)	999,800	1,242,334	1,250,344	1,161,598

Notes:

(a) Profit before taxation

Profit before taxation is arrived at after charging (crediting) the following:

	Year ended 31st December,		
	1993	1994	1995
	RMB'000	RMB'000	RMB'000
Interest on bank loans and other loans repayable within five years	15,940	81,168	178,790
Less: amounts capitalised in construction-in-progress and fixed assets	—	(63,258)	(142,382)
Net interest expense	15,940	17,910	36,408
Depreciation of fixed assets*	61,834	88,272	130,643
Provision for staff welfare and bonus	48,836	109,208	98,276
Auditors' remuneration	—	—	—
Operating lease rentals of equipment	118,854	187,712	169,997
Interest income	(7,462)	(14,013)	(17,476)

* Depreciation of fixed assets is comprised of depreciation charges arising from the use of fixed assets for railroad businesses and other businesses.

(b) Related party transactions

A significant portion of transactions undertaken by the Group during the relevant periods was with other PRC state-owned enterprises and on such terms as determined by the relevant PRC authorities.

The following is a summary of significant recurring transactions carried out in the ordinary course of business between the Group and affiliates during the years:

	Year ended 31st December,		
	1993	1994	1995
	RMB'000	RMB'000	RMB'000
Lease of locomotives and related services from Yang Cheng Railway Company, a subsidiary of the Parent Company . . .	112,038	163,647	144,442
Provision of train and related services from Guangmeishan Railway Company, a subsidiary of the Parent Company . . .	—	—	10,692
Provision of train and related services from Sanmao Railway Company, a subsidiary of the Parent Company	—	—	4,367
Purchases of materials and supplies from Material Supply Company, a subsidiary of the Parent Company	7,979	4,786	3,568
Social services (employee housing, health care, educational and public security services and other ancillary services) provided by the Parent Company and affiliates (including Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company)	19,292	27,635	39,040
Reimbursement for cost of workers assigned to the Parent Company	(436)	(185)	—
Interest paid to Parent Company**	—	65,466	133,648
Interest received from affiliates*	(2,025)	(1,518)	(11,058)
Operating lease rentals paid to Ministry of Railways	6,816	24,065	25,555

* Affiliates include Tianjin Xinghua Industrial Development Company and Guangshen Railway Trade and Commerce Company.

**As more fully explained in Section 5(d), the interest paid to Parent Company arose from certain indebtedness to Parent Company primarily used to finance the development of High Speed Project. Most of this interest was capitalised as part of the construction-in-progress (see Section 4(a)).

The lease agreements with Yang Cheng Railway Company and the Ministry of Railways were renewable annually during the three years ended 31st December, 1995. The Group had no other lease agreements. On 6th March, 1996, the Company revised the lease agreement with Yang Cheng Railway Company and extended the lease period to 10 years starting from 1996.

The transactions with the above affiliates were carried out on the terms set forth in "Relationship with the Parent Company and Affiliated Companies" of "Particulars of the Company" of the Prospectus. Substantially all the above transactions will continue in the future, although not necessarily on the same terms.

(c) Provision for taxation

A portion of net profit of the railroad businesses of the Group was remitted to the Parent Company as dividends and no profits tax was required to be paid in accordance with Circular Number [1986]095 issued by State Tax Bureau except that the Predecessor was required to pay

the Shenzhen Municipal Tax Bureau profits tax on an annual agreed basis. Deferred taxation was not recognised as there were no material timing differences.

Enterprises established in Shenzhen Special Economic Zone are subject to profits tax at a reduced rate of 15% as compared with the standard rate of 33%. The effective profits tax rate of the Predecessor for the three years ended 31st December, 1995 was approximately 1.7% only, based on the agreement between the Predecessor and the Shenzhen Municipal Tax Bureau, and the corresponding profits tax liabilities were confirmed in the documents dated 14th November, 1995 and 16th February, 1996 issued by the Shenzhen Municipal Tax Bureau. Pursuant to a Circular Number [1995]46 issued by the Shenzhen Municipal Tax Bureau, the Company will now be subject to a reduced profits tax rate of 15% and accordingly, the deferred tax effects on temporary differences, if any, will be recognised at that rate.

According to the relevant profits tax laws, other businesses of the Group are subject to profits tax rates of 15% or 33%, depending mainly on the places of incorporation of these companies. Further, certain subsidiaries engaged in other businesses are Sino-foreign joint ventures which are entitled to full exemption from the PRC profits 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. There is no material effect on the Summaries of the Group arising from the tax holiday.

Taxation charged to the combined results of operations during the years was as follows:

	Year ended 31st December,		
	1993	1994	1995
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC taxation provision	18,078	23,845	18,495

No deferred taxation was recorded during the periods, as there were no material timing differences.

Pursuant to various tax rules and regulations, the Group is liable to pay turnover taxes to the national and local tax authorities at the following rates prior to and after 1st January, 1994:

<u>Segment</u>	<u>Applicable turnover tax rates</u>	
	<u>Prior to</u> <u>1st January, 1994</u>	<u>After</u> <u>1st January, 1994</u>
Railroad businesses	5.35%	3.24%
Sales of merchandise	3%	*
Sales of food and beverages	5%	5%
Operating restaurants	5%	5%

* Effective from 1st January, 1994, turnover tax on sales of merchandise was replaced by the value-added tax ("VAT") which is levied at the rate of 17% of the invoiced value of goods and is payable by the customer. VAT paid on purchases of merchandise can be used to offset VAT on sales to determine the net VAT payable. Revenues from railroad businesses, sales of food and beverages and operating restaurants are not subject to VAT but instead continue to be subject to business tax which is also a kind of turnover tax.

(d) Directors', senior executives' and supervisors' emoluments

	Year ended 31st December,		
	1993	1994	1995
	RMB'000	RMB'000	RMB'000
Fees for executive directors	—	—	—
Fees for non-executive directors	—	—	—
Fees for supervisors	—	—	—
Other emoluments for executive directors			
—basic salaries and allowances	21	32	56
—bonus	69	93	129
—retirement benefits	4	6	11
Other emoluments for non-executive directors	—	—	—
Other emoluments for supervisors	104	145	173

Under the present arrangements, the aggregate directors' fees and other emoluments for the year ending 31st December, 1996 are estimated to be approximately RMB762,000.

Details of emoluments paid to the five highest paid employees (mainly senior executives) were:

	Year ended 31st December,		
	1993	1994	1995
	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	37	55	78
Bonus	117	206	172
Retirement benefits	7	10	15
	<u>161</u>	<u>271</u>	<u>265</u>
Number of directors	2	2	2
Number of employees	3	3	3
	<u>5</u>	<u>5</u>	<u>5</u>

During the periods covered by this report, no emolument was paid to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

(e) Retirement benefits

All the Group's full-time staff are covered by a pension scheme. Pursuant to a circular dated 24th October, 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 amounts of bonuses of the staff for pension benefits, and the Parent Company is responsible for the ultimate pension liability to the staff.

Pension expenses for the years were as follows:

	<i>RMB'000</i>
Year ended 31st December, 1993	8,443
Year ended 31st December, 1994	11,680
Year ended 31st December, 1995	14,971

(f) Distribution of profit

No dividends have been paid or declared by the Company since its incorporation.

The following dividends were paid by the Predecessor and its group companies, now comprising the Group, during the periods covered by this report to their then equity owner:

	Year ended 31st December,		
	1993	1994	1995
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guangzhou Railway (Group) Company	998,854	1,317,236	1,314,434

The Group has historically followed the accounting principles and relevant financial regulations applicable to PRC enterprises. Such regulations require such enterprises to provide certain statutory reserves, including revenue reserve and capital reserve, which are designated for specific purposes. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. The Company is required to reflect these reserves separately in the statutory accounts. See Section 1(A) "Finance and accounting" of Appendix IX.

In accordance with the Articles of Association of the Company, the net profit of the Company for the purpose of profit distribution will be deemed to be the least of the amounts determined in accordance with (a) PRC accounting standards and regulations, (b) IAS and (c) the accounting standards of the countries in which its shares are listed.

Since the Company had not been incorporated as of 31st December, 1995, there were no distributable reserves attributable to equity owners.

(g) Other income, net

	Year ended 31st December,		
	1993	1994	1995
	RMB'000	RMB'000	RMB'000
Exchange gain (loss)	11,698	(767)	743
Others	<u>(7,391)</u>	<u>14,511</u>	<u>(591)</u>
	<u>4,307</u>	<u>13,744</u>	<u>152</u>

(h) Transfer to reserve

Movements in reserves arising from appropriation of net profit for the three years ended 31st December, 1995:

	Year ended 31st December,		
	1993	1994	1995
	RMB'000	RMB'000	RMB'000
Transfer from net profit to revenue reserve:			
Statutory common reserve fund	51,886	14,685	16,217
Statutory common welfare fund	<u>21,192</u>	<u>11,916</u>	<u>12,147</u>
	<u>73,078</u>	<u>26,601</u>	<u>28,364</u>

Before the Restructuring, the Group set aside certain % of its net profit for the statutory common reserve fund and statutory common welfare fund at the discretion of the Management. The statutory common reserve fund and statutory common welfare fund are part of the revenue reserve.

According to Articles of Association of the Company subsequent to the Restructuring, when distributing net profit of each year, the Company shall set aside 10% of its net profit for the statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% for the statutory common welfare fund.

When the statutory common reserve fund is not sufficient to make up for the losses of the Company in previous years, current year net profit shall be used to make good the losses before allocations are set aside for the statutory common reserve fund or the statutory common welfare fund.

The statutory common welfare fund is used for the collective welfare of the staff and workers of the Company.

The statutory common reserve fund may be converted into capital provided it is approved by a resolution at a shareholders' general meeting and the balance of the statutory common reserve fund does not fall below 25% of the registered 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.

5. COMBINED NET TANGIBLE ASSETS

The following is a summary of combined net tangible assets of the Group as of 31st December, 1995 prepared on the bases set out in Sections 2 and 3 above, and after making such adjustments as we considered appropriate:

	Notes	RMB'000	RMB'000	HK\$'000	HK\$'000
Fixed assets, net	(a)		3,683,508		3,422,062
Construction-in-progress			1,366,422		1,269,437
Investments in associated companies	(b)		38,221		35,508
Current assets					
Cash and cash equivalents		421,641		391,714	
Accounts receivable		42,144		39,153	
Materials and supplies		20,303		18,862	
Prepayments and other current assets		96,483		89,635	
Due from affiliates	(d)	<u>67,706</u>		<u>62,900</u>	
		<u>648,277</u>		<u>602,264</u>	
Current liabilities					
Short-term bank loans	(c)	(388,036)		(360,494)	
Accounts payable		(179,623)		(166,874)	
Accounts payable for construction of fixed assets		(493,168)		(458,164)	
Accrued expenses and other payables		(134,107)		(124,588)	
Short-term loans payable to Parent Company	(d)	(1,176,721)		(1,093,201)	
Due to affiliates	(d)	<u>(310,312)</u>		<u>(288,287)</u>	
		<u>(2,681,967)</u>		<u>(2,491,608)</u>	
Net current liabilities			(2,033,690)		(1,889,344)
Long-term loan payable to Parent Company	(d)		(375,000)		(348,383)
Minority interests			<u>(29,886)</u>		<u>(27,765)</u>
Net tangible assets			<u>2,649,575</u>		<u>2,461,515</u>

Notes:

(a) Fixed assets, net

	Cost <i>RMB'000</i>	Accumulated depreciation <i>RMB'000</i>	Net book value <i>RMB'000</i>
Land use rights and buildings	859,592	64,096	795,496
Track, bridges and service roads	2,225,312	179,187	2,046,125
Locomotives and rolling stock	288,676	30,380	258,296
Communications and signaling systems	404,211	69,797	334,414
Other machinery and equipment	333,477	84,300	249,177
	<u>4,111,268</u>	<u>427,760</u>	<u>3,683,508</u>

(b) Investments in associated companies

	<i>RMB'000</i>
Unlisted investments, at cost	24,229
Share of post-acquisition profit	<u>13,992</u>
	<u>38,221</u>

(c) Short-term bank loans

As of 31st December, 1995, the Group had short-term bank loan facilities of approximately RMB388,036,000, which were used primarily to finance working capital needs. The bank loans bore interest at rates ranging from 9.8% to 14.5%, of which approximately RMB316,167,000 and RMB30,776,000 were guaranteed by group companies and the Parent Company, respectively. These loans are generally repayable in six months.

(d) Balances with Parent Company, Ministry of Railways and affiliates

	<i>RMB'000</i>
Short-term loans payable to Parent Company	
Loan (i)	532,190
Loan (ii)	690,000
Due from Parent Company, unsecured and non-interest bearing	<u>(45,469)</u>
	1,176,721
Long-term loan payable to Parent Company (iii)	375,000
Due from affiliates* and Ministry of Railways (iv)	(67,706)
Due to affiliates* and Ministry of Railways	310,312

* Affiliates include High Speed Project Construction Company, Yang Cheng Railway Company and Shanghai Tong Hao Company.

The indebtedness to Parent Company represents primarily amounts advanced to finance the development of the High Speed Project.

(i) The loan of RMB532,190,000 is related to a corresponding loan entered into by the Parent Company with certain financial institutions. This loan bears interest at an annual rate of 13.3% and is unsecured.

(ii) The loan of RMB690,000,000 is unsecured and bears interest at 13.3% until 1st October, 1995, when the Parent Company and the Company entered into a new loan agreement providing for zero interest.

The above two loans are to be repaid within three months after the Company's shares commence trading on either The Stock Exchange of Hong Kong Limited or the New York Stock Exchange.

(iii) The loan of RMB375,000,000 is unsecured and bears interest at 13.3% until 1st January, 1996, when the Parent Company and the Company entered into a new loan agreement providing for zero interest. This loan is to be repaid by 30th June, 1997.

(iv) The amounts due from affiliates and Ministry of Railways are unsecured, repayable on demand and non-interest bearing except for certain amounts due from affiliates of RMB18,926,000 bearing interest ranging from 14.1% to 14.4%.

All other balances with the Parent Company, affiliates and the Ministry of Railways are unsecured, repayable on demand and non-interest bearing. These balances resulted from transactions carried out between the Group and affiliates in the ordinary course of business.

(e) Commitments

Capital commitments mainly related to purchases of railroad equipment for the High Speed Project. Capital commitments outstanding as of 31st December, 1995 not provided for in the accounts were as follows:

	<i>RMB'000</i>
Authorised and contracted for	574,640
Authorised but not contracted for	1,329,000

(f) Contingencies

The Group had no significant contingent liabilities as of 31st December, 1995.

(g) **Deferred taxation**

As of 31st December, 1995, the Group did not have any significant deferred taxation.

6. FOREIGN CURRENCY EXCHANGE

The books and records of the Group are maintained in RMB, its functional currency. RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place either through the Bank of China or other institutions authorised to buy and sell foreign exchange, or at a Swap Centre. The exchange rate used for transactions through the Bank of China and other authorised institutions ("official exchange rate") is set by the PRC Government from time to time whereas the exchange rate available at a Swap Centre is determined largely by supply and demand. Effective from 1st January, 1994, the PRC Government unified the official and Swap Centre exchange rates of RMB against foreign currencies and there is now one unified floating exchange rate administered by the People's Bank of China.

Enterprises in the PRC are permitted to enter into exchange transactions at a Swap Centre. Prior to 1st April, 1996, approval for exchange at a Swap Centre was granted for valid reasons such as the purchase of imported equipment and remittance of earnings. Subsequent to 1st April, 1996, enterprises in certain cities including Shenzhen do not need to obtain the pre-approval from the PRC authority and can deal directly with an approved bank for foreign exchange on recurring items. Such payments are subject to the availability of foreign currencies which is dependent on the foreign currency denominated earnings of the entity or must be arranged through a Swap Centre or an approved bank.

7. ULTIMATE HOLDING COMPANY

The directors considered Guangzhou Railway (Group) Company as the ultimate holding company.

8. SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31st December, 1995:

- (a) The companies now comprising the Group underwent a restructuring in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange. The details of the Restructuring and changes in the share capital of the Company are set out in "The Restructuring" of "Particulars of the Company" of the Prospectus issued by the Company.

- (b) On 29th February, 1996, the net assets of the Predecessor and its group companies, now comprising the Group, were revalued by Vigers Hong Kong Limited (the "Valuer"), a qualified 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 revaluation surplus of approximately RMB1,492,185,000 arising from the revaluation is related mainly to fixed assets.

Under IAS, revaluation of fixed assets is permitted and depreciation is based on the revalued amount. Additional depreciation arising from the revaluation surplus will be approximately RMB33,091,000 in 1996.

- (c) Prior to March 1996, the Company's future Hong Kong through train revenues (through August 2000) were pledged to a financial institution to secure certain indebtedness of the Parent Company to the institution. In March 1996, the Parent Company repaid the indebtedness in full, and the pledge over these revenues was released. Pursuant to the Restructuring, the Company acquired all rights to this revenue stream, free of any encumbrance.

9. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st December, 1995. In addition, no dividend has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st December, 1995.

Yours faithfully,
ARTHUR ANDERSEN & CO.
Certified Public Accountants
Hong Kong

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION**INTRODUCTION TO UNAUDITED PRO FORMA FINANCIAL INFORMATION**

After the restructuring as described in Section 1 of Appendix I, and the formation of Guangshen Railway Company Limited (the "Company") on 6th March, 1996, the operations of the Company and its subsidiaries (the "Group") and the environment in which the Group operates will be somewhat different from those of Guangshen Railway Company (the "Predecessor") and its parent company, Guangshen Railway (Group) Company (the "Parent Company"). For this reason, the Company's management believes that presentation of an Unaudited Pro Forma Combined Results of Operations for 1995 is necessary to supplement the historical financial information.

The Unaudited Pro Forma Combined Results of Operations for the year ended 31st December, 1995 has been prepared based on the historical Combined Results of Operations of the Predecessor and its group companies, now comprising the Group (see Section 2 of Appendix I for the details of the group companies) after giving effect to pro forma adjustments described in the notes thereto as if the transactions and agreements described in these notes were in effect during the entire year ended 31st December, 1995.

The Unaudited Pro Forma Combined Results of Operations does not purport to represent what the combined results of operations of the Group would actually have been if the events described above had in fact occurred on such date or at the beginning of 1995, or to project the combined results of operations of the Group for any future date or period.

The Unaudited Pro Forma Combined Results of Operations should be read in conjunction with the accountants' report in Appendix I and other financial information included elsewhere in this Prospectus.

GUANGSHEN RAILWAY COMPANY LIMITED
UNAUDITED PRO FORMA COMBINED RESULTS OF OPERATIONS
FOR THE YEAR ENDED 31ST DECEMBER, 1995

	<u>Historical</u> <i>RMB'000</i>	<u>Pro Forma Adjustments</u> <i>RMB'000</i>	<u>Pro Forma</u> <i>RMB'000</i>	<u>Pro Forma</u> <i>HK\$'000</i>
Revenues from railroad businesses				
— passenger	1,117,328		1,117,328	1,038,023
— freight	771,843		771,843	717,060
Sub-total	1,889,171		1,889,171	1,755,083
Revenues from other businesses	443,055		443,055	411,608
Turnover	<u>2,332,226</u>		<u>2,332,226</u>	<u>2,166,691</u>
Operating expenses:				
Railroad businesses				
Labour and benefits	(200,468)	(9,000)(a)	(209,468)	(194,600)
Equipment leases and services ...	(185,056)	(29,422)(b)	(214,478)	(199,255)
Materials and supplies	(58,383)		(58,383)	(54,239)
Depreciation	(126,409)	(33,249)(c)	(159,658)	(148,326)
General and administrative expenses	(53,583)		(53,583)	(49,780)
Other	(78,940)		(78,940)	(73,337)
Sub-total	<u>(702,839)</u>		<u>(774,510)</u>	<u>(719,537)</u>
Other businesses				
Cost of sales	(258,194)		(258,194)	(239,868)
General and administrative expenses	(84,926)		(84,926)	(78,899)
Sub-total	<u>(343,120)</u>		<u>(343,120)</u>	<u>(318,767)</u>
Total operating expenses	<u>(1,045,959)</u>		<u>(1,117,630)</u>	<u>(1,038,304)</u>
Operating profit	1,286,267		1,214,596	1,128,387
Other income, net	152		152	141
Interest expense, net	(18,932)		(18,932)	(17,588)
Share of profit of associated companies	6,275		6,275	5,830
Profit before taxation	1,273,762		1,202,091	1,116,770
Provision for taxation	(18,495)	(171,345)(d)	(189,840)	(176,366)
Minority interests	(4,923)		(4,923)	(4,574)
Net profit	<u>1,250,344</u>		<u>1,007,328</u>	<u>935,830</u>

The accompanying notes are an integral part of this Unaudited
Pro Forma Combined Results of Operations.

GUANGSHEN RAILWAY COMPANY LIMITED
NOTES TO UNAUDITED PRO FORMA COMBINED RESULTS OF OPERATIONS

Note 1—Description of Pro Forma Adjustments

A description of the pro forma adjustments is as follows:

- (a) to adjust labour and benefit expenses as if the new social service agreements with Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company, Yang Cheng Railway Company and the Parent Company had been in effect throughout 1995 (see “Relationship with the Parent Company and Affiliated Companies” of the “Particulars of the Company”). The agreed social service charges in 1996 are RMB40 million. The pro forma adjustment is the difference between these predetermined social service charges and the historical costs of the respective services in 1995 which were determined on an as incurred basis;
- (b) to adjust equipment lease and service expenses pursuant to a revised agreement with Yang Cheng Railway Company, a subsidiary of the Parent Company, which leases locomotives and provides related services to the Company (see “Relationship with the Parent Company and Affiliated Companies” of the “Particulars of the Company”). Set out below is an analysis of the equipment lease and service expenses between the Company and Yang Cheng Railway Company:

	<i>RMB'000</i>
Pro forma: Fuel expenses	42,997
Service fees	86,816
Asset depreciation	<u>44,051</u>
	173,864
Historical	<u>144,442</u>
Pro forma adjustment	<u><u>29,422</u></u>

The pro forma expenses are based on 1995 equipment and service utilization.

- (c) to adjust for additional depreciation resulting from the revaluation of the net assets of the Company as of 30th June, 1995 performed by China Consultants of Accounting and Financial Management, Inc., a qualified valuer in the PRC (the “PRC Valuer”), using a replacement cost approach and open market value approach as if it had been recognised in 1995. The Company did not recognise the revaluation surplus estimated by the PRC Valuer and accordingly, no additional depreciation was included in the determination of combined results of operations for the year ended 31st December, 1995. As of 29th February, 1996, the Company recorded revaluation surplus based on a subsequent appraisal performed by Vigers Hong Kong Limited, a qualified valuer in Hong Kong (see Section 8(b) of Appendix I); and

- (d) to adjust the provision for taxation based on the revised profits tax rate of 15% as described in Section 4(c) of Appendix I as if this rate had been applied to the railroad businesses of the Company in 1995.

Note 2—Translation of Renminbi (“RMB”) into Hong Kong Dollars (“HK\$”)

Translation of amounts from RMB into HK\$ for the convenience of the reader has been made at the exchange rate quoted by the People’s Bank of China on 8th April, 1996 of HK\$1.00 = RMB1.0764. No representation is made that the RMB amounts could have been or could be converted into HK\$ at that rate or any other certain rate on 8th April, 1996 or at any other certain date.

(B) ADDITIONAL FINANCIAL DISCLOSURES

The information set out below does not form part of the accountants’ report prepared by Arthur Andersen & Co., the independent reporting accountants of the Company, as set out in Appendix I, and is included for information purposes only.

Set out below is a summary of additional financial information extracted from the Combined Financial Statements prepared for the United States and International Offerings. The Combined Financial Statements were prepared by using the same basis of presentation as set out in Section 2 of the accountants’ report and were audited by Arthur Andersen & Co. The following financial information should be read in conjunction with the accountants’ report as set out in Appendix I.

(a) PRINCIPAL ACCOUNTING POLICIES

Net profit per pro forma Domestic Share

Net profit per pro forma Domestic Share for the year ended 31st December, 1995 has been computed by dividing net profit by the pro forma number of Domestic Shares outstanding following the formation of the Company.

Dedicated capital

The Group companies maintain discretionary dedicated capital, which includes revenue reserve and capital reserve designated for specific purposes. The Group companies will determine on an annual basis the amount of the annual appropriations to these reserves. Unused reserves are reflected in the Combined Balance Sheets under equity as dedicated capital.

(b) COMBINED RESULTS OF OPERATIONS

	Year ended 31st December,		
	1993 RMB'000	1994 RMB'000	1995 RMB'000
Revenues from railroad businesses			
—passenger	820,068	1,147,868	1,117,328
—freight	546,575	639,380	771,843
Sub-total	1,366,643	1,787,248	1,889,171
Revenues from other businesses	284,288	336,625	443,055
Turnover	1,650,931	2,123,873	2,332,226
Operating expenses:			
Railroad businesses			
Labour and benefits	(97,335)	(186,317)	(200,468)
Equipment leases and services	(118,854)	(187,712)	(185,056)
Materials and supplies	(41,456)	(46,400)	(58,383)
Depreciation	(59,951)	(85,044)	(126,409)
General and administrative expenses	(33,552)	(49,650)	(53,583)
Other	(52,212)	(68,036)	(78,940)
Sub-total	(403,360)	(623,159)	(702,839)
Other businesses			
Cost of sales	(161,057)	(154,949)	(258,194)
General and administrative expenses	(57,885)	(88,155)	(84,926)
Sub-total	(218,942)	(243,104)	(343,120)
Total operating expenses	(622,302)	(866,263)	(1,045,959)
Operating profit	1,028,629	1,257,610	1,286,267
Other income, net	4,307	13,744	152
Interest expense, net	(8,478)	(3,897)	(18,932)
Share of profit of associated companies	5,829	6,769	6,275
Profit before taxation	1,030,287	1,274,226	1,273,762
Provision for taxation	(18,078)	(23,845)	(18,495)
Minority interests	(12,409)	(8,047)	(4,923)
Net profit	999,800	1,242,334	1,250,344
Net profit per pro forma Domestic Share (unaudited)			0.43
Pro forma number of Domestic Shares outstanding (unaudited)			2,904,250,000

NOTE 1. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31st December,		
	1993	1994	1995
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wages and bonus	33,042	38,691	38,914
Retirement benefits	8,443	11,680	14,971
Utility expenses	6,027	8,869	7,565
Selling expenses	4,551	7,793	7,250
Office expenses	2,801	8,762	12,109
Construction duty, land use fees and other duties	4,768	7,634	4,797
Depreciation	1,673	2,221	2,453
Others	30,132	52,155	50,450
	<u>91,437</u>	<u>137,805</u>	<u>138,509</u>
Attributable to:			
Railroad businesses	33,552	49,650	53,583
Other businesses	57,885	88,155	84,926
	<u>91,437</u>	<u>137,805</u>	<u>138,509</u>

(c) COMBINED BALANCE SHEETS

	31st December,	
	1994	1995
	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS		
Current assets		
Cash and cash equivalents	588,076	421,641
Accounts receivable	68,004	42,144
Materials and supplies	19,810	20,303
Prepayments and other current assets	27,838	96,483
Due from affiliates	7,965	67,706
Total current assets	<u>711,693</u>	<u>648,277</u>
Fixed assets, net	3,145,287	3,683,508
Construction-in-progress	989,440	1,366,422
Investments in associated companies	20,285	38,221
Total assets	<u>4,866,705</u>	<u>5,736,428</u>
LIABILITIES AND EQUITY		
Current liabilities		
Short-term bank loans	320,948	388,036
Accounts payable	162,646	179,623
Accounts payable for construction of fixed assets	496,667	493,168
Accrued expenses and other payables	89,168	134,107
Short-term loans payable to Parent Company	906,242	1,176,721
Due to affiliates	113,999	310,312
Total current liabilities	<u>2,089,670</u>	<u>2,681,967</u>
Long-term loan payable to Parent Company	250,490	375,000
Total liabilities	<u>2,340,160</u>	<u>3,056,967</u>
Minority interests	23,991	29,886
Equity	<u>2,502,554</u>	<u>2,649,575</u>
Total liabilities and equity	<u>4,866,705</u>	<u>5,736,428</u>

NOTE 1. SHORT-TERM BANK LOANS

Supplemental information with respect to short-term bank loans:

	<u>Balance at year end</u>	<u>Weighted average interest rate at year end</u>	<u>Maximum amount outstanding during the year</u>	<u>Average amount outstanding during the year*</u>	<u>Weighted average interest rate during the year**</u>
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
For the year ended					
31st December, 1995	388,036	12.25	388,036	354,492	12.13
For the year ended					
31st December, 1994	320,948	12.00	320,948	295,816	11.40

* The average amount outstanding is computed by dividing the total of outstanding principal balance as of 1st January and 31st December by 2.

** The weighted average interest rate is computed by dividing the total of weighted average interest rates as of 1st January and 31st December by 2.

NOTE 2. ACCRUED EXPENSES AND OTHER PAYABLES

	31st December,	
	1994	1995
	<i>RMB'000</i>	<i>RMB'000</i>
Deposits from customers	10,036	19,940
Accrual for staff benefits and bonus	22,264	14,107
Payable for duties and fees	5,384	8,726
Accrual for pension expense	3,318	10,591
Others	48,166	80,743
	<u>89,168</u>	<u>134,107</u>

NOTE 3. EQUITY

	<u>Capital</u>	<u>Dedicated capital</u>	<u>Accumulated deficit</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 31st December, 1992	39,120	1,239,836	(79,865)	1,199,091
Net profit	—	—	999,800	999,800
Transfer to dedicated capital	—	73,078	(73,078)	—
Distribution to Parent Company	—	—	(998,854)	(998,854)
Contribution from Parent Company	598	858,976	—	859,574
Balance at 31st December, 1993	39,718	2,171,890	(151,997)	2,059,611
Net profit	—	—	1,242,334	1,242,334
Transfer to dedicated capital	—	26,601	(26,601)	—
Distribution to Parent Company	—	—	(1,317,236)	(1,317,236)
Contribution from Parent Company	9	517,836	—	517,845
Balance at 31st December, 1994	39,727	2,716,327	(253,500)	2,502,554
Net profit	—	—	1,250,344	1,250,344
Transfer to dedicated capital	—	28,364	(28,364)	—
Distribution to Parent Company	—	—	(1,314,434)	(1,314,434)
Contribution from Parent Company	1,563	209,548	—	211,111
Balance at 31st December, 1995	<u>41,290</u>	<u>2,954,239</u>	<u>(345,954)</u>	<u>2,649,575</u>

NOTE 4. FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and accounts receivable approximate their fair values because of the short maturity of those instruments. Cash denominated in foreign currencies has been translated at the applicable exchange rates quoted by the Swap Centre. The Company has not had and does not believe it will have any difficulty in exchanging its foreign currency cash for RMB. The carrying amounts of the bank loans approximate their fair values based on borrowing rates currently available for bank loans with similar terms and maturities.

NOTE 5. CONCENTRATION OF RISK

As of 31st December, 1995, all cash and bank loans were maintained with state-owned banks in the PRC.

NOTE 6. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

As of 31st December, 1995, balances denominated in United States dollars and Hong Kong dollars have been translated into Renminbi at the exchange rate quoted by the Swap Centre as of that date. Details of these balances are as follows:

Cash and cash equivalents	<i>RMB'000</i>
Bank loans	54,920
	196,517

(d) COMBINED STATEMENTS OF CASH FLOWS

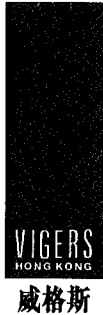
	Year ended 31st December,		
	1993 RMB'000	1994 RMB'000	1995 RMB'000
Cash flows from operating activities:			
Net profit	999,800	1,242,334	1,250,344
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortisation	61,834	88,272	130,643
Write down of rails to net realisable value	12,309	18,050	—
Minority interests	12,409	8,047	4,923
(Increase) decrease in assets			
Accounts receivable	(4,814)	(35,985)	25,860
Materials and supplies	(2,768)	(13,333)	(493)
Prepayments and other current assets	9,095	1,859	(68,645)
Due from Parent Company	(1,878)	28,157	—
Due from affiliates	(55,451)	55,401	(59,741)
Increase (decrease) in liabilities			
Accounts payable	68,721	81,127	16,977
Accrued expenses and other payables	(6,072)	1,290	44,939
Net cash provided by operating activities	<u>1,093,185</u>	<u>1,475,219</u>	<u>1,344,807</u>
Cash flows from investing activities:			
Capital expenditures, net of related payables	(1,103,421)	(1,500,862)	(1,049,345)
Investments in associated companies	<u>(15,626)</u>	<u>(2,477)</u>	<u>(17,936)</u>
Net cash used in investing activities	<u>(1,119,047)</u>	<u>(1,503,339)</u>	<u>(1,067,281)</u>
Cash flows from financing activities:			
Proceeds from borrowings	165,355	50,263	67,088
Short-term loans payable to Parent Company	—	906,242	270,479
Distribution to Parent Company	(998,854)	(1,317,236)	(1,314,434)
(Distribution to) contribution from minority interests	(9,036)	(7,497)	972
Contribution from Parent Company	859,574	517,845	211,111
Due to affiliates	148,677	(86,966)	196,313
Long-term loan payable to Parent Company	—	250,490	124,510
Net cash provided by (used in) financing activities	<u>165,716</u>	<u>313,141</u>	<u>(443,961)</u>
Net increase (decrease) in cash and cash equivalents	139,854	285,021	(166,435)
Cash and cash equivalents, beginning	<u>163,201</u>	<u>303,055</u>	<u>588,076</u>
Cash and cash equivalents, ending	<u><u>303,055</u></u>	<u><u>588,076</u></u>	<u><u>421,641</u></u>
Supplementary cash flow information:			
Cash paid for — Interest	15,940	81,168	178,790
— Profits taxes	18,078	23,845	18,495

(e) INDUSTRY SEGMENT DATA

The Group operates in the following business segments: railroad businesses, which comprise passenger and freight transport, and other businesses. Other businesses include sales aboard the trains of food, beverages and other merchandise and operating restaurants in major stations. All businesses are conducted in the PRC except for through train operations carried out partly in Hong Kong.

	31st December,		
	1994	1995	
	<i>RMB'000</i>	<i>RMB'000</i>	
Assets			
Railroad businesses	4,618,011	5,430,068	
Other businesses	<u>248,694</u>	<u>306,360</u>	
	<u>4,866,705</u>	<u>5,736,428</u>	
	Year ended 31st December,		
	1993	1994	1995
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenues from railroad businesses			
—passenger	820,068	1,147,868	1,117,328
—freight	<u>546,575</u>	<u>639,380</u>	<u>771,843</u>
	1,366,643	1,787,248	1,889,171
Revenues from other businesses	<u>284,288</u>	<u>336,625</u>	<u>443,055</u>
	<u>1,650,931</u>	<u>2,123,873</u>	<u>2,332,226</u>
Operating profit			
Railroad businesses	963,283	1,164,089	1,186,332
Other businesses	<u>65,346</u>	<u>93,521</u>	<u>99,935</u>
	<u>1,028,629</u>	<u>1,257,610</u>	<u>1,286,267</u>
Capital expenditures			
Railroad businesses	1,099,815	1,486,173	1,042,850
Other businesses	<u>3,606</u>	<u>14,689</u>	<u>6,495</u>
	<u>1,103,421</u>	<u>1,500,862</u>	<u>1,049,345</u>
Depreciation and amortisation			
Railroad businesses	59,951	85,044	126,409
Other businesses	<u>1,883</u>	<u>3,228</u>	<u>4,234</u>
	<u>61,834</u>	<u>88,272</u>	<u>130,643</u>

The following is the text of the letter and summary of valuation received from Vigers Hong Kong Limited, an independent machinery and equipment valuer in connection with its valuation of the machinery and equipment of the Group as at 31st December, 1995:



8th Floor, Chiwan Tower
Park Lane Square II
1-23 Kimberley Road
Tsimshatsui
Kowloon
Hong Kong

6th May, 1996

The Directors
Guangshen Railway Company Limited
Shenzhen
Guangdong Province
The People's Republic of China

Dear Sirs,

In accordance with your instructions to value the machinery, equipment, track and locomotives (the "Machinery") exhibited to us as being that owned by Guangshen Railway Company Limited (the "Company") and its subsidiaries (together referred to as the "Group").

The Company provides railway transportation services between Guangzhou and Shenzhen in the People's Republic of China (the "PRC"). The main railroad extends 144.8 kilometres with 21 freight and passenger stations.

The major plant and equipment of the Company's railway system include generators, cranes, central air conditioning system, high-voltage electricity transmission cables, elevators, tower cranes and other related and ancillary equipment utilised in its railway operation.

Locomotives There are a total of 14 shunting locomotives, 66 high-speed passenger coaches including hard and soft seats and 50 double-decker passenger coaches. The body of locomotives and coaches is welded steel construction and the main locomotives are powered by diesel engine.

Equipment The equipment used in control of the railroad transportation mainly consists of a modern signalling and communication system, automatic blocking system, infra-red track inspection system, electricity and water supply facilities.

Track The Company owns approximately 645 kilometres of track within its two main rail lines from Guangzhou to Shenzhen. A third track was built along a portion of the corridor between Guangzhou and Pinghu and is used primarily by freight trains.

Construction in Progress High Speed Project is the construction of high speed rail line which is constructed with 60 kilogram per metre welded rails for the high-speed trains running at 160 km/hr.

This letter, which forms part of our appraisal report, identifies the Machinery, the scope and nature of our investigation, the premise of the value adopted, the valuation process adopted, and our conclusion of value.

We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair market value of the Machinery on the premise of continued use as at 31st December, 1995.

The Machinery being the subject of this appraisal is located in various locations from Shenzhen to Guangzhou, Guangdong Province, the PRC.

The purpose of this appraisal was to express our opinion of the fair market value of Machinery on the premise of continued use as at 31st December, 1995.

Fair market value is defined as the estimated amount at which the Machinery might be expected to be sold by a willing buyer to a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both.

Continued use assumes the Machinery will be used for the purpose for which the Machinery was designed and built, or to which it is currently adapted. An estimate of fair market value arrived at on the premise of continued use does not represent the amount that might be realised from piecemeal disposition of the Machinery in the open market.

The appraisal report comprises:—

- this letter, identifying the Machinery appraised, describing the nature and extent of the investigation, and presenting the conclusion of value;
- an inventory, providing for each major railway system or group of items as identifying description and the appraised fair market value;
- assumptions and limiting conditions; and
- a statement of general service conditions.

We have excluded from this investigation land improvements, improvements to leased property, real estate property and building, licensed vehicles, spare parts, office furniture and equipment, supplies, materials on hand, inventories, company records, and any current or intangible assets that might exist.

At the time of our inspection, the Machinery was found to be generally in good working condition and capable of performing efficiently the purpose for which it was designed and built. There is evidence of a good maintenance programme.

VALUATION METHODOLOGY

In arriving at our opinion of value, we have considered two approaches to value, namely:

The Cost Approach

The cost approach considers the cost to reproduce or replace in new condition the Machinery appraised in accordance with current market prices for similar machinery. Consideration will be given for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. This approach generally furnishes the most reliable indication of value for property without a known used market.

The Market Approach

The market approach considers prices recently paid for similar machinery, with adjustment made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparables. Machinery for which there is established used market may be appraised by this approach.

Before arriving at our opinion of value, we have personally inspected the Machinery, investigated market conditions, and considered:

- cost of new Machinery, with deductions for depreciation, or for loss of value, arising from condition, utility, age, wear and tear, and obsolescence;
- the estimated cost to acquire, or construct new or acquire used Machinery, plus the cost to erect or install such Machinery as an integrated entity;
- the current prices for Machinery in an operational condition, with allowances for freight and installation;
- the extent, character, and utility of the Machinery.

Construction in progress are assets not fully constructed or installed. They have been valued using the recorded cost basis as of the appraisal date.

Any deferred maintenance, physical wear and tear, operating malfunctions, lack of utility, or other observable conditions distinguishing the Machinery from machinery of a like kind in new condition were noted and formed part of our judgement in arriving at the value.

We did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the Machinery is used. It was assumed that prospective earnings would provide a reasonable return on the appraised value of the Machinery plus the value of any assets not included in the appraisal, and adequate net working capital.

Based on the investigation described, it is our opinion that as at 31st December, 1995, the fair market value of the appraised Machinery on the premise of continued use is reasonably represented by the amount of RMB4,451,090,000 (**Renminbi Four Thousand and Four Hundred Fifty One Million and Ninety Thousand Only**). The exchange rate used in respect of the appraisal of the Machinery as at 31st December, 1995 is RMB8.3179 = US\$1, being the relevant exchange rate on that date.

As indicated earlier, this fair market value does not represent the amount that might be realised from piecemeal disposition of the Machinery in the open market or from an alternative use of the Machinery.

For the purpose of this appraisal, we have reviewed the acquisition records and asset listings as well as other related technical specifications and documents supplied to us by the Group. We have relied to a very considerable extent on such records, listings, specifications and documents in arriving at our opinion of value.

We have made no investigation and assume no responsibility for the titles or liabilities against the Machinery appraised.

We hereby certify that we have neither a present nor prospective interest in the appraised Machinery or the value reported.

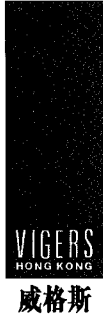
Yours faithfully,
For and on behalf of
VIGERS HONG KONG LIMITED

Raymond Ho Kai Kwong
Registered Professional Surveyor
ARICS AHKIS ASVA
Director

Lee Chin Siak
B.E. (Mech), MAE (Ord)
ASME CSME EIC
Plant & Machinery Estimator &
Consultant

SUMMARY OF VALUATION

Item	Fair market value for continued use as at 31st December, 1995
	RMB
1. High speed and third track	3,190,660,000
2. Locomotives and coaches	264,770,000
3. Machinery and equipment, motor vehicles and facilities	385,240,000
4. Construction in progress (High Speed Project)	610,420,000
Total :	<u>4,451,090,000</u>



8th Floor, Chiwan Tower
Park Lane Square II
1-23 Kimberley Road
Tsimshatsui
Kowloon
Hong Kong

6th May, 1996

The Directors
Guangshen Railway Company Limited
Shenzhen
Guangdong Province
The People's Republic of China

Dear Sirs,

In accordance with your instructions, we have reviewed our valuation of the machinery and equipment presented to us as being owned by Guangshen Railway Company Limited (the "Company") and its subsidiaries (together referred to as the "Group") as at 31st December, 1995 and reported on by us in a report dated 6th May, 1996.

Based on such enquiries of the Group as we have considered necessary, we are of the opinion that there has been no material adverse change to the valuation of the machinery and equipment of the Group during the period from 31st December, 1995 to 29th February, 1996.

Yours faithfully,
For and on behalf of
VIGERS HONG KONG LIMITED

Raymond Ho Kai Kwong
Registered Professional Surveyor
ARICS AHKIS ASVA
Director

Lee Chin Siak
B.E. (Mech), MAE (Ord)
ASME CSME EIC
Plant & Machinery Estimator &
Consultant

The following is the text of the letter and valuation certificate received from Vigers Hong Kong Limited, an independent property valuer in connection with its valuation of the property interests of the Group as at 31st December, 1995:



8th Floor, Chiwan Tower
Park Lane Square II
1-23 Kimberley Road
Tsimshatsui
Kowloon
Hong Kong

6th May, 1996

The Directors
Guangshen Railway Company Limited
Shenzhen
Guangdong Province
The People's Republic of China

Dear Sirs,

In accordance with your instructions for us to value the property interests owned by Guangshen Railway Company Limited (the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such interests as at 31st December, 1995.

Our valuation of such property interests is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation; and

(d) that no account is taken of any additional bid by a purchaser with a special interest.”

In our valuation, we have adopted a combination of the market and depreciated replacement cost approaches in assessing the land portion of the properties and the buildings and structures standing on the land respectively. Hence, the sum of the two results represents the market value of the properties as a whole. In the valuation of the land portions, reference has been made to the standard land price in Guangdong Province determined by the Guangdong Province Land Bureau and the sales evidence as available to us in the locality. Due to the nature of buildings and structures, there are no readily identifiable market sales comparables, and the buildings and structures cannot be valued on the basis of open market value. They have therefore been valued on the basis of their depreciated replacement cost. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

For property in Group II which is under construction as at the date of valuation, it has been valued on the basis of current development cost level prevailing in the locality and state of construction.

Our valuation has been made on the assumption that the owner sells the relevant property interests in their continued use on the open market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to increase the values of such interests. In addition, no forced sale situation in any manner is assumed in our valuation.

Continued use assumes the property will be used for the purpose for which the property is designed and built, or to which it is currently adapted. The valuation of the property in continued use does not represent the amount that might be realized from piecemeal disposition of the property in the open market.

In valuing the interests in these properties, we have assumed that the Group has a free and uninterrupted right to use such properties for the whole of the unexpired term as granted. Further, we have valued them on the assumption that they are freely disposable and transferable for their existing uses to third parties in the open market without payment of any premium to the PRC government.

In the course of our valuation, we have assumed that the land use right of each property is transferable and that unless otherwise stated, any premium payable has already been fully paid. We believe that the assumptions so made by us are reasonable in the circumstances. We have also assumed that all consents, approvals and licences from relevant government authorities for the properties under development have been granted without any onerous conditions or undue time delay which might affect their values. In undertaking our valuation, we have taken into account

the legal opinions provided by the Group's legal adviser on PRC law (the "PRC Legal Opinion") and while we have exercised our professional judgement in arriving at our opinion of value, investors are urged carefully to consider the nature of such assumptions and should exercise extreme caution in interpreting the valuation certificate.

We have not searched the title of the properties in the PRC nor have we scrutinised the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us.

From the PRC Legal Opinion, we understand that the status of title, grant of major approvals, licences and documents of the properties are as follows:—

<u>Document/Approval</u>	<u>Property No.</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
(a) Land Use Rights Certificate	Yes	No	Yes	Yes
(b) Red-line Drawing	Yes	No	Yes	Yes
(c) Certificate of Title	N/A	Yes	N/A	Yes

N/A: Not applicable

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have inspected the exterior and, where possible, the interior of all the properties included in the attached valuation certificate. However, no structural survey has been made and we are therefore unable to report as to whether the properties are or are not free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

Having perused all relevant documentation, we relied to a very considerable extent on the information provided by the Group and have accepted advice given to us by the Group on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, construction costs, rentals, site and floor areas and in the identification of those properties in which the Group has valid interests. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material factors have been omitted from the information provided, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Unless otherwise stated, all monetary amounts stated are in Renminbi.

We enclose herewith a summary of our valuation and the valuation certificate.

Yours faithfully,
For and on behalf of
VIGERS HONG KONG LIMITED
Raymond Ho Kai Kwong
Registered Professional Surveyor
ARICS AHKIS ASVA
Director

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, ARICS, AHKIS, ASVA has extensive experience in the valuation of properties in Hong Kong and Macau and has over four years' experience in the valuation of properties in the People's Republic of China.

SUMMARY OF VALUATION

<u>Property</u>	<i>Capital value in existing state as at 31st December, 1995</i>
	<u>RMB</u>
<i>Group I — Properties owned and occupied by the Group in the PRC</i>	
1. Various properties situated in Shenzhen Section Shenzhen Guangdong Province	458,780,000
2. Various properties situated in Dongguan Section Dongguan Guangdong Province	257,600,000
3. Various properties situated in Zencheng Section Zencheng Guangdong Province	152,840,000
4. Various properties situated in Guangzhou Section Guangzhou Guangdong Province	448,627,000
Sub-Total:	<u>1,317,847,000</u>
<i>Group II — Property held by the Group under construction in the PRC</i>	
5. Various properties situated along the Guangshen Railway Guangdong Province	563,500,000
Total:	<u>1,881,347,000</u>

VALUATION CERTIFICATE

Group I—Properties owned and occupied by the Group in the PRC

<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 31st December, 1995</u>								
1. Various properties situated in Shenzhen Section, Shenzhen, Guangdong Province.	<p>The property comprises 10 lots with a total site area of approximately 1,453,086.90 sq.m. located in the area between Shenzhen, Shenzhen North, Buji, Mugu and Pinghu (“Shenzhen Section”).</p> <p>At present, 5 train stations, track, warehouses, freight yards and ancillary facilities are erected on the land. The total gross floor area (“G.F.A.”) of the buildings, structures and ancillary facilities is approximately 358,000 sq.m. and the breakdown is as follows:—</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th></th> <th><u>G.F.A. (sq.m.)</u></th> </tr> </thead> <tbody> <tr> <td>Stations</td> <td>118,838</td> </tr> <tr> <td>Warehouses</td> <td>70,565</td> </tr> <tr> <td>Other ancillary facilities</td> <td>168,597</td> </tr> </tbody> </table> <p>The buildings, structures and ancillary facilities were completed on various dates between 1951 to 1995.</p>		<u>G.F.A. (sq.m.)</u>	Stations	118,838	Warehouses	70,565	Other ancillary facilities	168,597	The property is occupied by the Group as train stations, warehouses, freight yards and ancillary facilities.	RMB 458,780,000
	<u>G.F.A. (sq.m.)</u>										
Stations	118,838										
Warehouses	70,565										
Other ancillary facilities	168,597										

Notes:

1. The property comprises the following lots:—

<u>Lot No.</u>	<u>Location</u>	<u>Site Area (sq.m.)</u>	<u>Land Use Rights Certificate No.</u>	<u>Land Use Rights Term</u>
S-1	Guanlan	98,541.80	深房地字第7207138號	50 years
S-2	Pinghu	258,485.32	深房地字第1000841號	50 years
S-3	Buji	735,818.28	深房地字第1000841號	50 years
S-4	Track Line between Buji and Shenzhen North Station	106,937.70	深房地字第0219921號 ; 0219922號 ; 0219923號	36.5 years
S-5	Shenzhen North Station	201,942.70	深房地字第0219924號	36.5 years
S-6	Sungang South Water/Electricity Station	4,521.00	深房地字第0031391號	50 years
S-7	Shenzhen Station	39,290.80	深房地字第0219926號 ; 0219925號 ; 0219920號	36.5 years
S-8	Heping Road Composite Regulatory Building	2,061.00	深房地字第4202051號	36.5 years
S-9	Shuita Gong An Building	4,324.60	深房地字第4202050號	38.5 years
S-10	Tiexin Building	1,163.70	深房地字第4202058號	45.5 years
TOTAL:		1,453,086.90		

2. Pursuant to the aforesaid Land Use Rights Certificates issued by the Shenzhen City Land Administration Bureau, the land use rights for terms of 36.5 years to 50 years commencing from August, September and October, 1995 respectively were granted to Guangzhou Railway (Group) Company (“GRGC”) for “industrial” uses.

According to the PRC Legal Opinion, the property is transferred from GRGC (the Parent Company) to the Company at the date when the Company is established on 6th March, 1996 by way of capital injection and there is no need for the Company to pay any land premium.

The PRC Legal Opinion also stated that the process of transferring the land use rights from GRGC to the Company is in the process of application to the relevant land management authorities. Accordingly, our valuation has been conducted under the assumption that the change

of the name of owner within the land use rights certificates from GRGC to the Company is under application to the relevant land management authorities and expected to be issued to the Company within a reasonable time.

3. According to the PRC Legal Opinion, the status of title, grant of major approvals, licences and documents of the property are as follows:

- | | |
|---------------------------------|-----|
| (a) Land Use Rights Certificate | Yes |
| (b) Red-line Drawing | Yes |
| (c) Certificate of Title | N/A |

4. According to the PRC Legal Opinion, the Company has the right to occupy, use, transfer, lease and mortgage the property amongst other legal economic activities.

5. The capital value of the land and the buildings and structures of the property in their existing state as at 31st December, 1995 was RMB86,500,000 and RMB372,280,000 respectively.

6. In arriving at the open market value for continued existing use of the subject property, we have taken into account site works such as roads, fencing and reticulation of services, including drainage.

<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 31st December, 1995</u>								
2. Various properties situated in Dongguan Section, Dongguan, Guangdong Province.	<p>The property comprises 8 lots with a total site area of approximately 3,292,852.03 sq.m. located in the area between Tiantangwei, Tangtonxia, Zhangmutou, Changping, Hengli, Chashan and Shilong (“Dongguan Section”).</p> <p>At present, 9 train stations, track, warehouses, freight yards and ancillary facilities are erected on the land. The total gross floor area (“G.F.A.”) of the buildings, structures and ancillary facilities is approximately 417,000 sq.m. and the breakdown is as follows:—</p> <table border="1" data-bbox="478 1212 813 1415"> <thead> <tr> <th></th> <th><u>G.F.A.(sq.m.)</u></th> </tr> </thead> <tbody> <tr> <td>Stations</td> <td>32,767</td> </tr> <tr> <td>Warehouses</td> <td>50,187</td> </tr> <tr> <td>Other ancillary facilities</td> <td>334,046</td> </tr> </tbody> </table> <p>The buildings, structures and ancillary facilities were completed on various dates between 1958 to 1995.</p>		<u>G.F.A.(sq.m.)</u>	Stations	32,767	Warehouses	50,187	Other ancillary facilities	334,046	The property is occupied by the Group as train stations, warehouses, freight yards and ancillary facilities.	RMB257,600,000
	<u>G.F.A.(sq.m.)</u>										
Stations	32,767										
Warehouses	50,187										
Other ancillary facilities	334,046										

Notes:

1. The property comprises the following lots:—

<u>Lot No.</u>	<u>Location</u>	<u>Site Area (sq.m.)</u>	<u>Certificate of Title</u>	<u>Land Use Rights Term</u>
D-1	Shilong	229,077.67	東國土字 (1995) 20號	50 years
D-2	Chashan	550,855.68	東國土字 (1995) 20號	50 years
D-3	Hengli	344,532.00	東國土字 (1995) 20號	50 years
D-4	Changping	639,292.34	東國土字 (1995) 20號	50 years
D-5	Huangjiang	167,359.33	東國土字 (1995) 20號	50 years
D-6	Zhangmutou	665,158.01	東國土字 (1995) 20號	50 years
D-7	Tangxia	627,820.00	東國土字 (1995) 20號	50 years
D-8	Fenggang	68,757.00	東國土字 (1995) 20號	50 years
	TOTAL:	3,292,852.03		

2. Pursuant to the aforesaid Certificate of Title issued by the Dongguan City Land Administration Bureau, the land use rights for a term of 50 years was granted to Guangzhou Railway (Group) Company (“GRGC”) for “industrial” uses.

According to the PRC Legal Opinion, the property is transferred from GRGC (the Parent Company) to the Company at the date when the Company is established on 6th March, 1996 by way of capital injection and there is no need for the Company to pay any land premium.

The PRC Legal Opinion also stated that the process of transferring the land use rights from GRGC to the Company is in the process of application to the relevant land management authorities. Accordingly, our valuation has been conducted under the assumption that the change of the name of owner within the land use rights certificate from GRGC to the Company is under application to the relevant land management authorities and expected to be issued to the Company within a reasonable time.

3. According to the PRC Legal Opinion, the status of title, grant of major approvals, licences and documents of the property are as follows:

(a) Land Use Rights Certificate	No
(b) Red-line Drawing	No
(c) Certificate of Title	Yes

4. According to the PRC Legal Opinion, the Company has the right to occupy, use, transfer, lease and mortgage the property amongst other legal economic activities.

5. The capital value of the land and the buildings and structures of the property in their existing state as at 31st December, 1995 was RMB168,890,000 and RMB88,710,000 respectively.

6. In arriving at the open market value for continued existing use of the subject property, we have taken into account site works such as roads, fencing and reticulation of services, including drainage.

<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of occupancy</u>	<i>Capital value in existing state as at 31st December, 1995</i>								
3. Various properties situated in Zencheng Section, Zencheng, Guangdong Province.	<p>The property comprises 6 lots with a total site area of approximately 2,768,111 sq.m. located in the area between Shitan, Xiancun and Xintang (“Zencheng Section”).</p> <p>At present, 3 train stations, track, warehouses, freight yards and ancillary facilities are erected on the land. The total gross floor area (“G.F.A.”) of the buildings, structures and ancillary facilities is approximately 38,000 sq.m. and the breakdown is as follows:—</p> <table border="1" data-bbox="494 1083 829 1287"> <thead> <tr> <th></th> <th><u>G.F.A. (sq.m.)</u></th> </tr> </thead> <tbody> <tr> <td>Stations</td> <td>6,898</td> </tr> <tr> <td>Warehouses</td> <td>211</td> </tr> <tr> <td>Other ancillary facilities</td> <td>30,891</td> </tr> </tbody> </table> <p>The buildings, structures and ancillary facilities were completed on various dates between 1964 to 1995.</p>		<u>G.F.A. (sq.m.)</u>	Stations	6,898	Warehouses	211	Other ancillary facilities	30,891	The property is occupied by the Group as train stations, warehouses, freight yards and ancillary facilities.	RMB152,840,000
	<u>G.F.A. (sq.m.)</u>										
Stations	6,898										
Warehouses	211										
Other ancillary facilities	30,891										

Notes:

1. The property comprises the following lots:—

<u>Lot No.</u>	<u>Location</u>	<u>Site Area (sq.m.)</u>	<u>Land Use Rights Certificate No.</u>	<u>Land Use Rights Term</u>
Z-1	Xintang	778,291.20	增國用(1988)字第0025973號 ; 01250204073號	50 years
Z-2	Yonghe	65,527.00	增國用(1988)字第0023837號	50 years
Z-3	Shapu	240,312.30	增國用(1988)字第0024382號 ; 01251500412號	50 years
Z-4	Xiancon	460,803.30	增國用(1988)字第0025432號 ; 01250301627號	50 years
Z-5	Shitan	623,088.60	增國用(1988)字第0025669號 ; 01250400669號	50 years
Z-6	Sanjiang	600,088.60	增國用(1988)字第0016069號 ; 01250500169號	50 years
TOTAL:		2,768,111.00		

2. Pursuant to the aforesaid Land Use Rights Certificates issued by the Zencheng City Land Administration Bureau, the land use rights for a term of 50 years commencing from May, 1995 was granted to Guangzhou Railway (Group) Company (“GRGC”) for “industrial” uses.

According to the PRC Legal Opinion, the property is transferred from GRGC (the Parent Company) to the Company at the date when the Company is established on 6th March, 1996 by way of capital injection and there is no need for the Company to pay any land premium.

The PRC Legal Opinion also stated that the process of transferring the land use rights from GRGC to the Company is in the process of application to the relevant land management authorities. Accordingly, our valuation has been conducted under the assumption that the change of the name of owner within the land use rights certificates from GRGC to the Company is under application to the relevant land management authorities and expected to be issued to the Company within a reasonable time.

3. According to the PRC Legal Opinion, the status of title, grant of major approvals, licences and documents of the property are as follows:

- | | |
|---------------------------------|-----|
| (a) Land Use Rights Certificate | Yes |
| (b) Red-line Drawing | Yes |
| (c) Certificate of Title | N/A |

4. According to the PRC Legal Opinion, the Company has the right to occupy, use, transfer, lease and mortgage the property amongst other legal economic activities.

5. The capital value of the land and the buildings and structures of the property in their existing state as at 31st December, 1995 was RMB141,680,000 and RMB11,160,000 respectively.

6. In arriving at the open market value for continued existing use of the subject property, we have taken into account site works such as roads, fencing and reticulation of services, including drainage.

<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 31st December, 1995</u>
4. Various properties situated in Guangzhou Section, Guangzhou, Guangzhou Province.	The property comprises 17 lots with a total site area of approximately 3,656,339.40 sq.m. located in the area between Nangang, Xiayuan, Jishan, Shipai, Guangzhou East and Guangzhou (“Guangzhou Section”).	The property is occupied by the Group as train stations, warehouses, freight yards and ancillary facilities.	RMB448,627,000
	At present, 5 train stations, track, warehouses, freight yards and ancillary facilities are erected on the land. The total gross floor area (“G. F. A.”) of the buildings, structures and ancillary facilities is approximately 230,000 sq. m. and the breakdown is as follows:—		
		<u>G. F. A. (sq.m.)</u>	
	Stations	31,719	
	Warehouses	21,630	
	Other ancillary facilities	176,651	
	The buildings, structures and ancillary facilities were completed on various dates between 1947 to 1993.		

Notes:

1. The property comprises the following lots:—

<i>Lot No.</i>	<i>Location</i>	<i>Site Area (sq.m.)</i>	<i>Certificate of Title/ Land Use Rights Certificate No.</i>	<i>Land Use Rights Term</i>
G-1	Taojinkeng	139,584.500	穗房地証字第74520號	50 years
G-2	Yongfuqiao	52,888.600	穗房地証字第81215號	50 years
G-3	Tianhe Lianguanxi Freight Yard	148,207.250	穗房地証字第135039號	50 years
G-4	Tianhe Station	424,312.650	穗房地証字第82451號	50 years
G-5	Shipai Station Section	806,852.595	穗房地証字第165312號	50 years
G-6	Tianhe Station to Shipai Station	54,747.000	Certificate of Title issued by Land Bureau of Tianhe District	50 years
G-7	Shipai Station to Jishan Station	177,070.000	Certificate of Title issued by Land Bureau of Tianhe District	50 years
G-8	Jishan West Section	243,565.080	穗房地証字第82454號	50 years
G-9	Jishan Sub-Section	31,278.546	穗房地証字第162944號	50 years
G-10	Jishan Dangenous Goods Warehouse Sub-Section	78,375.830	穗房地証字第78241號 ; 012750號	50 years
G-11	Jishan Station	180,819.064	穗房地証字第81235號	50 years
G-12	Jishan to Xiayuan	262,570.760	穗房地証字第162941號	50 years
G-13	Xiayuan Station	501,257.190	穗房地証字第162873號	50 years
G-14	Nangang Station	351,046.445	穗房地証字第75932號	50 years
G-15	Jishan to Huangpu	100,218.000	穗房地証字第165333號	50 years
G-16	Huangpu Station	75,702.750	穗房地証字第162930號	50 years
G-17	Huangpu Xieshan	27,843.150	穗房地証字第162896號	50 years
TOTAL:		3,656,339.400		

2. Pursuant to the aforesaid Land Use Rights Certificates and Certificates of Title issued by the Guangzhou City Land Administration Bureau, the land use rights for a term of 50 years was granted to Guangzhou Railway (Group) Company (“GRGC”) for “industrial” uses.

According to the PRC Legal Opinion, the property is transferred from GRGC (the Parent Company) to the Company at the date when the Company is established on 6th March, 1996 by way of capital injection and there is no need for the Company to pay any land premium.

The PRC Legal Opinion also stated that the process of transferring the land use rights from GRGC to the Company is in the process of application to the relevant land management

authorities. Accordingly, our valuation has been conducted under the assumption that the change of the name of owner within the land use rights certificates from GRGC to the Company is under application to the relevant land management authorities and expected to be issued to the Company within a reasonable time.

3. According to the PRC Legal Opinion, the status of title, grant of major approvals, licences and documents of the property are as follows:

- | | |
|---------------------------------|-----|
| (a) Land Use Rights Certificate | Yes |
| (b) Red-line Drawing | Yes |
| (c) Certificate of Title | Yes |

4. According to the PRC Legal Opinion, the Company has the right to occupy, use, transfer, lease and mortgage the property amongst other legal economic activities.

5. The capital value of the land and the buildings and structures of the property in their existing state as at 31st December, 1995 was RMB372,657,000 and RMB75,970,000 respectively.

6. In arriving at the open market value for continued existing use of the subject property, we have taken into account site works such as roads, fencing and reticulation of services, including drainage.

Group II—Property held by the Group under construction in the PRC

<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 31st December, 1995</u>
5. Various properties situated along the Guangshen Railway Guangdong Province	<p>The property comprises certain buildings and structures which will be erected at various locations along the Guangshen Railway mainly for ancillary facilities.</p> <p>The main building of the property is the “Guangzhou East Station”. It will become the hub for service between Guangzhou and Shenzhen. It will have a total gross floor area of approximately 141,896 sq.m. upon completion. It is expected to be completed in the second half of 1996. The Station has been partially operational since 1995.</p>	The property is currently under construction.	RMB563,500,000

Notes:

1. The property is valued on the basis of current development cost level prevailing in the locality and state of construction.
2. It is assumed that the construction will be completed within a normal construction period.



8th Floor, Chiwan Tower
Park Lane Square II
1-23 Kimberley Road
Tsimshatsui
Kowloon
Hong Kong

6th May, 1996

The Directors
Guangshen Railway Company Limited
Shenzhen
Guangdong Province
The People's Republic of China

Dear Sirs,

In accordance with your instructions, we have reviewed our valuation of the property interests presented to us as being owned by Guangshen Railway Company Limited (the "Company") and its subsidiaries (together referred to as the "Group") as at 31st December, 1995 and reported by us in a report dated 6th May, 1996.

Based on such enquires of the Group as we have considered necessary, we are of the opinion that as of 29th February, 1996, the open market value of the property interests of the Group has increased by approximately RMB32,500,000. Such change of value is attributable to the continuation of construction works on certain properties. There has been no material adverse change to the valuation of other property interests of the Group during the period from 31st December, 1995 to 29th February, 1996.

Yours faithfully,
For and on behalf of
VIGERS HONG KONG LIMITED
Raymond Ho Kai Kwong
Registered Professional Surveyor
ARICS AHKIS ASVA
Director

The forecast of the combined profit after taxation and minority interests of the Company for the year ending 31st December, 1996 is set out under "Profit forecast and dividend policy" in the section "Particulars of the Company" above.

BASES

The Company was established on 6th March, 1996. The Board of Directors has prepared the forecast of the combined profit after taxation and minority interests of the Company for the year ending 31st December, 1996. The forecast has been prepared based on the results as shown by the unaudited management accounts of the Company for the two months ended 29th February, 1996 and a forecast of the results of the Company and its subsidiaries for the remaining ten months of the year ending 31st December, 1996. The Board of Directors does not foresee any extraordinary item which has arisen or is likely to arise during the year ending 31st December, 1996. The Board of Directors does not expect that the Company's profit for the year ending 31st December, 1996 will be materially different from the pro forma profit for the year ended 31st December, 1995. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those adopted by the Company as set out in the Accountants' Report contained in Appendix I.

The Directors have adopted the following principal assumptions in the preparation of the profit forecast:

- (1) there will be no material changes in existing laws, policies or industry or regulatory treatment relating to the Company, or in the political, economic or market conditions in which the Company operates;
- (2) there will be no material delay as a result of factors beyond the control of the Company in the introduction of high speed service;
- (3) there will be no extraordinary disasters, natural, political or otherwise, which would materially disrupt the business or operations of the Company or cause substantial loss, damage or destruction to its property or facilities;
- (4) inflation, interest rates and Renminbi exchange rates will not differ materially from those prevailing as of the date of this Prospectus; and
- (5) apart from the changes in bases and rates of taxation as disclosed in the Accountants' Report, there will be no material changes in the bases or rates of taxation applicable to the Company and its subsidiaries.

(B) LETTERS

Set out below are texts of the letters received by the Directors from Arthur Andersen & Co., the independent reporting accountants of the Company and from Bear Stearns Asia Limited, China Development Finance Co., (H.K.) Ltd. and ABN AMRO HG Asia Limited in connection with the profit forecast of the Group for the year ending 31st December, 1996.

**ARTHUR
ANDERSEN**

Arthur Andersen & Co.
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

6th May, 1996

The Directors
Guangshen Railway Company Limited
Bear, Stearns & Co. Inc.
Bear Stearns Asia Limited
China Development Finance Co., (H.K.) Ltd.
ABN AMRO HG Asia Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the combined profit after taxation and minority interests but before extraordinary items of Guangshen Railway Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31st December, 1996 (the "Forecast"), for which the directors of the Company are solely responsible, as set out in the prospectus of the Company dated 6th May, 1996 (the "Prospectus"). The Forecast has been prepared by the directors of the Company based on the unaudited management accounts of the Group for the two-month period ended 29th February, 1996 and a forecast of the results of the Group for the remaining ten months of the year ending 31st December, 1996.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in Appendix V of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in our accountants' report dated 6th May, 1996, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,
ARTHUR ANDERSEN & CO.
Certified Public Accountants
Hong Kong

Bear Stearns Asia Limited
26th Floor
Citibank Tower
3 Garden Road
Central
Hong Kong

**China Development Finance
Co., (H.K.) Ltd.**
10th Floor, Bank of China
Tower
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ABN AMRO HG Asia Limited
31st Floor, Edinburgh Tower
The Landmark
Central, Hong Kong

6th May, 1996

The Directors
Guangshen Railway Company Limited
No. 75 Heping Road
Shenzhen City
PRC

Dear Sirs,

We refer to the forecast of the combined profit after taxation and minority interests but before extraordinary items of Guangshen Railway Company Limited and its subsidiaries (together the "Company") for the year ended 31st December, 1996 (the "forecast") as set out in the prospectus of the Company dated 6th May, 1996.

We have discussed with you the bases and assumptions upon which the estimate has been made. We have also considered the letter dated 6th May, 1996 addressed to you from Arthur Andersen & Co. regarding the accounting policies and calculations upon which the estimate has been made.

On the basis of the foregoing, the bases and assumptions made by you and the accounting policies and calculations reviewed by Arthur Andersen & Co., we have formed the opinion that the forecast, for which you as directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
BEAR STEARNS ASIA LIMITED
Donald W. Tang
Senior Managing Director

Yours faithfully,
For and on behalf of
**CHINA DEVELOPMENT
FINANCE CO., (H.K.) LTD.**
Rowena See Wai Ng
Associate Director

Yours faithfully,
For and on behalf of
ABN AMRO HG ASIA LIMITED
Louis F. S. Koo
Director

Area and population

The PRC is the third largest country in the world in terms of land area. It has a territory of approximately 9.6 million square kilometres (5.97 million square miles).

The PRC is also the most populous country in the world with a population at the end of 1994 of 1.2 billion, representing about one-fifth of the world's population. The population is unevenly distributed, being very dense in the east, particularly in the nine eastern coastal provinces and municipalities. The western part of the PRC is sparsely populated. Xinjiang, Tibet, Inner Mongolia and Ningxia autonomous regions and Qinghai and Gansu provinces make up to about one half of the total land area of the PRC but contain only 6.0% of the population with an average of less than 16 people per square kilometre.

The PRC is becoming increasingly urbanized. In 1949, the PRC urban population accounted for only 11% of the total population. At the end of 1994, about 28.6% of the population (that is, more than 340 million people) lived in the cities.

Political overview

The structure of the PRC political system is organised on the basis of the PRC Constitution. The structure consists of the PRC National People's Congress (the "NPC"), which is the highest organ and law-making body under the PRC Constitution, and the State Council, which is the highest executive and administrative organ of the laws and decisions made by the NPC.

All state organs derive official authority from the PRC Constitutions and other laws. The principal powers of the NPC include amending and enacting the PRC Constitution, promulgating and reviewing China's national laws and other regulations, appointing and removing the Premier and other members of the State Council, the President of the Supreme People's Court, the Procurator General of the Supreme People's Procuratorate, and the President and Vice-President of the PRC and approving national, social and economic plans. The NPC represents the highest level of state power. Delegates to the NPC come from the various provinces, regions, municipalities and armed force units and hold five year terms. The NPC meets annually with the Standing Committee of the NPC exercising state power when the NPC is not in session.

While the NPC is the highest policy and law-making body, the State Council is the highest executive organ of the state. The Premier of the State Council is appointed by the NPC. The State Council is responsible for the supervision and coordination of all ministries and commissions at the state level, as well as, all administrative agencies at the local level. It prepares and supervises the implementation of the State Plan and budget. There are 38 ministries and commissions together with the State Council General Office, People's Bank of China and the State Auditing Administration which are currently under the authority of the State Council.

The Chinese Communist Party ("CCP") plays a leading role in formulating policy and selecting and providing personnel at all levels of the State structure.

Administratively, the PRC is divided into 23 provinces (which includes Taiwan), three municipalities (Beijing, Shanghai and Tianjin) and five autonomous regions. At the local level, administrative entities derive their authority from, and are accountable to, the People's Congresses at the provincial and municipal levels.

Economic overview

Economic structure

The PRC's economy currently comprises four major sectors: state-owned enterprises, collectively-owned enterprises, individually-owned enterprises and other enterprises including enterprises with foreign capital. Although the proportion of industrial output attributable to state-owned enterprises has been decreasing, state-owned enterprises still play a leading role in the economy. In 1994, state-owned enterprises accounted for approximately 34% of the PRC's output while enterprises owned by collectives and individuals accounted for approximately 41% and 12% respectively. The fastest growing sector of the economy is other types of enterprises, including enterprises with foreign capital, which accounted for 14% of the total industrial output in 1994, representing an increase of approximately 33.3% over 1993 figures.

The PRC Government relies predominantly on taxes collected from state-owned enterprises for its revenues. These enterprises dominate major industrial sectors such as energy and raw materials, heavy industries, transport and communications. Because of their inefficiency and the large drain on the state budget from subsidies to them, there have been demands for state-owned enterprises to be placed under greater financial discipline. One of the goals of recent management and other reforms is to reduce state subsidies to loss-making state-owned enterprises so that they will assume greater responsibility for their own profits and losses.

One of the important recent reforms has been the conversion of selected state-owned enterprises into limited liability shareholding companies and the issue of shares to public and private investors (including employees). A significant number of these state-owned enterprises have, after being converted into limited liability shareholding companies, been granted approval to list on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, the two emerging stock markets in the PRC. Efforts have been made to attract more investment in and improve efficiency of state-owned enterprises. Moreover, merger has served as a major way to relieve state-owned enterprises' liabilities.

Collectively-owned enterprises are mostly located in rural areas and concentrated in industries with lower demands for capital and technology or with greater consumer orientation. Collectively-owned enterprises are not subject to strict control, but are only under the guidance of the State Plan. This allows them more operational flexibility than state-owned enterprises, but entitles them to fewer state subsidies. In 1994, collectively-owned enterprises accounted for approximately 41% of total Industrial Production Value in the PRC.

Individually-owned enterprises are typically family-run small businesses. Individually-owned and other enterprises generally engage in service industries or retail businesses and are not covered by the State Plan.

Economic plans and development

The development of the PRC's economy has been characterised by the adoption, since 1953, of Five-Year Plans. Implementation of the plans is carried out under the supervision of the State Planning Commission, which reports directly to the State Council. The ninth Five-Year Plan for national, economic and social development for 1996-2000, along with a fifteen-year strategic plan which extends to 2010, was adopted on 28th September, 1995, by the Standing Committee of the NPC.

The Plan calls for the continued transformation of the traditional planned economy into a socialist market economy. With respect to economic development, the four cardinal propositions are: (i) to optimise the industrial structure by concentrating on consolidating the farming sector, readjusting and upgrading the industrial sector and vigorously developing the tertiary industry; (ii) to extensively equip all departments of social production with advanced technology, focusing on renovating large and medium-sized state-owned enterprises, speeding up the national economy and gradually shifting the management of the whole economy from being extensive to intensive; (iii) to devote major efforts to developing science, technology and education so as to improve the general quality of the labour force, train personnel of different levels and categories and narrow the gap between the country's scientific and technological level and the world's advanced level; and (iv) to guide a coordinated economic development between different regions to form several regional economies each with distinct features and promote a rational distribution of the national economy.

The major target raised in the Plan for the years 2000 to 2010 is to double the GNP. No economic growth rate targets are given; instead the government cautiously propose for "a fairly rapid speed" that is "neither slow, nor too high". In addition, the Plan emphasises the further opening of the PRC to the outside world. Under the Plan, foreign-funded enterprises would be given the right to set up their own networks to sell imported products and buy raw materials, goods and services at the same prices local Chinese pay. The Plan also seeks to curb the high pressure of inflation, the shortage of the state financial capacity and weak macro-control ability.

Economic reforms

In 1979, the PRC began implementing an economic reform programme in an effort to revitalise the economy and improve the standard of living. Since that time, the PRC Government's economic policies have allowed for an increasing degree of liberalisation from a centrally-planned economy to a more market-oriented economy. At the fourteenth Party Congress held in October 1992, the Congress called for a "socialist market economy" in which full rein should be given to market forces with the government limiting its role to setting and implementing broad macroeconomic policies. This was later endorsed by the Eighth session of the NPC amending the

Constitution. As part of the economic reforms, managers of enterprises have been granted more decision-making powers and responsibilities in relation to matters such as production, marketing, use of funds, and employment and disciplining of staff.

The PRC Government is also gradually relaxing many of its controls over product prices. Although some products are still controlled and distributed by the PRC Government at planned prices, the range of products subject to planned prices has been substantially reduced, particularly in 1992 and the first half of 1993. Products which are not subject to the State Plan are generally sold at prices determined by market conditions. In addition, a state-owned enterprise which has fulfilled its production obligations under the State Plan may obtain additional raw materials and sell products which it has produced in excess of the State Plan at market prices in both the international and domestic markets.

The following table sets out major economic indicators of the PRC from 1990 to 1994:

		<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Gross national product	% change ⁽¹⁾	3.9	9.5	14.0	13.3	11.6
Agricultural output	% change ⁽¹⁾	7.6	3.7	6.4	7.8	8.6
Industrial output	% change ⁽¹⁾	7.8	14.8	27.5	28.0	26.1
Light industries	% change ⁽¹⁾	9.8	16.8	26.7	32.5	(1.5)
Heavy industries	% change ⁽¹⁾	7.6	19.3	35.5	50.8	3.5
Per capita GNP	% change ⁽¹⁾	2.4	7.8	12.8	12.2	10.2
Gross domestic investment	% of GDP ⁽³⁾	36.6	35.7	38.2	42.1	39.5
Gross domestic savings	% of GDP ⁽³⁾	40.1	38.9	40.0	40.0	40.5
Inflation rate	% change in retail price index ⁽¹⁾	2.1	2.9	5.4	13.2	21.7
Gross industrial output value	% change ⁽¹⁾	7.8	14.8	27.5	28.0	26.1
Merchandise exports	US\$ billion ⁽¹⁾	62.1	71.9	85.0	91.8	121.0
	% change	18.2	15.7	18.2	8.0	32.0
Merchandise imports	US\$ billion ⁽¹⁾	53.4	63.8	80.6	104.0	115.7
	% change	(9.8)	19.6	26.4	29.0	11.0
Trade balance	US\$ billion ⁽¹⁾	8.7	8.1	4.4	(12.2)	5.4
Current account balance	US\$ billion ⁽³⁾	12.0	13.7	6.4	(11.6)	4.4
	% of GDP ⁽³⁾	3.2	3.7	1.4	(2.1)	0.9
External debt outstanding	US\$ billion ⁽³⁾	52.6	60.8	69.2	63.6	100.0
Foreign exchange reserves	US\$ billion ⁽²⁾	11.1	21.7	19.4	21.2	51.6
Debt-service ratio	% ⁽³⁾	11.6	12.0	10.2	10.7	11.3
Exchange rate (end of year)	RMB per US\$ ⁽²⁾	5.2	5.4	5.7	5.8	8.5

Sources:

⁽¹⁾ China Statistical Yearbook 1995

⁽²⁾ International Financial Statistics Yearbook 1995

⁽³⁾ Asian Development Outlook 1995 and 1996

As indicated in the table above, industrial output in the PRC has grown rapidly since 1988. The last decade of economic reform has resulted in a great change in the PRC's industrial pattern. In the first three decades after 1949, the PRC placed great emphasis on heavy industry rather than light industry and as a result the growth rate of heavy industry consistently out-performed that of light industry. In recent years growth in industrial output has become relatively balanced between light industry and heavy industry.

The PRC's economic reform has not been without problems. Overheating of the economy, inflation and stagnation in its basic infrastructure development prompted the government to implement policies to curb inflation from time to time during the 1980s. An austerity policy in 1988, in particular, led to two years of stagnant markets and an economic downswing. Starting in early 1992, boosted by Deng Xiaoping's calls for faster economic development during his visit to southern China, the pace of the PRC's economic reform has accelerated.

The annual inflation rate in 1994 represents an 8.5% increase over that of 1993. This high inflation rate in 1994 can be attributed to a variety of factors, including structural adjustment of prices, high rise of grain, cotton, coal, oil and electricity prices, irregular price rises in circulation process and high cost and demand and an untimely distribution of grains. In order to harness the high pressure of inflation, besides continued control on social capital investment and tighter monetary and financial policies, the major measure is said to be a postponement to the planned price adjustments in the current year. Except for certain grain and cotton procurement and rail transport price increases, other planned adjustments of prices is likely to be delayed. In addition, the central government is likely to strengthen the responsibility system of the localities on inflation control.

Foreign trade

The PRC's foreign trade has grown rapidly since 1978 in both quantity and range. Trading partners now include about 170 countries and regions. From 1978 to 1994, the value of total trade grew from US\$20.6 billion to US\$236.7 billion.

In 1993, the PRC's foreign trade yielded a trade deficit of US\$12.2 billion. Exports reached US\$91.8 billion, representing an increase of 8% over those of 1992, and imports reached US\$104.0 billion, representing an increase of 29%. However, in 1994, the PRC's foreign trade yielded a trade surplus of US\$5.3 billion. Exports reached US\$121.0 billion, representing an increase of 32% over that of 1993, and imports reached US\$115.7 billion, representing an increase of 10%. The PRC currently enjoys Most Favored Nation ("MFN") trading status with the United States which is subject to renewal on an annual basis. The PRC's MFN status means that the PRC maintains those trading privileges enjoyed by all normal trading partners of the United States. The PRC has retained MFN privileges since 1980. Rescission of MFN status would subject PRC exports to the United States to significantly higher tariffs.

Foreign investment

Since 1978, the number of enterprises with foreign investment has increased rapidly in the PRC. By the end of 1994, about 206,096 foreign investment enterprises with an aggregate amount of contracted investment of about US\$491 billion had been established. In 1990, foreign investment enterprises constituted approximately 4.3% of the PRC's total industrial production value. Since 1978, the PRC Government has afforded even greater flexibility to foreign parties in relation to the industries in which investments may be made, access to domestic markets, and management of foreign investment enterprises, including greater latitude in the hiring and dismissal of employees, in setting levels of wages, bonuses and allowances and in purchasing raw materials and marketing products.

Foreign Investment in the PRC from 1979 to 1994
(excluding joint stock limited companies)

	<u>1979-84</u>	<u>1985-89</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Number of contracts	3,248	18,528	7,273	12,978	48,764	83,437	47,549
Contractual value (in US\$ billions)	10.39	23.37	6.60	11.98	58.1	111.4	82.7

Source: State Statistical Bureau of the PRC

Legal system

The legal system of the PRC is based principally on a written constitution and written laws and regulations passed by the NPC, as supplemented by State Council Commission and Ministry level measures, rules, interpretations, procedures and directives. Government departments under the State Council in charge of state planning, economic restructuring, foreign trade and investment, tax, customs and environmental protection in particular have broad powers to establish binding legal rules applicable to all industrial and commercial enterprises. Decided court cases have no generally binding effect, although such cases are used for the purposes of judicial reference and guidance. To date, court decisions have not played a significant role in the interpretation of PRC legislation relating to the economy.

As stated above, the NPC is responsible for enacting national laws in the PRC. The People's Congresses at the provincial and municipal levels have power to promulgate rules and regulations which are effective only within the relevant provinces and municipalities. The State Council, certain government agencies under the State Council and the People's Congresses at the provincial and municipal levels are also vested with the power to promulgate administrative measures, rules, regulations, decisions and directives having legal effect. However, such administrative measures, rules, regulations, decisions and directives must not be in conflict with national laws.

The PRC is still in the course of developing a comprehensive system of laws since its adoption of the economic opening-up policy and reform in 1978. It has promulgated a series of laws and regulations principally on various economic matters and foreign investment in the PRC. Such laws and regulations mainly deal with foreign investments in the PRC, taxation, foreign trade, economic contracts between PRC entities and foreign parties, technology transfer and the protection of certain intellectual property rights. The PRC Constitution was amended in December 1982 and further amended in April 1988 to permit investment by foreign entities and individuals in the PRC and guarantee protection of the lawful rights and interests of foreign investors in the PRC.

In recent years, since the endorsement of the ‘‘socialist market economy’’, the PRC has enacted a series of laws and regulations dealing with the conversion of PRC enterprises, into trial shareholding enterprises, problems relating to the accounting, taxation, management of state assets and land related to such enterprises, the issuance and trading of Renminbi and special Renminbi-denominated shares, and the operation of the two stock exchanges in the PRC.

The judicial system

The PRC judicial system is composed of four levels of court: the Supreme People's Court, the Higher People's Court, the Intermediate People's Court, and the Basic People's Court. The People's Court is established with criminal, civil, and economic tribunals. In addition to these three tribunals, the People's Court may establish other tribunals (such as intellectual property rights tribunals) if necessary. A higher-level People's Court and People's Procuratorate are both responsible for the supervision of a lower-level People's Court. The Supreme People's Court is the highest judicial authority in the PRC judicial system and exercises supervisory power over the various levels of People's Courts. The PRC adopts a two-tier final appeal system for ordinary civil cases. Such cases are first heard by a People's Court of first instance and then subject to appeal to the People's Court of second instance at the next higher level, whose decision is final. However, an application for re-trial may be made to the court of original jurisdiction which delivered the judgement or ruling, or a higher-level court pursuant to the judicial supervisory procedures.

The PRC legal system is based on statutes, and court cases do not constitute binding precedents. The National People's Congress and its standing committee, the Supreme People's Court, the Supreme People's Procuratorate, and the State Council may give opinions on the interpretation of laws and regulations so as to resolve uncertainties and ambiguities. Interpretations made by legislative bodies carry general legal effect. Interpretations made by the Supreme People's Court and the Supreme People's Procuratorate are divided into specific interpretations, which are binding interpretations in respect of specific cases, and general interpretations, which carry general legal effect. Interpretations made by the State Council carry general legal effect but their scope is restricted to administrative rules, regulations, and provisions.

For civil cases, if a party fails to comply with a legally binding judgement, ruling or settlement agreement, the other party to the dispute may apply to the court of original jurisdiction for enforcement. There are time limits imposed on the right to apply for such enforcement. If at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other institutions, the time limit is six months.

Foreign judgements and rulings will be recognised and enforced by the People's Courts, if there is an international treaty or other reciprocal enforcement arrangement between the PRC and the relevant foreign country and the enforcement will not violate the public security, state sovereignty, public interests, or basic principles of law of the PRC.

Arbitration and enforcement of arbitration awards

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Listing Rules, also in a contract between the company and each director or supervisor, to the effect that (i) all disputes between holders of overseas listed foreign shares and the company, its directors, supervisors, managers or officers as well as holders of domestic shares and (ii) all disputes or claims of right raised by such persons according to the rights or obligations existing under the Articles of Association or the PRC Company Law and other relevant laws or administrative regulations concerning the affairs of the company must be referred by them to the China International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Centre ("HKIAC") for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. The arbitration award shall be final and conclusive.

On 31st August, 1994, the Arbitration Law of the People's Republic of China was passed by the Ninth Meeting of the Standing Committee of the Eighth National People's Congress. It was also promulgated by the 31st Order of the Chairman of the State on the same day and became effective on 1st September, 1995. The Arbitration Law provides that it is applicable to trade disputes involving foreign parties and the parties thereto may, pursuant to their arbitration agreement, submit their dispute to arbitration before a foreign-related arbitration committee constituted in accordance with the Arbitration Law. The arbitration rules to be applied by the arbitration committee shall be formulated in accordance with the Arbitration Law and the PRC Civil Procedure Law. Since there is no material difference between the Arbitration Law and the existing PRC legal principles on a foreign-related arbitration and enforcement of foreign-related arbitration awards, the relevant principles set out below will continue to apply after the implementation of the Arbitration Law.

CIETAC is one of the arbitration institutions in the PRC, whose jurisdiction covers foreign related disputes arising from "international economic and trade transactions" where the parties have reached an arbitration agreement selecting CIETAC to be venue of the arbitration.

An award made by CIETAC is final and binding on the parties. Under the PRC Civil Procedure Law and the Arbitration Law, the People's Court shall enforce arbitration awards given by CIETAC unless certain errors or irregularities relating to the jurisdiction, arbitration procedures or composition of the tribunal are proved or if in the view of the People's Court the execution of the award would be contrary to the interests of the public as a whole.

Foreign arbitration awards may be enforced in China in accordance with the PRC Civil Procedure Law provided that the relevant foreign country has entered into an international treaty or other reciprocal enforcement arrangement with China. An application for enforcement shall be submitted to the Intermediate People's Court of the place of domicile of the party subject to execution or the place where his property is located.

In 1987, China acceded to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"). Because Hong Kong participates in the New York Convention by virtue of the United Kingdom being a signatory to the New York Convention, an award by an arbitration organisation in Hong Kong can generally be enforced in the PRC. However, the PRC's accession is subject to the reservations that (i) the PRC will recognise and enforce foreign arbitration awards on the principles of reciprocity, and (ii) the PRC will only abide by the New York Convention in disputes considered to be arising from contractual and non-contractual mercantile legal relations under Chinese laws.

Exchange Control

On 28th December, 1993, the People's Bank of China, authorised by the State Council of the PRC, announced that the dual exchange rate system for Renminbi against foreign currencies would be replaced by an unified exchange rate system, with effect from 1st January, 1994. The PRC's foreign exchange control system has been in a state of flux since that time. Numerous rules and regulations and implementation measures have been issued. To the extent that existing provisions stipulated in previous regulations do not contradict new regulations as mentioned above, the existing regulations should remain valid. Set out below is a summary of these regulations which remain valid and effective:

- (1) Foreign exchange dealings are centralised and administered by the SAEC. Foreign exchange transactions are to be carried out under the approval of SAEC in the PRC through authorised banks and other financial institutions, including certain designated foreign banks.
- (2) PRC residents and foreigners residing in the PRC with foreign exchange incomes may deposit the foreign exchange in banks or sell the foreign exchange to banks.
- (3) Foreign parties to Sino-foreign equity joint ventures, Sino-foreign cooperative joint ventures, foreign investors in wholly foreign-owned enterprises and other foreign enterprises in China are permitted to remit their profits out of the PRC, subject to the availability of foreign exchange.

The People's Bank of China, with authority from the State Council, on 28th December, 1993 issued the PBOC Notice with effect from 1st January, 1994. The PBOC Notice unifies the official Renminbi exchange rate and the market rate for Renminbi established at Swap Centres

throughout the PRC. Under the PBOC Notice, all foreign exchange income of PRC enterprises must be sold to designated banks authorised to deal in foreign exchange. However, enterprises with foreign equity interests and enterprises allowed to have foreign exchange bank accounts are allowed to retain their foreign exchange earnings.

Control on the purchase of foreign exchange is also relaxed. Enterprises which require foreign exchange for their ordinary trading activities may purchase foreign exchange from designated foreign exchange banks if the application is supported by proper import contracts and payment notices. For import activities which require quotas, import licences and registration, foreign exchange may be purchased if the applications are supported by import contracts and the relevant required documents. For non-trading activities, any application for purchase of foreign exchange needs to be supported by payment contracts or payment notices from relevant overseas organisations. According to Article 14 of the Provisional Regulations on the Sale, Purchase and Payment of Foreign Exchange, the payment of dividends to foreign shareholders is one of the activities permitting the purchase of foreign exchange through the banking system.

A unified foreign exchange inter-bank market amongst designated foreign exchange banks has been established, to be supervised and administered by the People's Bank of China through the SAEC.

A single exchange rate system has been set up to replace the official rate and the Swap Centre rate. Based on market conditions and supply and demand and based on the PRC interbank foreign exchange market rate on the previous day, with reference to current exchange rates in the world financial markets, the People's Bank of China announces each day an exchange rate which is to be followed by all designated foreign exchange banks within the permitted range.

Furthermore, foreign investment enterprises may distribute profit to their foreign investors with funds in their foreign exchange bank accounts kept with designated foreign exchange banks. Should such foreign exchange be insufficient, enterprises may apply to the relevant department of the state for permission to purchase foreign exchange from designated foreign exchange banks.

Dividends to holders of H Shares are fixed in Renminbi, but payable in Hong Kong dollars. Pursuant to the Notice Relating to Foreign Exchange Control Matters for Enterprises Listed Overseas, an enterprise listed overseas may, upon SAEC approval, deposit all proceeds from sales of securities overseas in a foreign exchange bank account. Dividends payable to such enterprise's overseas shareholders may, upon SAEC approval, be remitted from such foreign exchange bank account.

The foreign exchange quota system is being phased out and outstanding holdings of foreign exchange quota and other entitlements may still be used to obtain foreign currencies by foreign investment enterprises through Swap Centres which shall continue to operate for an interim period.

The following is a summary of the material tax consequences of the acquisition, ownership and disposition of H Shares or ADSs based on tax laws of the PRC, Hong Kong and the United States currently in force. To the extent that it relates to the current tax laws of the PRC, it is based on the advice of Haiwen & Partners. To the extent that it relates to the current United States federal tax laws, it is based on the advice of Gibson, Dunn & Crutcher. The following summary does not take into account or discuss the tax laws of any country other than the PRC, Hong Kong or the United States, nor does it take into account the individual circumstances of any investor. It does not purport to be a complete technical analysis or an examination of all potential tax effects relevant to a decision to purchase H Shares or ADSs and investors are advised to consult their own tax advisers as to the PRC, Hong Kong, United States or other tax consequences of the acquisition, ownership and disposition of H Shares or ADSs.

TAXATION OF SHAREHOLDERS

The People's Republic of China

Tax on dividends

- (i) For an individual investor.

According to the Provisional Regulations of the PRC Concerning Questions of Taxation on Enterprises Experimenting with the Share System (股份制試點企業有關稅收問題的暫行規定) (the "Provisional Regulations") promulgated on 12th June, 1992, income tax of 20% shall be withheld in accordance with the Individual Income Tax Law of the PRC on dividend payments from such enterprises received by an individual. For a foreign individual not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a PRC withholding tax of 20% unless reduced by an applicable double-taxation treaty. However, on 21st July, 1993 the PRC State Tax Bureau issued a Notice Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (關於外商投資企業，外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知) (the "Tax Notice"), which stipulates that dividends from a PRC company on shares listed on an overseas stock exchange ("Overseas Shares"), such as H Shares (including H Shares represented by ADSs), would not for the time being be subject to PRC withholding tax. The relevant tax authority has thus far not collected withholding tax on dividend payments on Overseas Shares.

The Amendments to the Individual Income Tax Law of the PRC (修改中華人民共和國個人所得稅法的決定) (the "Amendments") were promulgated on 31st October, 1993 and became effective on 1st January, 1994. The Amendments stipulate that any provisions of prior administrative regulations concerning individual income tax which contradict the Amendments shall be superseded by the Amendments. The Amendments and the amended Individual Income Tax Law may be interpreted as meaning that foreign individuals will be subject to a withholding tax on dividends received from a company in the PRC at a rate of 20% unless such income is

specifically exempted from individual income tax by the financial authority of the State Council.

However, in a letter dated 26th July, 1994 to the State Commission for Restructuring the Economic System, the State Securities Commission and the China Securities Regulatory Commission regarding Relevant Tax Issues on Dividends Received by Foreigners who Hold Shares of Listed PRC Companies, the State Tax Bureau reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. In the event this letter is withdrawn, a 20% tax may be withheld on dividends in accordance with the Provisional Regulations, the Amendments, and the Individual Income Tax Law of the PRC. Such withholding tax may be reduced pursuant to an applicable double-taxation treaty.

(ii) For an enterprise.

When a foreign enterprise with no establishment or office in the PRC receives dividends from a company in the PRC, the foreign enterprise is normally subject to a PRC withholding tax of 20% under the Income Tax Law of the PRC Concerning Enterprises with Foreign Investment and Foreign Enterprises. With respect to dividends paid by a company incorporated in the Shenzhen SEZ (such as the Company), the withholding tax rate is 10%.

However, according to the Tax Notice, a foreign enterprise without an establishment in the PRC receiving a dividend payment on Overseas Shares, such as H Shares or ADSs, would temporarily not be subject to withholding tax on such dividend payment.

Capital gains tax

(i) For an individual investor.

Although the Provisions for Implementation of Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法實施細則) (the “Provisions”), issued on 29th January, 1994, stipulated that gains realised on the sale of equity shares by an individual would be subject to income tax at a rate of 20% and empowered the Ministry of Finance to draft detailed tax rules on the mechanism of collecting such tax, the Tax Notice provided that gains realised by holders (both individual and enterprise) of H Shares or ADSs would not for the time being be subject to income tax. In March 1996, the Ministry of Finance and the State Tax Bureau issued the Notice on the Temporary Non-Levy of Individual Income Tax on Gains from Share Transfers (關於股票轉讓所得1996年暫不徵收個人所得稅的通知), providing that individual income tax will not be imposed on gains from the sale of shares in 1996.

(ii) For an enterprise.

A foreign enterprise with no establishment or office in the PRC is generally subject to a

20% tax on capital gains from the sale of shares in a company in the PRC. However, the tax exemption on capital gains enjoyed by foreign enterprises pursuant to the Tax Notice should continue to be valid.

Tax treaties

Foreign enterprises with no establishment in the PRC and individuals not resident in the PRC (“Non-PRC Investors”) who are resident in countries which have entered into double-taxation treaties with the PRC may be entitled to a reduction of any withholding tax imposed on the payment of dividends to foreign investors of the Company. The PRC currently has double-taxation treaties with a number of countries, including Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

The Agreement between the Government of the United States of America and the Government of the People’s Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, together with the related Protocols (the “US-PRC Tax Treaty”) currently limits the rate of PRC withholding tax upon dividends paid by the Company to a United States holder (as defined below) who is a United States resident for purposes of the US-PRC Tax Treaty to 10%. It is uncertain if the US-PRC Tax Treaty exempts from PRC tax the capital gains of a US holder arising from the sale or disposition of H Shares or ADSs. US holders are advised to consult their tax advisors with respect to these matters.

Stamp tax

PRC stamp tax imposed on the transfer of shares of PRC publicly-traded companies under the Provisional Regulations should not apply to the acquisition or disposition by non-PRC Investors of H Shares or ADSs outside of the PRC. The Provisional Regulations of the People’s Republic of China Concerning Stamp Tax (中華人民共和國印花稅暫行條例) effective on 1st July, 1989 provides that PRC stamp tax is imposed only on documents executed or received within the PRC or which should be used within the PRC.

Estate or gift tax

The PRC does not currently impose any estate or gift tax.

HONG KONG

Tax on dividends

No tax will be payable in Hong Kong in respect of dividends paid by the Company.

Profits tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the H Shares). Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax which is currently imposed at the rate of 16.5% on corporations and at a maximum rate of 15% on individuals. Gains from sales of the H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of H Shares. The duty is charged at the rate of HK\$1.50 per HK\$1,000 or part thereof of the consideration for, or (if greater) the value of, the H Shares transferred (i.e., a total of HK\$3 per HK\$1,000 or part thereof is currently payable on a typical sale and purchase transaction of H Shares). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of H Shares.

The withdrawal of H Shares upon the surrender of ADSs, and the issuance of ADSs upon the deposit of H Shares, will also attract the stamp duty charge at the rate described above for sale and purchase transactions unless such withdrawal or deposit does not result in a change in the beneficial ownership of the H Shares under Hong Kong law. The issuance of ADSs upon the deposit of H Shares issued directly to the Depositary or for the account of the Depositary should not attract stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate duty

Estate duty is imposed upon the principal value of property situated in Hong Kong passing on the death of a person. H Shares (including H Shares represented by ADSs) are regarded as property situated in Hong Kong for estate duty purposes. Hong Kong estate duty is imposed on the principal value of a deceased's estate at graduated rates from 6% to 18%. In respect of the estate of persons dying on or after 1st April, 1996, no estate duty is payable where the principal value of the dutiable estate does not exceed HK\$6.5 million; the maximum rate of 18% applies where the principal value exceeds HK\$9.5 million.

United States

The following is a summary of the principal US federal income tax consequences of the

purchase, ownership and disposition of H Shares or ADSs by a US holder (as defined below). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of H Shares or ADSs. In particular, this summary deals only with US holders that will hold H Shares or ADSs as capital assets, and does not address the tax treatment of US holders that may be subject to special tax rules, such as the US tax treatment of holders who (i) are banks, insurance companies, securities dealers, (ii) hold H Shares or ADSs as a position in a “straddle” for tax purposes, (iii) have a “functional currency” that is not the US dollar or (iv) own, directly or indirectly, 10% or more of the voting shares of the Company. The summary is based (i) on the Internal Revenue Code of 1986, as amended (the “Code”), the US-PRC Tax Treaty, judicial decisions, administrative pronouncements, and existing and proposed Treasury regulations as of the date hereof, all of which are subject to change, possibly with retroactive effect, and (ii) in part, on representations by the Depositary, and assumes that each obligation in the Deposit Agreement and any related agreements is performed in accordance with its terms.

Prospective purchasers should consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of H Shares or ADSs in light of their particular circumstances, including the effect of any state, local or other national laws.

General

For US federal income tax purposes a US holder who owns ADSs will be treated as the owner of the underlying H Shares represented thereby. Accordingly, no gain or loss will be recognised upon the exchange of an ADS for such holder’s proportionate interest in the H Shares. A US holder’s tax basis in the withdrawn H Shares will be the same as his tax basis in the ADSs surrendered therefor, and such holder’s holding period in the withdrawn H Shares will include the holding period during which the holder held the surrendered ADS.

United States holders

As used herein, the term US holder means a beneficial owner of H Shares or ADS that is an individual who is a citizen or resident (as defined under US federal income tax law) of the United States, a corporation, partnership or any entity created or organised under the laws of the United States or any state or political subdivision thereof, or an estate or trust that is subject to US federal income taxation without regard to the source of its income.

Tax on dividends

A US holder receiving a distribution with respect to any H Shares or ADSs will generally be required to include in gross income as a dividend, when received, the US dollar amount of any such distribution to the extent paid from the Company’s current or accumulated earnings and profits (as determined under US federal income tax law). To the extent any distribution exceeds

the current and accumulated earnings and profits of the Company it will first be treated as a non-taxable return of capital to the extent of the US holder's adjusted tax basis in the H Shares or ADSs and then as gain from the sale or exchange of such H Shares or ADSs. The US dollar amount of any cash distribution paid in Hong Kong dollars (or any currency other than the US dollar) will be calculated by reference to the US dollar spot exchange rate in effect on the date of such distribution (which, in the case of a US holder holding ADSs, will generally be the date of receipt by the Depositary), regardless of whether the payment is in fact converted into US dollars at that time. Gain or loss, if any, realised on the sale or disposition of such Hong Kong dollars (or other currency) will be US source ordinary income or loss. It is currently contemplated that any cash distribution will be in Hong Kong dollars for H Shares and will be converted by the Depositary into US dollars before distribution to holders of ADSs. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution. Dividends received on the H Shares or ADSs will not be eligible for the dividends received deduction (generally allowed to US corporations in respect of dividends received from US corporations).

At present, no PRC withholding tax is imposed on the payment of dividends to holders of H Shares or ADSs. See “— The People's Republic of China — Tax on dividends”. If a PRC withholding tax were imposed on dividends paid to a US holder, the PRC tax will be treated as a foreign income tax that a US holder could either deduct in computing taxable income or, at the election of the holder and subject to certain limitations, credit against the US holder's US federal income taxes. The limitation on foreign taxes eligible for credit is calculated separately with respect to separate statutorily defined classes of income. For this purpose, dividends paid by the Company with respect to ADSs or H Shares will generally constitute foreign source “passive income”, or, in the case of certain US holders, “financial services income”. The US-PRC Tax Treaty presently limits the rate of PRC tax imposed to 10% of the gross amount of the dividends paid to a US holder who is a resident of the United States for the purposes of the treaty, (i) whose ownership of ADSs or H Shares is not effectively connected with a permanent establishment in the PRC or a fixed base situated therein through which such holder performs independent personal services, and (ii) who is otherwise eligible for the withholding tax benefits of the US-PRC Tax Treaty.

Sale or other disposition of H Shares

A US holder will generally recognise capital gain or loss for US federal income tax purposes on the sale or exchange of the H Shares or ADSs in an amount equal to the difference between the US holder's adjusted tax basis in the H Shares or ADSs sold or exchanged and the amount realised on such sale or exchange. Such capital gain or loss will be long-term capital gain or loss if the US holder had held the H Shares or ADSs sold or exchanged for more than one year at the time of the sale or exchange. Gain, if any, will generally be US source for purposes of the US foreign tax credit limitation. There is a substantial risk, however, that losses realised on dispositions of ADSs or H Shares will be allocated against foreign source passive income (or, in the case of certain holders, financial services income) by reference to the source of dividend income received or expected to be received in respect of ADSs or H Shares.

The Company's PRC counsel has advised that, although the matter is not free from doubt, gain realised on the sale or other disposition of H Shares or ADSs should not be subject to PRC

capital gains tax. See “The People’s Republic of China — Capital gains tax”. However, the PRC tax rules applicable to sales of shares of stock in PRC companies are uncertain and potentially subject to change, and the US-PRC Tax Treaty may not provide an exemption from a capital gains tax imposed by the PRC. In the event the PRC were to impose tax on gains realized by a US holder on the sale of H Shares or ADSs, the holder could elect to treat gain realized on the sale of H Shares or ADSs, in accordance with the US-PRC Tax Treaty, as foreign source income for purposes of the US foreign tax credit limitation. Depending on the nature of the PRC tax, a US holder could either deduct such tax in computing taxable income or, at the election of the holder and subject to certain limitations, credit such tax against the US federal income tax liability attributable to such income, without regard to the amounts or statutorily defined classes of all other foreign source income.

Passive foreign investment company

Based on the Company’s existing and anticipated future operations, the Company does not believe that it is, and believes that it is unlikely that it will become, a “passive foreign investment company” as defined under US federal income tax law. Prospective US holders should consult their own tax advisors concerning the potential application of the passive foreign investment company rules to an investment in ADSs and H Shares.

US backup withholding tax

Under current temporary Treasury regulations, dividends paid on the H Shares or ADSs will not be subject to US backup withholding tax. However, if proposed Treasury regulations are adopted in their current form, on a prospective basis, dividends paid on the H Shares or ADSs to US holders through US or US-related persons will be subject to a 31% US backup withholding tax if certain information reporting requirements are not satisfied. In addition, under current temporary Treasury regulations, the proceeds of sales of the H Shares or ADSs by US holders would be subject to the 31% US backup withholding tax if certain information reporting requirements are not satisfied. US holders can avoid the imposition of backup withholding tax by reporting their taxpayer identification number to their broker or paying agent on Internal Revenue Service Form W-9 or Form 4224. Any amounts withheld under the backup withholding tax rules from a payment to a US holder will be allowed as a refund or a credit against such holder’s US federal income tax, provided that the required information is furnished to the US Internal Revenue Service.

ERISA considerations

The United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and the Code set forth certain restrictions regarding the investment of assets by employee pension benefit plans (as defined in Section 3(2) of ERISA) and individual retirement accounts (as defined in Section 408(a) of the Code) (hereinafter collectively referred to as the “Plan” or “Plans”).

ERISA imposes specific requirements on fiduciaries of employee pension benefit plans, namely, that they make prudent investments, that they diversify investments, and that they make investments in accordance with the Plan documents and in the best interests of participants and their beneficiaries. In addition, assets of a Plan subject to ERISA must at all times comply with the “indicia of ownership” rules set forth in ERISA.

Further, “parties in interest” under ERISA and “disqualified persons” under the Code are prohibited from engaging in certain “prohibited transactions” involving a Plan. A violation of these prohibited transactions rules may result in a breach of fiduciary duty under ERISA and the imposition of an excise tax or other penalties and liabilities under ERISA and/or the Code for such persons. A possible violation of the prohibited transactions rules could occur upon the acquisition or holding of H Shares or ADSs by a Plan if the Company, the Parent Company, GEDC, the Predecessor, the Underwriters, the Directors, the Supervisors, Yang Cheng or any of their respective affiliates were a party in interest or a disqualified person with respect to such Plan. A Plan fiduciary should also determine the impact, if any, of the US Department of Labour “plan asset” regulations under ERISA on the Plan’s investment in H Shares or ADSs.

Fiduciaries of Plans who are considering an investment of Plan assets in H Shares or ADSs should consult their own counsel regarding compliance with these rules.

TAXATION OF THE COMPANY BY THE PRC

Tax basis of assets

As of 30th June, 1995, the Company’s assets were valued in conjunction with the Restructuring. This valuation, which was confirmed by the State Assets Administration Bureau, establishes the tax basis for these assets.

Income tax

From 1st January, 1994, income tax payable by PRC domestic enterprises, including state-owned enterprises and share system enterprises, is governed by the PRC Enterprise Income Tax Provisional Regulations (中華人民共和國企業所得稅暫行條例) (“EIT Regulations”) which took effect as from 1st January, 1994, and which provide for an income tax rate of 33%, unless a lower rate is provided by law, administrative regulations or State Council regulations. The Company is generally subject to tax at a rate of 33% pursuant to the EIT Regulations. However, as a result of its being located in the Shenzhen SEZ, the Company is subject to a corporate income tax rate of 15%. To the extent that the Company engages in other businesses through subsidiaries, those other businesses are subject to corporate income tax rates of either 15% or 33%, depending mainly on the places of incorporation of these companies. Further, certain subsidiaries of the Company engaged in other businesses are Sino-foreign joint ventures which are entitled to full exemption from 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.

Prior to the establishment of the Company as a joint stock limited company, a portion of net income of the Company's railway businesses was remitted to the Parent Company as dividends and no income tax was required to be paid in accordance with circular number [1986] 095 issued by the State Tax Bureau under the Ministry of Finance except that the Company was required to pay the Shenzhen Municipal Tax Bureau on an annual agreed basis.

Sino-foreign joint ventures enjoy certain tax benefits under the relevant laws and regulations in the PRC. As mentioned in this Prospectus, following the completion of the Combined Offering, the Company will apply for the status as a foreign investment joint stock limited company. However, pursuant to the applicable laws, rules, and regulations in the PRC, no tax benefits will accrue to the Company upon acquiring such status.

Value added tax

Pursuant to the Provisional Regulations of the PRC Concerning Value Added Tax (中華人民共和國增值稅暫行條例) effective from 1st January, 1994 and its implementing rules, any goods sold by the Company including any sales at concessionary stands operated by the Company are subject to value added tax ("VAT"). VAT payable is calculated by "output VAT" minus "input VAT". Input VAT payable by the Company on purchases is recoverable out of the output VAT collected from the customers, and any excess of output VAT over input VAT paid is payable to the tax authority. The rate of VAT on inputs and outputs is 17%.

Business tax

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax (中華人民共和國營業稅暫行條例) effective from 1st January, 1994 and its implementing rules, business tax is imposed on enterprises which provide transportation services in the PRC. The business tax is levied at a rate of 3% on the transport of passengers and goods in the PRC or passengers and goods out of the PRC.

The PRC Government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. Prior to 1st January, 1994, the PRC had two categories of exchange rates: an official rate (the "Official Rate"), determined by the PRC State Administration of Exchange Control (the "SAEC"), and "Swap Rates" prevailing from time to time at foreign currency adjustment centres ("Swap Centres"). Among the more widely used Swap Rates was that at the foreign exchange adjustment centre in Shenzhen (the "Shenzhen Swap Centre Rate"). Effective 1st January, 1994, this dual foreign exchange system was abolished pursuant to the PBOC Notice. Since then, the conversion of the Renminbi into US dollars must be based on the PBOC Rate set daily by the PBOC based on the previous day's PRC interbank foreign exchange market rate with reference to the prevailing exchange rates on the world financial markets. In line with the unification of the two exchange rates, the Renminbi was revalued at HK\$1.00 = RMB1.12 on 3rd January, 1994.

The following table sets forth certain information concerning exchange rates between Renminbi and Hong Kong dollars for the periods indicated:

<u>Period</u>	<u>Shenzhen Swap Centre Rate⁽¹⁾</u>			
	<u>Period End</u>	<u>Average⁽²⁾</u>	<u>High</u>	<u>Low</u>
	(expressed in RMB per HK\$)			
1991	0.752	0.748	0.761	0.714
1992	0.980	0.860	0.981	0.752
1993	1.118	1.121	1.410	0.997
1994	1.092	1.113	1.127	1.092
First Quarter, 1995	1.090	1.090	1.092	1.090
Second Quarter, 1995	1.073	1.078	1.089	1.069
Third Quarter, 1995	1.075	1.074	1.075	1.073
Fourth Quarter, 1995	1.075	1.075	1.076	1.075
First Quarter, 1996	1.079	1.077	1.079	1.074
Second Quarter, 1996 (through 26th April) ..	1.077	1.077	1.078	1.077

Source: State Administration of Exchange Control, Shenzhen Branch

Notes:

- (1) Prior to the adoption of the PBOC Rate, there was a significant degree of variation between the Official Rate and the rates obtainable at Swap Centres, such as the Shenzhen Swap Centre. After 1st January, 1994 and the unification of the foreign currency exchange system there have not been significant differences between the PBOC Rate and the Shenzhen Swap Centre Rate. As of 8th April, 1996, the PBOC Rate was HK\$1.00 = RMB1.0764 and the Shenzhen Swap Centre Rate was HK\$1.00 = RMB1.0774.
- (2) Determined by averaging the rates on the last business day of each month during the years 1991 through 1994 and, for each quarter of 1995, by averaging the rates on each Friday of each month, or if Friday was not a day upon which a rate was available then the next preceding day upon which a rate was available.

The Hong Kong dollar is freely convertible into the US dollar. Since 17th October, 1983, the Hong Kong dollar has been linked to the US dollar at the rate of HK\$7.80 to US\$1.00. The

central element in the arrangements which give effect to the link is an agreement between the Hong Kong government and the three Hong Kong banknote issuing banks, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and the Bank of China, whereby certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issues, are issued and redeemed only against payment in US dollars, at the fixed exchange rate of US\$1.00 = HK\$7.80. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent of US dollars at the fixed rate. Exchange rates between the Hong Kong dollar and other currencies are influenced by the linked rate between the US dollar and the Hong Kong dollar.

The market exchange rate of the Hong Kong dollar against the US dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issue of Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated significantly from the level of HK\$7.80 to US\$1.00. The Hong Kong government has stated its intention to maintain the link at that rate. The Hong Kong government has stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies (including the US dollar). The PRC and the United Kingdom agreed in 1984 pursuant to the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Question of Hong Kong that, after Hong Kong becomes a special administrative region ("SAR") of the PRC on 1st July, 1997, the Hong Kong dollar will continue to circulate and remain freely convertible. This principle has since been incorporated in the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, which was adopted by the PRC National People's Congress in 1990, and will come into effect from 1st July, 1997. However, no assurance can be given that the Hong Kong government, or the successor SAR government, will maintain the link at HK\$7.80 to US\$1.00, or at any other rate.

Pursuant to the Notice Relating to Foreign Exchange Control Matters for Enterprises Listed Overseas, an enterprise listed overseas may, upon SAEC approval, deposit all proceeds from sales of securities overseas in a foreign exchange bank account. Dividends payable to such enterprise's overseas shareholders may, upon SAEC approval, be remitted from such foreign exchange bank account.

This Appendix sets out summaries of PRC company and securities regulations, certain material differences between the Company Law and Hong Kong company law, additional regulatory provisions introduced by the Hong Kong Stock Exchange in relation to PRC joint stock limited companies and the Articles of Association. The main objective is to provide investors with an overview of the rights and obligations of shareholders of the Company and the principal legal and regulatory provisions applicable to the Company.

1. PRC LEGAL AND REGULATORY PROVISIONS

(A) Company law

On 29th December, 1993, the Standing Committee of the 8th National People's Congress adopted the Company Law which came into effect on 1st July, 1994. Companies established under laws, administrative regulations, local laws, and the Standard Opinion for Limited Liability Companies, and the Standard Opinion for Joint Stock Limited Companies formulated by the relevant departments of the State Council before the implementation of the Company Law will not be affected by the Company Law and shall continue to be recognised. Those companies which have not wholly complied with the provisions of the Company Law shall comply with the relevant requirements within a specified period of time. The State Council will separately promulgate detailed implementing measures.

A copy of the Chinese text of the Company Law together with a copy of an unofficial English translation thereof is available for inspection as mentioned in the section headed "Documents available for inspection" in Appendix X.

Set out below is a summary of the major provisions of the Company Law, the Special Regulations on Listing Overseas and the Mandatory Provisions. On 4th July, 1994, the Special Regulations on Listing Overseas were passed at the Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4th August, 1994. The Special Regulations on Listing Overseas are formulated according to the provisions of Sections 85 and 155 of the Company Law in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the State Council Securities Commission and the State Commission for Restructuring the Economic System on 27th August, 1994, prescribing provisions which must be incorporated in the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarised in this Appendix). References to a "company" are to a joint stock limited company established under the PRC Company Law with overseas listed foreign invested shares.

General

A "joint stock limited company" is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the amount of subscription moneys

in respect of Shares held by them and the liability of the company is limited to the full amount of all the assets owned by it.

A state-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulations, for the modification of its operation mechanisms, the systematic handling and evaluation of the company's assets and liabilities and the establishment of internal management organs.

A company must conduct its business in accordance with the laws and professional ethics, promote the concept of a socialist market economy and be subject to the supervision of the government and the general public.

A company may invest in other companies. However, apart from investment companies and holding companies specified by the State Council, the amount of a company's aggregate investment in other companies may not exceed 50% of its net assets and the company's liabilities with respect to such invested companies are limited to the amount invested.

Incorporation

A company may be incorporated by promotion or public subscription.

A company may be incorporated by a minimum of five promoters, but at least half of the promoters must reside within the PRC. According to the Special Regulations on Listing Overseas, State-owned enterprises or enterprises with the majority of their assets owned by the PRC Government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue shares to overseas investors. These companies if incorporated by public subscription may have less than five subscribers and can issue new shares once incorporated.

Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. Where companies are incorporated by public subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder of their shares shall be offered to the public.

The registered capital of a company is the amount of its total paid up capital as registered with the relevant administration bureau for industry and commerce. The minimum registered capital of a company is RMB10 million. The total capital of a company which proposes to apply for its shares to be listed on a stock exchange must not be less than RMB50 million.

The establishment of a company must be approved by the department authorised by the State Council or by the provincial level people's government.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up and shall give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of shareholders holding shares representing at least 50% of the voting rights in the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with half or more of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business licence has been issued. Companies established by the public subscription method shall file a report on the offer of shares with the securities administration department of the State Council for record.

A company's promoters shall individually and collectively be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription moneys to the subscribers together with interest at bank rates for a deposit for the same term if the company cannot be incorporated. A company's promoters are liable for damages caused to the interests of the company arising from the default of the promoters during the process of incorporation.

Share capital

The promoters may make capital contribution in cash, or by way of, industrial property rights, non-patented technology or land use rights based on their appraised value. The amount of investment made in the form of industrial property rights and non-patented technology may not exceed 20% of the registered capital of the company.

If a capital contribution is made other than in cash, a valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share certificates. However, shares issued to promoters, state-authorized investment organisations and PRC legal persons shall be in the form of registered share certificates, and may not be registered under a different name or in the name of an agent.

The Special Regulations on Listing Overseas and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations on Listing Overseas and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed overseas are known as overseas listed foreign invested shares and those shares issued to investors within the PRC other than the territories specified above are known as domestic invested shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Detailed measures shall be specially formulated by the State Council. Under the Special Regulations on Listing Overseas, upon approval of the State Council Securities Commission, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than the par value, but may not be less than the par value.

The transfer by a shareholder of its shares must be carried out through a lawfully established stock exchange. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by a law or by administrative regulations. Bearer share certificates are transferred by delivery of the certificates to the transferee.

Shares held by a promoter of a company may not be transferred for three years after the company's establishment. Directors, supervisors and the manager of the company shall not transfer the shares they hold in the company during their term of office. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders after 30 days before the date of a shareholders' meeting or after five days before the record date set for the purpose of distribution of dividends.

Increase in capital

Under the Company Law, an increase in capital in a company by means of an issue of new shares must be approved by shareholders in general meeting and meet the following conditions:

- (i) the previous issue of shares has been fully subscribed for and at least one year has elapsed since that issue but under the Special Regulations on Listing Overseas, if a company increases its capital for the issue of overseas listed foreign invested shares, the time period elapsed since the last issue of shares may be less than 12 months;

- (ii) the company has been continuously profitable for the last three consecutive years and is able to make dividend payments to its shareholders;
- (iii) there has been no false reporting in the company's financial and accounting documents during the last three years; and
- (iv) the company's estimated profit rate can match the bank deposit rate for the same term.

Once the shareholders in general meeting have passed a resolution to issue new shares, the board of directors must apply to the authorised department of the State Council or to the provincial level people's government for approval. Public offers require the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, the company must change its registration with the relevant administration for industry and commerce bureau and issue a public notice accordingly.

Repurchase of shares

A company may not purchase its own shares other than for the purpose of reducing its capital by cancelling its shares or merging with another company holding its shares or such other purpose permitted by law and administrative regulations. The Mandatory Provisions provide that upon obtaining approvals in accordance with the articles of association of the company and from the relevant supervisory authorities, the company may repurchase its issued shares for the foregoing purposes by way of a general offer to the shareholders of the company or purchase on the stock exchange or an off market contract.

Under the Company Law, within 10 days following the purchase of the company's own shares, a company must in accordance with applicable law and administrative regulations cancel that portion of its shares, change its registration and issue a public notice.

Shareholders

Shareholders have such rights and obligations as set down in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the Company Law, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;

- (ii) to transfer his shares at a legally established stock exchange in accordance with the Company Law and the articles of association of the company;
- (iii) to inspect the company's articles of association, minutes of shareholders' general meetings and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- (iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any law or administrative regulation or infringes the lawful rights and interests of shareholders, to institute an action in People's Court demanding that the illegal infringing action be stopped;
- (v) to receive dividends in respect of the number of shares held;
- (vi) to receive surplus assets of the company upon its termination in proportion to his shareholding; and
- (vii) any other rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription moneys agreed to be paid in respect of the shares taken up by him and any other obligation specified in the company's articles of association.

General meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect and replace directors and decide on matters relating to the remuneration of directors;
- (iii) to elect and replace the supervisors who are representatives of shareholders and decide on matters relating to the remuneration of supervisors;
- (iv) to examine and approve reports of the board of directors;
- (v) to examine and approve reports of the supervisory committee;

- (vi) to examine and approve the company's proposed annual financial budget and final accounts;
- (vii) to examine and approve the company's proposals for profit distribution and for recovery of losses;
- (viii) to decide on any increase or reduction in the company's registered capital;
- (ix) to decide on the issue of bonds by the company;
- (x) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters; and
- (xi) to amend the articles of association of the company.

Shareholders' general meetings shall be held once every year. An extraordinary shareholders' general meeting shall be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the Company Law or less than two thirds of the number specified in the company's articles of association;
- (ii) the aggregate losses of the company reach one-third of the company's total share capital;
- (iii) a request by shareholders holding 10% or more of the company's shares;
- (iv) when deemed necessary by the board of directors; or
- (v) when the supervisory committee proposes convening it.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders 30 days before the meeting under the Company Law and 45 days under the Special Regulations on Listing Overseas and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations on Listing Overseas and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Special Regulations on Listing Overseas, at an annual general meeting of a company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the powers of a shareholders' general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold.

Resolutions of the shareholders' general meeting must be adopted by half or more of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division or dissolution of a company which must be adopted by shareholders with two thirds or more of the voting rights held by shareholders present at the meeting.

Amendments to the articles of association of a company must be approved by two thirds or more of the voting rights of the shareholders present in general meeting-

Shareholders may appoint representatives to attend shareholders' general meetings by a written appointment document stating the scope of exercising the voting rights.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations on Listing Overseas and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter.

Directors

A company shall have a board of directors, which shall consist of five to nineteen members. Under the Company Law, the term of office of a director shall not exceed three years. The Mandatory Provisions provide that the term of office shall be three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors 10 days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meeting and report on its work to the shareholders;
- (ii) to implement the resolutions of the shareholders general meeting;

- (iii) to decide on the company's business plans and investment plans;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager and based on the general manager's recommendation, to appoint or dismiss the deputy general manager and financial officers of the company and to decide on their remuneration; and
- (x) to formulate the company's basic management system.

In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not serve as a director of a company:

- (1) persons without civil capacity or with restricted civil capacity;

- (2) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (3) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to a mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (4) persons who were legal representatives of a company or enterprise which had its business licence revoked due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business licence;
- (5) persons who have a relatively large amount of debts due and outstanding; and
- (6) persons who are state civil servants.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions which have been incorporated in the Articles of Association, a summary of which is set out in this Appendix.

The board of directors shall have one chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors is the legal representative of the company and exercises, inter alia, the following powers:-

- (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- (ii) to check on the implementation of the resolutions of the board of directors; and
- (iii) to sign the company's share certificates and bonds.

The Special Regulations on Listing Overseas provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which are incorporated into the Articles of Association, a summary of which is set out in this Appendix) contains further elaborations of such duties.

Supervisors

A company shall have a supervisory committee composed of not less than three members. The term of office of a supervisor is three years and he may serve consecutive terms if re-elected.

The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and workers. Directors, managers and financial officers may not act concurrently as supervisors.

The supervisory committee exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and managers in their performance of their duties and to ascertain whether or not they have violated laws, regulations or the articles of association of the company;
- (iii) when the acts of a director or manager are harmful to the company's interests, to require correction of those acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings; and
- (v) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

The Special Regulations on Listing overseas provide that a company's directors and supervisors shall bear fiduciary duties. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit.

Managers and officers

The Special Regulations on Listing Overseas and Mandatory Provisions provide that the senior management of a company includes the financial controller, company secretary and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other executives of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company, The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association (a summary of which is set out in this Appendix).

Finance and accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report at the conclusion of each financial year which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company established by the general subscription must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50% of the company's registered capital) and 5% to 10% for the company's statutory common welfare fund.

When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory common reserve fund or the statutory common welfare fund.

The company's statutory common welfare fund is used for the collective welfare of the company's staff and workers.

After the company has made good its losses and made allocations to its statutory common reserve fund and statutory common welfare fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders.

The company's common reserve fund may be converted into capital provided it is approved by a resolution at a shareholders' general meeting and the balance of the statutory common reserve fund does not fall below 25% of the registered 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.

Appointment and retirement of auditors

The Special Regulations on Listing Overseas require a company to employ an independent PRC qualified firm of accountants to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations on Listing Overseas to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders and shall be registered with the CSRC.

Distribution of profits

The Special Regulations on Listing Overseas provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendment of articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the companies approval department authorised by the State Council and the State Council Securities Commission. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

Termination and liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
or
- (iii) the company is dissolved by reason of its merger or demerger.

Where the company is dissolved in the circumstances described in (i) or (ii) above, a liquidation committee must be established within 15 days. Members of the liquidation committee shall be appointed by the shareholders in the general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court to establish it.

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue at least three public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 90 days of the first public notice if he did not receive any notification.

The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of the company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labour insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

A company shall not engage in new business operations during the liquidation period.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration and a public notice of its termination shall be issued.

Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by of the State Council.

According to the Special Regulations on Listing Overseas, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the State Council Securities Commission may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from the State Council Securities Commission.

Loss of share certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a People's Court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in this Appendix).

Suspension and termination of listing

The trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council under one of the following circumstances:

- (i) the registered capital or share holding distribution no longer comply with the necessary requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report;
- (iii) the company has committed a major breach of the law; or
- (iv) the company has incurred losses for each of the preceding three years.

Under the circumstances referred to in (ii) and (iii) above and investigation has revealed that the consequences are serious, or under the circumstances referred to in (i) and (iv) above and the situation has not been rectified within the time stipulated, the securities administration department of the State Council may decide to terminate the listing of a company's shares.

The securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to cease operation or is so instructed by its government supervisory body or the company is declared bankrupt.

Merger and demerger

The merger or demerger of a company is to be decided by the shareholders in general meetings subject to the approval of departments authorised by the State Council or the approval of provincial government.

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merging of companies and the relevant companies shall draw up their respective balance sheets and inventory of property. The companies should within 10 days of the resolution of the merger inform their respective creditors and publish a notice to the creditors in newspapers at least 3 times, within 30 days of the resolution to merge. Those creditors who had not received written notice may within 90 days of the first published notice, or within 30 days after receiving

written notice, request the company to satisfy any unpaid debt or provide equivalent guarantees in cases of guarantees. Companies unable to repay such debts or provide alternative guarantees will not be allowed to merge. Newly merged entities shall be responsible for the debts and obligations of the companies involved in the merger.

When a company demerges into two companies, their respective assets must be separated and separate financial accounts must be drawn up.

When a company's shareholders approve the demerger of the company, the company should notify all its creditors within 10 days of such resolution being passed and advertise the same at least three times in newspapers within 30 days. A creditor may within 30 days after receiving written notice or, a creditor who has not received such notice may within 90 days from the first public advertisement, demand that the company repay any outstanding debts or to provide an appropriate guarantee.

Changes in registrable particulars of the companies caused by merger or demerger must be registered in accordance with applicable laws.

(B) Securities law and supervision

At present, the PRC does not have a body of national securities law but a number of regulations have been promulgated in relation to the issue of and trading in securities and disclosure of information.

In early 1993, the State Council established the State Council Securities Commission and the CSRC. The State Council Securities Commission is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the State Council Securities Commission and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis.

On 22nd April, 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares (股票發行及交易管理暫行條例). These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, and transfer of listed equity securities, the disclosure of information with respect to a listed company, enforcement and penalties and dispute settlement. These regulations specifically provide that separate provisions will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi denominated ordinary shares as well as special Renminbi-denominated shares,

it has to comply with these regulations in respect of regulations governing Renminbi-denominated ordinary shares; (ii) if a PRC company proposes to offer shares directly or indirectly outside the PRC it will require the approval of the State Council Securities Commission; and (iii) provisions of these regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to listed companies in general without being confined to listed companies on any particular stock exchange. Hence it is possible that such provisions may be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the Hong Kong Stock Exchange, such as the Company.

On 10th June, 1993, pursuant to the Provisional Regulations Concerning the Issue and Trading of Shares, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information (公開發行股票公司信息披露的實施細則(試行)). Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public both in the PRC and overseas. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of a company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Provisional Regulations Concerning the Issue and Trading of Shares.

On 15th August, 1993, the State Council Securities Commission promulgated the Provisional Measures Prohibiting Fraudulent Conduct relating to Securities (禁止證券欺詐行為暫行辦法). The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or the abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading and in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

2. HONG KONG LEGAL AND REGULATORY PROVISIONS

(A) Hong Kong company law and its comparison with the PRC law applicable to a joint stock limited company incorporated under the Company Law

Hong Kong company law is primarily set out in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Companies Ordinance”) and supplemented by common law. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the Company Law, to which the Company is and will be subject, particularly in the area of investor protection. Certain of the material differences between the Company Law and Hong Kong company law are summarised below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the Company Law.

Derivative action by minority shareholders

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the directors are in breach of duty and where their actions are shielded by the majority shareholders. The PRC Civil Procedure Law does not provide for such a procedure. Although the Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People’s Court to restrain any resolution adopted by shareholders in general meeting or at a meeting of the board of directors which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is the same as a derivative action under the Company Law. However, each of the Directors and Supervisors (as required by the Listing Rules) has given a written undertaking to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This allows minority shareholders to commence direct actions against defaulting Directors.

Remedies of the Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law or administrative regulation or the articles of association of a company, resulting in damages to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Listing Rules, the Articles of Association set out remedies of the Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer).

Directors, officers and supervisors

The Company Law and the Mandatory Provisions provide for the disqualification of directors, supervisors, and managers in circumstances where they may enter into business contracts with the Company, and for prohibitions of certain unauthorised benefits, but contain no provision restricting the authority of the directors to make major dispositions or prohibiting payment to them for loss of office without shareholders’ approval. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the

circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this Appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors but a PRC joint stock limited company may have supervisors whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers.

Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Minority protection

There is no specific provision in the Company Law to guard against oppression by the majority shareholders of minority shareholders but the Company, as required by the Mandatory Provisions and the Listing Rules, has adopted in the Articles of Association minority protection provisions similar to but not as comprehensive as those available under Hong Kong law to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to achieve certain objectives.

Receiving agent

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. The Articles of Association provide for the appointment of an agent in Hong Kong which must be a trust corporation registered under the Trustee Ordinance in Hong Kong to receive all dividends payable to H Share holders on behalf of such shareholders as required by the Listing Rules.

Variation of class rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in this Appendix. Under

the Companies Ordinance, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three fourths in nominal value of the issued shares of the class in question. The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to that found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined for various purposes in the Articles of Association as different classes, except where the Company issues and allots, in any 12-month period pursuant to a shareholders' mandate, not more than 20% of each of the issued overseas listed foreign invested shares and domestic invested shares existing as at the date of the shareholders' mandate.

Corporate re-organisations

Corporate re-organisations involving compromises with creditors and members in respect of Hong Kong incorporated companies are dealt with under Section 166 of the Companies Ordinance and require court sanction. For PRC companies such reorganisations are administratively considered and sanctioned under Chapter 7 of the Company Law.

Share capital

For a joint stock limited company formed under the Company Law, the registered share capital and the issued share capital are the same. For a Hong Kong company, the authorised share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new shares. Any increase of the registered capital must be approved by the shareholders in general meeting and the relevant PRC government and regulatory authorities. After completion of an approved new issue, the company has to register the increase in share capital with the relevant administration for industry and commerce bureau. In addition, it must be approved by an authorised department of the State Council or the relevant provincial people's government.

The minimum registered capital of a company which has applied for the listing of its shares on a stock exchange is RMB50 million under the Company Law. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company.

Under the Company Law, the shares subscribed for in the form of intangible assets (excluding land use rights) may not exceed in general 20% of a joint stock limited company's registered capital. There is no such restriction under Hong Kong law on a Hong Kong company.

Restriction on shareholding and transfer of shares

The Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations on Listing Overseas. The Special Regulations on Listing Overseas and the Mandatory Provisions provide, among other things, that H shares must be in registered form and include other matters some of which are referred to below. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the Company Law, shares in a joint stock limited company held by its promoters, directors, managers or employees may not be transferred within certain periods of time. There is no such restriction under Hong Kong law.

Notice of meetings

Under the Company Law, shareholders of a joint stock limited company must be given 30 days' notice of a general meeting or in the case of bearer shares such notice should be published 45 days before the meeting. Under the Special Regulations on Listing Overseas and the Mandatory Provisions (which apply to the Company) written notice of 45 days must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing to reach the company 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting convened for the purpose of considering ordinary resolutions is 14 days and for the purpose of considering special resolutions 21 days. The notice period for an annual general meeting is also 21 days.

Quorum

Under Hong Kong company law, any two shareholders personally present will constitute a quorum for a general meeting, unless the articles of association provide otherwise. The Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations on Listing Overseas and the Mandatory Provisions provide that a company's annual general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose Shares represent 50% of the voting rights in the Company at least 20 days before the proposed date, or if that 50% level is not achieved, that the Company shall within five days notify shareholders and the annual general meeting may be held thereafter.

Voting

Under Hong Kong company law, ordinary resolutions are passed by more than one half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three quarters of such votes. Under the Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting except in cases of proposed amendment to the articles of association, merger, division or dissolution of a company where the approval of a two thirds majority is required.

Dividends

The Articles of Association empower the Company to withhold and pay to the relevant tax authorities any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws the relevant limitation period is two years.

Financial disclosure

A joint stock limited company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial situation and other relevant annexures 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the Company Law must publish its financial statements. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

Under the Articles of Association (as required by the Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards. The Company is further required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year respectively.

The Special Regulations on Listing Overseas require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on directors and shareholders

The Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on Directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Arbitration of disputes

In Hong Kong, disputes between shareholders and a company or its directors can be resolved through the courts. The Articles of Association prescribe that such disputes be submitted to arbitration at either the Hong Kong International Arbitration Centre or the China International Economic and Trade Commission, at the claimant's choice. Such arbitration is final and conclusive.

Mandatory Deductions

Under the Company Law, after tax profits of a company are subject to deductions of contributions to the statutory common reserve fund and the statutory public welfare fund of the company before they can be distributed to shareholders. There are prescribed limits under the Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations on Listing Overseas, directors and managers owe a fiduciary duty towards their company and are not permitted to engage in any activities which compete with or damage the interests of their company.

(B) Other legal and regulatory provisions

Upon the listing of the Company on the Hong Kong Stock Exchange, the provisions of the Securities Ordinance, the Securities (Disclosure of Interests) Ordinance, the Securities (Insider Dealing) Ordinance of Hong Kong, the Takeovers Code and the Share Repurchases Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to the Company.

(C) Securities arbitration rules

The Articles of Association provide that certain claims arising under the Articles of Association or the Company Law shall be arbitrated at either the China International Economic and Trade Commission or the Hong Kong International Arbitration Centre in accordance with their respective rules.

The Securities Arbitration Rules of the Hong Kong International Arbitration Centre contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving PRC parties so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditionally upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

(D) Listing Rules

The Listing Rules contain certain provisions specifically relating to the primary listing of equity securities of companies incorporated or otherwise established in the PRC. Set out below is a summary of the major provisions which apply to the Company:

Sponsor

The Company is required to retain, for at least three years following its listing or such shorter period as the Stock Exchange may permit, the services of its sponsor or other financial adviser or professional firm which is acceptable to the Hong Kong Stock Exchange, to provide the Company with professional advice on continuous compliance with the Listing Rules and its listing agreement, and to act at all times as the Company's principal channel of communication with the Hong Kong Stock Exchange, in addition to the two authorised representatives of the Company appointed pursuant to the Listing Rules.

The Company must ensure that its sponsor has access at all times to its authorised representatives, Directors and other officers and is given such information and assistance as it may request in connection with the performance of its duties. The Company must not terminate the services of its sponsor until a replacement acceptable to the Hong Kong Stock Exchange is appointed.

If the Hong Kong Stock Exchange is not satisfied that the sponsor is fulfilling its responsibilities adequately, it may require the Company to terminate the sponsor's appointment and appoint a replacement as soon as possible.

The sponsor must be satisfied that the Directors and the Supervisors appreciate the nature of their responsibilities and can be expected to honour their obligations under and understand what is required of them under their respective undertakings, the Listing Rules, the listing agreement and applicable laws and regulations.

The sponsor must keep the Company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the Company. It must act as the Company's principle channel of communication with the Hong Kong Stock Exchange if the authorised representatives of the Company are frequently outside Hong Kong.

Accountants' reports

An accountants' report will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong which means that it must conform with either Hong Kong or international accounting standards.

Process agent

The Company must appoint and maintain throughout the period its securities are listed on the Hong Kong Stock Exchange the appointment of a person authorised to accept service of process and notice on its behalf in Hong Kong and must notify the Hong Kong Stock Exchange of his appointment and any termination of his appointment and his contact particulars.

Restrictions on purchase and subscription

The Company may purchase its own Shares on the Hong Kong Stock Exchange in accordance with the Listing Rules. Shareholders' approvals must first be obtained prior to carrying out a Share repurchase by way of a special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings, in accordance with the procedures prescribed by the Articles of Association, when seeking shareholders' approval to make purchases of securities on the Hong Kong Stock Exchange or when reporting such purchases, the Company should provide information on the proposed or actual purchase of any or all of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange, to its shareholders. There should also be a statement as to the consequences of any purchases which will arise under either or both of the Hong Kong Code on Takeovers and Mergers and the Code on Share Repurchases and any similar PRC law of which the Directors are aware, if any. Any general mandate given to the Directors to repurchase H Shares must not exceed 10 per cent. of the total amount of existing issued H Shares.

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation in the articles of association of a Hong Kong-listed PRC company, the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in this Appendix.

Closure of register of shareholders

The Listing Rules require that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days in a year, whereas the Company's Articles of Association provide, as required by the Company Law, that share transfers may not be registered after 30 days before the date of a shareholders' meeting or after five days before the record date set for the purpose of distribution of dividends.

Listing documents

The Company's listing agreement with the Hong Kong Stock Exchange is in substantially the same form as the listing agreement for an overseas company seeking a listing on the Hong Kong Stock Exchange, subject to certain modifications and additional requirements which may be summarised as follows:

(1) Redeemable shares

The company must not issue any redeemable shares unless the Hong Kong stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

(2) Pre-emptive rights

Except in the circumstances mentioned below, the Directors must obtain the approval by special resolution of holders of Domestic Shares and holders of H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association prior to:

- (i) authorising, allotting, issuing or granting;
 - (a) shares;

- (b) securities convertible into shares; or
 - (c) options, warrants or similar rights to subscribe for any shares or such convertible securities.
- (ii) a major subsidiary of the Company making any such authorisation, allotment, issue or grant so as materially to dilute the percentage equity interest of the Company and its shareholders in such subsidiary.

No such approval will be required in the case of authorising, allotting or issuing shares if, but only to the extent that, the existing shareholders of the Company have by special resolution in general meeting given a general mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue either separately or concurrently once every 12 months, not more than 20% each of the existing Domestic Shares and H Shares.

(3) Changes to articles of association

The Company may not at any time permit or cause any amendment to be made to its Articles of Association which would cause them to cease to comply with the mandatory provision of the Listing Rules relating to such Articles of Association.

(4) Documents for inspection

The Company must make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges, the following:

- (a) a complete duplicate register of shareholders;
- (b) a report showing the state of the issued share capital of the Company;
- (c) the Company's latest audited financial statements and the Directors', auditors and Supervisors' (if any) reports thereon;
- (d) special resolutions of the Company;
- (e) reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);

- (f) a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or other competent PRC authority; and
- (g) for shareholders only, copies of the minutes of meetings of shareholders.

(5) *Appointment of receiving agents*

The Company must appoint one or more receiving agents in Hong Kong to receive on behalf of the shareholders dividends declared and other moneys owing by the Company in respect of H Shares listed on the Hong Kong Stock Exchange.

(6) *Statements to be made on acquisition of shares*

The Company must ensure that all its listing documents and Share certificates include the statements stipulated below and must instruct and cause its share registrar not to register the subscription, purchase or transfer of any of its Shares in the name of any particular holder unless and until such holder delivers to such Share registrar a signed form in respect of such shares bearing statements to the following effect:

- (a) The acquirer of Shares agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder, to observe and comply with the Company Law, the Special Regulations on Listing Overseas and the Articles of Association.
- (b) The acquirer of Shares agrees with the Company, each shareholder, Director, Supervisor, general manager and officer of the Company and the Company acting for itself and for each Director, Supervisor, general manager and officer agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association. Any reference to arbitration will be deemed to authorise the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive.
- (c) The acquirer of Shares agrees with the Company and each shareholder of the Company that H Shares in the Company are freely transferable by the holder thereof.
- (d) The acquirer of Shares authorises the Company to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association.

- (7) *Compliance with the Company Law, the Special Regulations on Listing Overseas and the Articles of Association*

The Company must observe and comply with the Company Law, the Special Regulations on Listing Overseas and the Articles of Association.

- (8) *Contract between the Company and every Director and officer*

The Company must enter into a contract in writing with every Director and officer containing at least the following provisions:

- (a) an undertaking by the Director or officer to the Company to observe and comply with the Company Law, the Special Regulations on Listing Overseas, the Articles of Association, the Hong Kong Code on Takeovers and Mergers and the Code on Share Repurchases and an agreement that the Company will have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- (c) an arbitration clause which provides that whenever any differences or claims arise from the listing agreement, the Articles of Association or any rights or obligations conferred or imposed by the laws and administrative regulations concerning the affairs of the Company between (1) the Company and its Directors, Supervisors, general managers or officers or (2) a holder of overseas listed foreign invested Shares and a Director, Supervisor, general manager or officer of the Company, such differences or claims will be referred to arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules, at the election of the party seeking arbitration. The entire dispute or claim shall be resolved through that arbitration; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, Directors, Supervisors, general managers or other officers of the Company or the Company, shall submit to arbitration.

Once the party seeking arbitration submits a dispute or claim to arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at the Hong Kong International Arbitration Centre, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations.

The award of the arbitral body is final and shall be binding on the parties thereto.

Disputes over who is a shareholder and over the Share register do not have to be resolved through arbitration.

(9) Contract between the Company and every Supervisor

The Company must enter into a contract in writing with every Supervisor containing at least the following provisions:

- (a) an undertaking by the Supervisor to the Company to observe and comply with the Company Law, the Special Regulations on Listing Overseas and the Articles of Association and an agreement that the Company will have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Supervisor to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- (c) the arbitration clause in terms set out in sub-paragraph (8)(c) above subject to necessary modifications.

(10) Subsequent listing

The Company must not apply for the listing of any of its foreign invested shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of overseas listed foreign shares are adequately protected.

(11) English translation

All notices or other documents required under the listing agreement to be sent by the Company to the Hong Kong Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

3. ARTICLES OF ASSOCIATION

Set out below is a summary of the principal provisions of the Articles of Association which were conditionally approved at the shareholders' general meeting of the Company held on 14th March, 1996. A copy of the Articles of Association, together with an English translation, is available for inspection as mentioned in the paragraph headed "Documents available for inspection" in Appendix X.

(A) Directors and other officers

(i) Power to allot and issue Shares

There is no provision in the Articles empowering the Directors to allot and issue Shares.

To increase the capital of the Company, the board of Directors (the "Board") is responsible for formulating proposals for approval at a shareholders' general meeting by way of special resolution. Any such increase must be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

(ii) Power to dispose of the assets of the Company or any subsidiary

The Board is accountable to the shareholders' general meeting.

The board of directors shall not, without the prior approval of shareholders in a general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the amount or value of the consideration for the proposed disposition, and the amount or value of the consideration for any such disposition of any fixed assets of the Company that has been completed in the period of four (4) months immediately preceding the proposed disposition, exceeds 33 per cent of the value of the Company's fixed assets as shown in the last balance sheet placed before the shareholders in general meeting.

The validity of a disposition by the Company shall not be affected by the breach of the above paragraph.

For the purposes of the Articles, disposition includes an act involving the transfer of an interest in assets but does not include the provision of fixed asset by way of security.

(iii) Compensation or payments for loss of office

The Company shall, with the prior approval of shareholders in general meeting, enter into a contract in writing with a director or supervisor wherein his emoluments are stipulated. The aforesaid emoluments include:

- (1) emoluments in respect of his service as director, supervisor or senior administrative officer of the Company;
- (2) emoluments in respect of his service as director, supervisor or senior administrative officer of any subsidiary of the Company;
- (3) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries;
- (4) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a director or supervisor against the Company for anything due to him in respect of the above matters.

The contract concerning the emoluments between the Company and its directors or supervisors should provide that in the event of a takeover of the Company, the Company's directors and supervisors shall, subject to the prior approval of the shareholders in general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A "takeover of the Company" referred to in this paragraph means any of the following:

- (1) an offer made by any person to the general body of shareholders;
- (2) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning set out in the Articles (see paragraph (Q) below).

If the relevant director or supervisor does not comply with the above, any sum so received by him shall belong to those persons who have sold their Shares as a result of the said offer made. The expenses incurred in distributing that sum pro rata amongst those persons shall be borne by the relevant director or supervisor and not paid out of that sum.

(iv) Loans to directors, supervisors and other officers

The Company shall not directly or indirectly make a loan to or provide any

guarantee in connection with the making of a loan to a director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company or of the Company's holding company or any of their respective associates. However, the following transactions are not subject to such prohibition:

- (1) the provision by the Company of a loan or a guarantee of a loan to a company which is a subsidiary of the Company;
- (2) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its directors, supervisors, general manager, deputy general managers and other senior administrative officers to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in general meeting;
- (3) the Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant directors, supervisors, general manager, deputy general managers and other senior administrative officers or their respective associates in the ordinary course of its business on normal commercial terms, provided that the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

A loan made by the Company in breach of the above provisions shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by the Company in breach of the above provisions shall be unenforceable against the Company, unless:

- (1) the guarantee was provided in connection with a loan to an associate of any of the directors, supervisors, general manager, deputy general managers and other senior administrative officers of the Company or of the Company's holding company and at the time the loan was advanced the lender did not know the relevant circumstances; or
- (2) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

For these purposes:

- (a) a guarantee includes an undertaking or property provided to secure the performance of obligations by the obligor; and
- (b) the definition of an associate as referred to in paragraph (A)(x) below applies, mutatis mutandis, to this provision.

(v) *Financial assistance for the acquisition of Shares in the Company or any subsidiary*

Subject to the exceptions in the Articles, the Company and its subsidiaries shall not, by any means at any time, provide any kind of financial assistance (as defined below) to a person who is acquiring or is proposing to acquire Shares in the Company. The said acquirer of Shares of the Company includes a person who directly or indirectly incurs any obligations (as defined below) due to the acquisition of Shares in the Company. The Company and its subsidiaries shall not, by any means at any time, provide financial assistance to the said obligor as referred to in the preceding paragraph for the purpose of reducing or discharging the obligations assumed by that person.

The following activities shall not be deemed to be activities prohibited:

- (1) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interests of the Company, and the principal purpose in giving the financial assistance is not for the acquisition of Shares in the Company, or the giving of the financial assistance is an incidental part of some larger purpose of the Company;
- (2) the lawful distribution of the Company's assets by way of dividend;
- (3) the allotment of bonus Shares as dividends;
- (4) a reduction of registered capital, a repurchase of Shares of the Company or a reorganization of the share capital structure of the Company effected in accordance with these articles of association;
- (5) the lending of money by the Company within its scope of business and in the ordinary course of its business, where the lending of money is part of the scope of business of the Company (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits);
- (6) the provision of money by the Company for contributions to staff and workers' shares schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

For these purposes:

- (a) "Financial Assistance" includes (without limitation) the following meanings:
 - (1) gift;
 - (2) guarantee (including the assumption of liability by the guarantor or the provision

of assets by the guarantor to secure the performance of obligations by the obligor), or compensation (other than compensation in respect of the Company's own default) or release or waiver of any rights;

- (3) provision of loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party, or the novation of, or the assignment of rights arising under, such loan or agreement;
 - (4) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced to a material extent.
- (b) "Incurring an obligation" includes the incurring of obligations by the changing of the obligor's financial position by way of contract or the making of arrangement (whether enforceable or not, and whether made on his own account or with any other persons), or by any other means.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

Where a director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the board of directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefor is otherwise subject to the approval of the board of directors.

Unless the interested director, supervisor, general manager, deputy general manager or other senior administrative officer discloses his interests in accordance with the above and the contract, transaction or arrangement is approved by the board of directors at a meeting in which the interested director, supervisor, general manager, deputy general manager or other senior administrative officer is not counted in the quorum and refrains from voting, a contract, transaction or arrangement in which that director, supervisor, general manager, deputy general manager or other senior administrative officer is materially interested is voidable at the instance of the Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested director, supervisor, general manager, deputy general manager or other senior administrative officer.

For these purposes, a director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company is deemed to be interested in a contract, transaction or arrangement in which an associate of him is interested.

Where a director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company gives to the board of directors a general notice

in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be made by the Company, that notice shall be deemed for the purposes of this paragraph (iv) to be a sufficient declaration of his interests, so far as the content stated in such notice is concerned, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of the Company.

(vii) *Remuneration*

The remuneration of Directors must be approved by shareholders in general meeting, as referred to under “Compensation or payments for loss of office”.

(viii) *Retirement, appointment and removal*

The term of office of the Chairman and the other board members shall be three years.

Directors shall be elected and removed by the shareholders in general meeting. A Director is not required to hold Shares of the Company.

The Board shall consist of nine directors. The board of directors shall have one Chairman. The Chairman shall be elected and removed by more than one half of the directors.

A person may not serve as a director, supervisor, general manager, deputy general manager and any other senior administrative officer of the Company if any of the following circumstances apply:

- (1) a person without capacity for civil conduct or with restricted capacity for civil conduct;
- (2) a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging the social economic order and has been punished because of committing such offence; or who has been deprived of his political rights, in each case where less than five (5) years have elapsed since the date of the completion of implementation of his punishment;
- (3) a person who is a former director, factory manager or manager of a company or enterprise which has entered into insolvent liquidation because of mismanagement and is personally liable for the insolvency of such company or enterprise, where less than three (3) years have elapsed since the date of the completion of the insolvency and liquidation of the company or enterprise;

- (4) a person who is a former legal representative of a company or enterprise which had its business licence revoked due to a violation of the law and who incurred personal liability, where less than three (3) years has elapsed since the date of the revocation of the business licence;
- (5) a person who has a relatively large amount of debts due and outstanding;
- (6) a person who is under criminal investigation or prosecution by judicial organs for violation of the criminal law which is not yet concluded;
- (7) a person who is not eligible for enterprise leadership according to laws and administrative regulations;
- (8) a non-natural person;
- (9) a person who is convicted of contravention of provisions of relevant securities regulations by a relevant competent authority, and such conviction involves a finding that he has acted fraudulently or dishonestly, where less than five (5) years has elapsed since the date of the conviction.

The validity of an act of a director, general manager, deputy general manager or other senior administrative officer on behalf of the Company is not, vis-a-vis a bona fide third party, affected by any irregularity in his office, election or any defect in his qualification.

(ix) *Borrowing powers*

On condition of compliance with applicable laws and regulations of PRC, the Company has the power to raise and borrow money which power includes without limitation the issue of debentures, the charging or mortgaging of part or whole of the Company's business or properties and other rights permitted by PRC laws and administrative regulations.

(x) *Duties*

In addition to obligations imposed by laws, administrative regulations or required by the stock exchanges on which Shares of the Company are listed, each of the Company's directors, supervisors, general manager, deputy general manager and other senior administrative officers owes a duty to each shareholder, in the exercise of the functions and powers of the Company entrusted to him:

- (1) not to cause the Company to exceed the scope of business stipulated in its business licence;

- (2) to act honestly in the best interest of the Company;
- (3) not to expropriate in any guise the Company's property, including (without limitation) usurpation of opportunities advantageous to the Company;
- (4) not to expropriate the individual rights of shareholders, including (without limitation) rights to distribution and voting rights, save pursuant to a restructuring of the Company submitted to shareholders for approval in accordance with the Articles.

Each of the Company's directors, supervisors, general manager, deputy general manager and other senior administrative officers owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Each of the Company's directors, supervisors, general manager, deputy general manager and other senior administrative officers shall exercise his powers or carry on his duties in accordance with the principle of fiduciary; and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation) discharging the following obligations:

- (1) to act honestly in the best interests of the Company;
- (2) to exercise powers within the scope of his powers and not to exceed those powers;
- (3) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in general meeting, not to delegate the exercise of his discretion;
- (4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (5) except in accordance with the Articles or with the informed consent of shareholders given in general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (6) without the informed consent of shareholders given in general meeting, not to use the Company's property for his own benefit;
- (7) not to exploit his position to accept bribes or other illegal income or expropriate the Company's property by any means, including (without limitation) opportunities advantageous to the Company;
- (8) without the informed consent of shareholders given in general meeting, not to accept commissions in connection with the Company's transactions;

- (9) to abide by the Articles, faithfully execute his official duties and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interests;
- (10) not to compete with the Company in any form unless with the informed consent of shareholders given in general meeting;
- (11) not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s) with the Company's assets;
- (12) unless otherwise permitted by informed shareholders in general meeting, to keep in confidence information acquired by him in the course of and during his tenure and not to use the information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if
 - (i) disclosure is made under compulsion of law;
 - (ii) the interests of the public require disclosure;
 - (iii) the interests of the relevant director, supervisor, general manager, deputy general manager or other senior administrative officer require disclosure.

Each director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company shall not cause the following persons or institutions ("associates") to do what he is prohibited from doing:

- (1) the spouse or minor child of that director, supervisor, general manager, deputy general manager or other senior administrative officer;
- (2) a person acting in the capacity of trustee of that director, supervisor, general manager, deputy general manager or other senior administrative officer or any person referred to in the preceding paragraph;
- (3) a person acting in the capacity of partner of that director, supervisor, general manager, deputy general manager or other senior administrative officer or any person referred to in paragraphs (1) and (2) above;
- (4) a company in which that director, supervisor, general manager, deputy general manager or other senior administrative officer, alone or jointly with one or more persons referred to in paragraphs (1), (2) and (3) above and other directors, supervisors, general manager, deputy general managers and other senior administrative officers have a de facto controlling interest;

- (5) the directors, supervisors, general manager, deputy general managers and other senior administrative officers of the controlled company referred to in the preceding paragraph.

The fiduciary duties of the directors, supervisors, general manager, deputy general managers and other senior administrative officers of the Company do not necessarily cease with the termination of their tenure. The duty of confidence in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairness may require depending on the time lapse between the termination and the act concerned and the circumstances under which the relationships between them and the Company are terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where a director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company is in breach of his duties to the Company, the Company has a right to:

- (1) claim damages from the director, supervisor, general manager, deputy general manager or other senior administrative officer in compensation for losses sustained by the Company as a result of such breach;
- (2) rescind any contract or transaction entered into by the Company with the director, supervisor, general manager, deputy general manager or other senior administrative officer or with a third party (where such third party knows or should know that there is such a breach of duties by such director, supervisor, general manager, deputy general manager or other senior administrative officer);
- (3) demand an account of the profits made by the director, supervisor, general manager, deputy general manager or other senior administrative officer in breach of his duties;
- (4) recover any monies received by the director, supervisor, general manager, deputy general manager or other senior administrative officer to the use of the Company, including (without limitation) commissions; and
- (5) demand payment of the interest earned or which may have been earned by the director, supervisor, general manager, deputy general manager or other senior administrative officer on the monies that should have been paid to the Company;

Subject to the Articles, a director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company may be relieved of liability for specific breaches of his duty by the informed consent of shareholders given at a general meeting.

(B) Alterations to constitutional documents

The Company may amend its Articles of Association in accordance with the requirements of law, administrative regulation and the Company's Articles of Association.

The amendments to the Company's Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by the Securities Committee of the State Council and the companies approving department authorized by the State Council. If there is any change relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with law.

(C) Variation of rights of existing Shares or classes of Shares

Rights conferred on any class of shareholders in the capacity of shareholders ("class rights") may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by holders of Shares of that class at a separate meeting conducted in accordance with the Articles.

The following circumstances shall be deemed to be variation or abrogation of the class rights of a class:

- (1) to increase or decrease the number of Shares of such class, or increase or decrease the number of Shares of a class having voting or equity rights or privileges equal or superior to those of the Shares of such class;
- (2) to effect an exchange of all or part of the Shares of such class into Shares of another class or to effect an exchange or create a right of exchange of all or part of the Shares of another class into the Shares of such class;
- (3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to Shares of such class;
- (4) to reduce or remove a dividend preference or a liquidation preference attached to Shares of such class;
- (5) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to Shares of such class;
- (6) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to Shares of such class;
- (7) to create a new class of Shares having voting or equity right or privileges equal or superior to those of the Shares of such class;

- (8) to restrict the transfer or ownership of the Shares of such class or add to such restriction;
- (9) to allot and issue rights to subscribe for, or convert into, Shares in the Company of such class or another class;
- (10) to increase the rights or privileges of Shares of another class;
- (11) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring;
- (12) to vary or abrogate provisions in the Articles.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (2) to (8), (11) and (12) above, but interested shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who are entitled to vote at class meetings.

Written notice of a class meeting shall be given forty-five (45) days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters to be considered, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to the Company twenty (20) days before the date of the class meeting.

If the number of Shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches more than one half of the voting Shares at the class meeting, the Company may hold the class meeting; if not, the Company shall within five (5) days notify the shareholders again by public notice of the matters to be considered, the date and the place for the class meeting. The Company may then hold the class meeting after such publication of notice.

Notice of class meetings need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in a manner as similar as possible to that of general meetings of shareholders. The provisions of the Articles relating to the manner to conduct any shareholders' general meeting shall apply to any meeting of a class of shareholders. Holders of Domestic-Invested Shares and Foreign-Invested Shares are deemed to be shareholders of different classes.

The special procedures for voting at a class of shareholders shall not apply to the following circumstances:

- (1) where the Company issues, upon the approval by a special resolution of its shareholders in general meeting, either separately or concurrently once every twelve months, not more than 20 per cent of each of its existing issued Domestic-Invested Shares and Overseas-Listed Foreign-Invested Shares;
- (2) where the Company's plan to issue Domestic-Invested Shares and Overseas-Listed Foreign-Invested Shares at the time of its establishment is carried out within fifteen (15) months from the date of approval of the Securities Committee of the State Council.

For the purposes of the class rights provisions of the Articles, the meaning of "interested shareholder(s)" is:

- (1) in the case of a repurchase of shares by offers to all shareholders or public dealing on a stock exchange, a "controlling shareholder" within the meaning of the Articles;
- (2) in the case of a repurchase of shares by an off-market contract, a holder of the Shares to which the proposed contract relates;
- (3) in the case of a restructuring of the Company, a shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

(D) Resolutions—majority required

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing more than one half of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favour of the resolution in order for it to be passed.

To adopt a special resolution, votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favour of the resolution in order for it to be passed.

(E) Voting rights (generally, on a poll and right to demand a poll)

The ordinary shareholders of the Company have the right to attend or appoint a proxy to

attend shareholders' general meetings and to vote thereat. A shareholder (including proxy) when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each Share shall have one vote.

At any general meeting of shareholders a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (1) by the chairman of the meeting;
- (2) by at least two shareholders entitled to vote present in person or by proxy;
- (3) by one or more shareholders present in person or by proxy and representing 10 per cent or more of all Shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on a show of hands been carried unanimously, or carried by a particular majority, or lost, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution. The demand for a poll may be withdrawn by the person who makes such demand.

A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded. On a poll taken at a meeting, a shareholder (including proxy) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to one additional vote.

(F) Requirements for annual general meetings

The Board shall convene an annual shareholders' meeting once each year and within six (6) months from the close of the preceding financial year.

(G) Accounts and audit

The Company shall establish its financial and accounting system and internal audit system in accordance with laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council.

The board of directors of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directives promulgated by competent regional and central governmental authorities to be prepared by the Company.

The Company's financial reports shall be made available for shareholders' inspection at the Company twenty (20) days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or that of the overseas place where the Company's Shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in an appendix to the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted.

Any interim results or financial information published or disclosed by the Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the overseas place where the Company's Shares are listed.

The Company shall publish its financial reports twice every fiscal year, that is, the interim financial report shall be published within sixty (60) days after the expiration of the first six (6) months of each fiscal year; the annual financial report shall be published within one hundred and twenty (120) days after the expiration of each fiscal year.

(H) Notice of meetings and business to be conducted thereat

The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law.

The Company shall not, without the prior approval of shareholders in general meeting, enter into any contract with any person other than a director, supervisor, general manager, deputy general manager or other senior administrative officer whereby the management and administration of the whole or any substantial part of the business of the Company is to be handed over to such person.

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the board of directors.

Under any of the following circumstances, the board of directors shall convene an extraordinary general meeting within two (2) months:

- (1) when the number of directors is less than the number of directors required by the Company Law or two-thirds of the number of directors specified in the Articles;
- (2) when the unrecovered losses of the Company amount to one third of the total amount of its share capital;
- (3) when shareholder(s) holding 10 per cent or more of the Company's issued and outstanding Shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;
- (4) when deemed necessary by the board of directors or as requested by the supervisory committee.

When the company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five (45) days before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to the Company twenty (20) days before the date of the meeting.

When the Company convenes a shareholders' annual general meeting, shareholders holding 5 per cent or more of the total voting Shares of the Company shall have the right to propose new motions in writing, and the Company shall place those matters in the proposed motions within the scope of functions and powers of the shareholders' general meeting on the agenda.

A shareholders' extraordinary general meeting shall not decide on those matters not stated in the notice of meeting.

The Company shall, based on the written replies received twenty (20) days before the date of the shareholders' general meeting from the shareholders, calculate the number of voting Shares represented by the shareholders who intend to attend the meeting. If the number of voting Shares represented by the shareholders who intend to attend the meeting reaches one half or more of the Company's total voting shares, the Company may hold the meeting; if not, then the Company shall within five (5) days notify the shareholders again by public notice of the matters to be considered, the place and date for, the meeting. The Company then may hold the meeting after such publication of notice.

A notice of meeting of shareholders shall comply with the following requirements:

- (1) be in writing;
- (2) specify the place, the day and the hour of the meeting;
- (3) state the matters to be discussed at the meeting;

- (4) provide such information and explanation as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase Shares, to reorganize the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- (5) contain a disclosure of the nature and extent, if any, of the material interests of any director, supervisor, general manager, deputy general manager or other senior administrative officer in the transaction proposed and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of the shareholders of the same class;
- (6) contain the full text of any special resolution proposed to be moved at the meeting;
- (7) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder;
- (8) specify the time and place for lodging proxy forms for the relevant meeting.

Notice of shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid airmail to their addresses as shown in the register of shareholders. For the holders of Domestic-Invested Shares, notice of the meetings may be issued by way of public notice.

The public notice shall be published in one or more newspapers designated by the securities governing authority of the State Council within the interval between forty-five (45) days and fifty (50) days before the date of the meeting; after the publication of notice, the holders of Domestic-Invested Shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

When the Company convenes a shareholders' annual general meeting, shareholders holding 5 per cent or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place those matters in the proposed motions within the scope of functions and powers of the shareholders' general meeting on the agenda.

The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting :

- (1) work reports of the board of directors and the supervisory committee;

- (2) plans formulated by the board of directors for distribution of profits and for making up losses;
- (3) removal of the members of the board of directors and members of the supervisory committee, their remuneration and method of payment;
- (4) annual preliminary and final budgets, balance sheets and profit and loss accounts and other financial statements of the Company;
- (5) matters other than those required by the laws and administrative regulations or by the Articles to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a shareholders' general meeting :

- (1) the increase or decrease of share capital and the issue of Shares of any class, warrants and other similar securities;
- (2) the issue of debentures of the Company;
- (3) the division, merger, dissolution and liquidation of the Company;
- (4) amendments to the Articles of Association;
- (5) any other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by a special resolution.

(I) Transfer of Shares

All the fully paid-up H Shares can be freely transferred in accordance with the Articles. However, the board of directors may refuse to recognise any instrument of transfer without giving any reason, unless:

- (1) a fee (for each instrument of transfer) of two dollars and fifty cents Hong Kong dollars or any higher fee as agreed by the Stock Exchange has been paid to the Company for registration of any transfer or any other document which is related to or will affect ownership of or change of ownership of the shares;
- (2) the instrument of transfer only involves H Shares;
- (3) the stamp duty chargeable on the instrument of transfer has been paid;

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- (4) the relevant share certificate and upon the reasonable request of the board of directors any evidence in relation to the right of the transferor to transfer the shares have been submitted;
- (5) if it is intended to transfer the shares to joint owners, then the maximum number of joint owners shall not exceed four;
- (6) the Company does not have any lien on the relevant shares.

The alteration and rectification of each part of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

If the Company refuses to register any transfer of shares, the Company shall within two months of the formal application for the transfer provide the transferor and the transferee with a notice of refusal to register such transfer.

No changes in the shareholders' register due to the transfer of shares may be made within thirty 30 days before the date of a shareholders' general meeting or within five 5 days before the record date for the Company's distribution of dividends.

(J) Power of the Company to purchase its own Shares

In accordance with the provisions of the Articles, the Company may reduce its registered capital.

The Company may, with approval according to the procedures provided in the Articles and subject to the approval of the relevant governing authority of the State, repurchase its issued Shares under the following circumstances:

- (1) cancellation of Shares for the reduction of its capital;
- (2) merging with another company that holds Shares in the Company;
- (3) other circumstances permitted by laws and administrative regulations.

The Company may, with the approval of the relevant State governing authority for repurchasing its Shares, conduct the repurchase in one of the following ways:

- (1) making a pro rata general offer of repurchase to all its shareholders;
- (2) repurchasing Shares through public dealing on a stock exchange;

- (3) repurchase by an off-market agreement.

Where the Company repurchases its Shares by an off-market agreement, the prior sanction of shareholders shall be obtained in accordance with the Articles. The Company may release, vary or waive its rights under a contract so entered into by the Company with the prior approval of shareholders obtained in the same manner.

A contract to repurchase Shares includes (without limitation) an agreement to become obliged to repurchase or an acquisition of the right to repurchase Shares of the Company. Rights of the Company under a contract to repurchase its Shares are not capable of being assigned.

Shares repurchased in accordance with law by the Company shall be cancelled within the period prescribed by laws and administrative regulations, and the Company shall apply to the original companies registration authority for registration of the change of its registered capital. The amount of the Company's registered capital shall be reduced by the aggregate par value of those cancelled Shares.

Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

- (1) where the Company repurchases Shares of the Company at par value, payment shall be made out of book surplus distributable profits of the Company or out of proceeds of a fresh issue of Shares made for that purpose;
- (2) where the Company repurchases Shares of the Company at a premium to its par value, payment up to the par value may be made out of the book surplus distributable profits of the Company or out of the proceeds of a fresh issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:
 - (i) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company;
 - (ii) if the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company or out of the proceeds of a fresh issue of Shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue shall not exceed the aggregate of premiums received by the Company on the issue of the Shares repurchased nor the current amount of the Company's capital common reserve fund account (including the premiums on the fresh issue) at the time of the repurchase;
- (3) payment by the Company in consideration of the following shall be made out of the Company's distributable profits:
 - (i) acquisition of rights to repurchase Shares of the Company;

- (ii) variation of any contract to repurchase Shares of the Company;
- (iii) release of any of the Company's obligation under any contract to repurchase Shares of the Company;
- (4) after the Company's registered capital has been reduced by the total par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for paying up the par value portion of the shares repurchased shall be transferred to the Company's capital common reserve fund account.

(K) Power for any subsidiary of the Company to own Shares in the Company

There are no provisions in the Articles preventing ownership of Shares in the Company by a subsidiary.

(L) Dividends and other method of profit distribution

The Company may distribute dividends in the following manner:

- (1) cash;
- (2) Shares.

Dividends or other payments declared by the Company to be payable to holders of Domestic-Invested Shares shall be declared and calculated in Renminbi, and paid in Renminbi; and those payable to holders of Foreign-Invested Shares shall be declared and calculated in Renminbi, and paid in the local currency at the place where such Foreign-Invested Shares are listed (if there is more than one place of listing, then the principal place of listing as determined by the board of directors).

The Company shall appoint on behalf of the holders of the Overseas-Listed Foreign-Invested Shares receiving agents to receive on behalf of such shareholders dividends declared and all other monies owing by the Company in respect of their Shares. The receiving agents appointed on behalf of holders of H Shares shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

(M) Proxies

Any shareholder entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxies to attend and vote

on his behalf, and a proxy so appointed shall be entitled to exercise the following rights pursuant to the authorization from that shareholder:

- (1) have the same right as the shareholder's to speak at the meeting;
- (2) the right to demand or join in demanding a poll;
- (3) the right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing, or if the appointer is a legal entity either under seal or under the hand of a director or attorney duly authorized. The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or other authority shall be deposited at the residence of the Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than twenty-four (24) hours before the time for holding the meeting at which the proxy propose to vote or the time appointed for the passing of the resolution.

If the appointor is a legal person, its legal representative or such person as is authorized by resolution of its board of directors or other governing body may attend at any meeting of shareholders of the Company as a representative of the appointor.

Any form issued to a shareholder by the directors for use by him for appointing a proxy to attend and vote at meeting of the Company shall be such as to enable the shareholder, according to his free will, to instruct the proxy to vote in favour of or against the motions, such instructions being given in respect of each individual matter to be voted on at the meeting. Such a form shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Shares in respect of which the proxy is given, provided that no notice in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by the Company at its residence before the commencement of the meeting at which the proxy is used.

(N) Calls on Shares and forfeiture of Shares

There are no provisions in the Articles relating to the making of calls on Shares or for the forfeiture of Shares.

(O) Rights of shareholders (including inspection of register)

The ordinary shareholders of the Company shall enjoy the following rights:

- (1) the right to dividends and other distributions in proportion to the number of Shares held;
- (2) the right to attend or appoint to attend shareholders' general meetings and to vote thereat;
- (3) the right of supervisory management over the Company's business operations, and the right to present proposals or enquiries;
- (4) the right to transfer Shares in accordance with laws, administrative regulations and provisions of the Articles;
- (5) the right to obtain relevant information in accordance with the provisions of the Articles, including:
 - (i) the right to obtain a copy of the Articles, subject to payment of the cost of such copy;
 - (ii) the right to inspect and copy, subject to payment of a reasonable charge,:
 - (a) all parts of the register of shareholders;
 - (b) personal particulars of each of the Company's directors, supervisors, general manager, deputy general managers and other senior administrative officers, including:
 - (aa) present name and alias and any former name or alias;
 - (bb) principal address (residence);
 - (cc) nationality;
 - (dd) primary and all other part-time occupations and duties;
 - (ee) identification document and its number;
 - (c) state of the Company's share capital;
 - (d) reports showing the number, aggregate par value, quantity, maximum and minimum price paid in respect of each class of Shares repurchased by the

Company since the end of the last accounting year and the aggregate amount incurred by the Company for this purpose; and

- (e) minutes of shareholders' general meetings;
- (6) in the event of the termination or liquidation of the Company, to participate in the distribution of surplus assets of the Company in accordance with the number of Shares held;
- (7) other rights conferred by laws, administrative regulations and the Articles.

(P) Quorum for meetings and separate class meetings

The Company may convene a shareholders' general meeting where the number of voting shares represented by those shareholders from whom the Company has received, 20 days before the meeting, notices of intention to attend the meeting reaches one half or more of the Company's voting shares; or, if not, where the Company has between 15 and 20 days before the meeting publicly announced the particulars of the meeting.

The Company may convene a class meeting where the number of voting Shares represented by those shareholders from whom the Company has received, 20 days before the meeting, notices of intention to attend the meeting reaches one half or more of the total number of voting Shares of that class; or, if not, where the Company has between 15 and 20 days before the meeting publicly announced the particulars of the meeting.

(Q) Rights of the minorities in relation to fraud or oppression

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange on which Shares of the Company are listed, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of the Company:

- (1) to relieve a director or supervisor of his duty to act honestly in the best interests of the Company;
- (2) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person), in any guise, of the Company's assets, including (without limitation) opportunities beneficial to the Company;
- (3) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights save pursuant to a restructuring submitted to shareholders for approval in accordance with the Articles.

**APPENDIX IX SUMMARY OF PRINCIPAL LEGAL AND REGULATORY
PROVISIONS AND ARTICLES OF ASSOCIATION**

For these purposes, a “controlling shareholder” means a person who satisfies any one of the following conditions:

- (1) he alone or acting in concert with others has the power to elect more than half of the board of directors;
- (2) he alone or acting in concert with others has the power to exercise or to control the exercise of 30 per cent or more of the voting rights in the Company;
- (3) he alone or acting in concert with others holds 30 per cent or more of the issued and outstanding Shares of the Company;
- (4) he alone or acting in concert with others in any other manner controls the Company in fact.

See also “Variation of rights of existing Shares or classes of Shares” above.

(R) Procedures on liquidation

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (a) a resolution for dissolution is passed by shareholders at a general meeting;
- (b) dissolution is necessary due to a merger or division of the Company;
- (c) the Company is legally declared insolvent due to its failure to repay debts due; and
- (d) the Company is ordered to close down because of its violation of laws and administrative regulations.

Where the board of directors proposes to liquidate the Company due to causes other than where the Company has declared that it is insolvent, the board shall include a statement in its notice convening a shareholders’ general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the board of directors is of the opinion that the Company will be able to pay its debts in full within twelve (12) months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in general meeting for the liquidation of the Company, all functions and powers of the board of directors shall cease.

The liquidation group shall act in accordance with the instructions of the shareholders’ general meeting to make a report at least once every year to the shareholders’ general meeting on

the committee's receipts and payments, the business of the Company and the progress of the liquidation; and to present a final report to the shareholders' general meeting on completion of the liquidation.

(S) Other provisions material to the Company or its shareholders

(i) General provisions

The Company is a joint stock limited company in perpetual existence.

The Company's Articles take effect from the date of establishment of the Company. From the date of the Articles of Association becoming effective, the Articles of Association constitute a legally binding document regulating the Company's organisation and activities, and the rights and obligations between the Company and each shareholder and among the shareholders inter se.

The Company may invest in other limited liability companies or joint stock limited companies. The Company's liabilities to an investee company shall be limited to the amount of its capital contribution to the investee company.

Upon approval of the companies approving department authorized by the State Council, the Company may, according to its need of operation and management, operate as a holding company.

The Company may, based on its requirements for operation and development and in accordance with the relevant provisions of the Articles, approve an increase of capital.

The Company may increase its capital in the following ways:

- (1) offering new Shares to non-specially-designated investors for subscription;
- (2) placing new Shares to its existing shareholders;
- (3) distributing new Shares to its existing shareholders;
- (4) any other ways permitted by laws and administrative regulations.

The Company's increase of capital by issuing new Shares shall, after being approved in accordance with the provisions of the Articles, be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

Unless otherwise provided by law or administrative regulation, Shares in the Company are freely transferable and are not subject to any lien.

When the Company reduces its registered capital, it must draw up a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days of the date of the Company's resolution for reduction of capital and shall publish a notice in a newspaper at least three times within thirty (30) days of the date of such resolution. A creditor has the right within thirty (30) days of receiving the notice from the Company or, in the case of a creditor who does not receive the notice, within ninety (90) days of the date of the first public notice, to demand the Company to repay its debts or provide a corresponding guarantee for such debt. The Company's registered capital after reduction shall not be less than the statutory minimum amount.

The ordinary shareholders of the Company shall assume the following obligations:

- (1) to abide by the Articles;
- (2) to pay subscription monies according to the number of Shares subscribed and the method of subscription;
- (3) other obligations imposed by laws, administrative regulations and the Articles.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant Shares on subscription.

(ii) *Secretary of the Board of Directors*

The secretary of the Company's board of directors shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the board of directors. His primary responsibilities are to ensure that:

- (1) the Company has complete organisational documents and records;
- (2) the Company in accordance with law prepares and delivers those reports and documents required by authorities entitled thereto;
- (3) the Company's registers of shareholders are properly maintained, and that persons entitled to the Company's records and documents are furnished with such records and documents without delay.

(iii) *Supervisory Committee*

The Company shall have a supervisory committee. The directors, general manager, deputy general managers and financial controller shall not act concurrently as supervisors. The supervisory committee shall be composed of five to seven supervisors. The term of office of supervisors shall be three (3) years renewable upon re-election and re-appointment.

The supervisory committee shall have one chairman. The chairman shall be elected or removed with the consent of two-thirds or more of the members of the supervisory committee. The term of office of the chairman shall be three (3) years renewable upon re-election and re-appointment. The supervisory committee shall comprise four representatives of shareholders who shall be elected or removed by the shareholders in general meeting and two representatives of staff and workers of the Company who shall be elected or removed democratically by the staff and workers.

The supervisory committee shall be accountable to the shareholders' general meeting and exercise the following powers in accordance with law:

- (1) to examine the Company's financial situation;
- (2) to supervise the directors, general manager, deputy general managers and other senior administrative officers to see whether they act in contradiction with the laws, administrative regulations and the Articles;
- (3) to demand rectification from a director, the manager or any other senior administrative officer when the acts of such persons are harmful to the Company's interest;
- (4) to check the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the board of directors to the shareholders' general meetings and, should any queries arise, to authorize, in the name of the Company, a re-examination by the certified public accountants and practising auditors of the Company for the time being;
- (5) to propose to convene a shareholders' extraordinary general meeting;
- (6) to represent the Company in negotiation with or bringing an action against a director;
- (7) other functions and powers specified in the Articles.

Members of the supervisory committee shall be present at meetings of the board of directors.

(iv) *General Manager of the Company*

The Company shall have one general manager, who shall be appointed and dismissed by the board of directors. The Company shall have a number of deputy general managers who should assist the general manager in his work. The term of office of the general manager and deputy general managers is three (3) years and renewable upon re-election and reappointment.

The general manager shall be accountable to the board of directors and exercise the following functions and powers:

- (1) to be in charge of the Company's production, operation and management and to organize the implementation of the resolutions of the board of directors;
- (2) to organize the implementation of the Company's annual business plan and investment plan;
- (3) to draft plans for the establishment of the Company's internal management structure;
- (4) to draft the Company's basic management system;
- (5) to formulate basic rules and regulations for the Company;
- (6) to propose the appointment or dismissal of the Company's deputy general manager(s) and other senior administrative officers (including the financial officer);
- (7) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the board of directors;
- (8) to determine rewards and punishments, promotion and demotion, increase and decrease of salaries, recruitment, appointment, termination of employment and dismissal of the staff and workers of the Company;
- (9) other powers conferred by the Articles and the board of directors.

The general manager and deputy general managers shall be present at meetings of the board of directors. However, the general manager or the deputy general manager has no voting rights at the meetings unless he is also a director.

The general manager and deputy general managers, in performing their functions and powers shall act honestly and diligently and in accordance with laws, administrative regulations and the Articles.

(v) *Board*

The board is responsible to the shareholders' general meeting and exercises the following powers:

- (1) to be responsible for the convening of the shareholders' general meeting and to report on its work to the shareholders' general meeting;
- (2) to implement the resolutions of the shareholders' general meetings;
- (3) to decide on the Company's business plans and investment plans;

- (4) to consider and discuss the Company's proposed annual preliminary and final financial budget;
- (5) to formulate the Company's profit distribution plan and plan for recovery of losses;
- (6) to formulate proposals for increases or reductions in the Company's registered capital and the issue of corporate debentures;
- (7) to draw up plans for the merger, division or dissolution of the Company;
- (8) to decide on the establishment of the Company's internal management structure;
- (9) to appoint or dismiss the Company's general manager, and pursuant to the general manager's nominations to appoint or dismiss the deputy general manager and other senior administrative officer (including the chief financial officer) of the Company and decide on their remuneration;
- (10) to examine and approve the Company's basic management system;
- (11) to formulate proposals for any amendments of the Company's Articles;
- (12) to exercise any other powers conferred by the Articles.

Except the board of directors' resolutions in respect of the matters specified in the above paragraphs (6), (7) and (11) which shall be passed by more than two-thirds of the directors, the board of directors' resolutions in respect of all other matters may be passed by more than one-half of the directors.

Meetings of the board of directors shall be held at least twice every year and convened by the chairman of the board of directors. Notice of the meeting shall be served on all of the directors ten (10) days before the date of the meeting. In case of any urgent matters, upon requisition by the chairman or more than three directors or by the general manager, an extraordinary meeting of the board of directors may be held.

Meetings of the board of directors shall be held only if more than half of the directors are present. Each director shall have one vote. Where the number of votes cast for and against a resolution are equal, the Chairman of the board of directors shall have a casting vote.

Where a director is interested in any resolution proposed at a board meeting, such director shall not be present and shall not have a right to vote. Such director shall not be counted in the quorum of the relevant meeting.

(vi) Accounts and Audit

(1) Appointment of accountants firm

The Company shall appoint an independent firm of accountants which is qualified under the relevant regulations of the State to audit the Company's annual report and review the Company's other financial reports. The first accountants firm of the Company may be appointed by the inaugural meeting of the Company before the first annual general meeting and the accountants firm so appointed shall hold office until the conclusion of the first annual general meeting. If the inaugural meeting fails to exercise its powers under the preceding paragraph, those powers shall be exercised by the board of directors.

The accountants firm appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders until the conclusion of the next annual general meeting of shareholders.

Before the convening of the shareholders' general meeting, the board of directors may fill any casual vacancy in the office of an accountants firm, but while any such vacancy continues, the surviving or continuing firms, if any, may act.

The shareholders in general meeting may by ordinary resolution remove an accountants firm before the expiration of its term of office, notwithstanding the stipulations in the contract between the Company and the firm, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration of an accountants firm or the manner in which such firm is to be remunerated shall be determined by the shareholders in general meeting. The remuneration of an accountants firm appointed by the board of directors shall be determined by the board of directors.

(2) Change and removal of accountants firm

The Company's appointment of, removal of and non-reappointment of an accountants firm shall be resolved upon by shareholders in general meeting. The resolution of the shareholders' general meeting shall be filed with the securities governing authority of the State Council.

Where it is proposed that any resolution be passed at a shareholders' general meeting concerning the appointment of an accountants firm which is not an incumbent firm to fill a casual vacancy in the office of the accountants firm; re-appointment of a retiring accountants firm which was appointed by the board of directors of the Company to fill a casual vacancy; or removal of the accountants firm before the expiration of its term of office, the following provisions shall apply:

(1) A copy of the proposal shall be sent before notice of meeting is given to the

shareholders to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post in the relevant fiscal year (leaving includes leaving by removal, resignation and retirement).

- (2) If the firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall (unless the representations are received too late):
 - (i) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and
 - (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles.
- (3) If the firm's representations are not sent in accordance with the preceding paragraph, the relevant firm may (in addition to its right to be heard) require that the representations be read out at the meeting.
- (4) An accountants firm which is leaving its post shall be entitled to attend:
 - (i) the shareholders' general meeting at which its term of office would otherwise have expired;
 - (ii) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and
 - (iii) any shareholders' general meeting convened on its resignation;

and to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former accountants firm of the Company.

(3) Resignation of accountants firm

Where the accountants firm resigns its post, it shall make clear to the shareholders' general meeting whether there has been any impropriety on the part of the Company.

An accountants firm may resign its office by depositing at the Company's legal residence a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice and such notice shall include the following:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or

(2) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph, the Company shall within fourteen (14) days send a copy of the notice to the relevant governing authority. If the notice contains a statement under the preceding paragraph (2), a copy of such statement shall be placed at the Company for shareholders' inspection. The Company should also send a copy of such statement by prepaid mail to every holder of Overseas-Listed Foreign-Invested Shares at the address registered in the register of shareholders.

Where the accountants firm's notice of resignation contains a statement of any circumstance which should be brought to the notice of the shareholders or creditors of the Company, it may require the board of directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

(vii) *Dispute resolution*

Whenever any disputes or claims arising between: holders of the Overseas-Listed Foreign-Invested Shares and the Company; holders of the Overseas-Listed Foreign-Invested Shares and the Company's directors, supervisors, general manager, deputy general managers or other senior administrative officers; or holders of the Overseas-Listed Foreign-Invested Shares and holders of Domestic-Invested Shares, based on the Articles or any rights or obligations conferred or imposed by the Company Law or any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

If any disputes or claims of rights are settled by way of arbitration in accordance with the Articles, the laws of the People's Republic of China shall apply, save as otherwise provided in laws and administrative regulations.

Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is the Company or

the Company's shareholder, director, supervisor, general manager, deputy general manager or other senior administrative officer. Disputes in relation to the definition of shareholders and disputes in relation to the share register need not be resolved by arbitration.

The award of an arbitration body shall be final and conclusive and binding on all parties.

4. PRC LEGAL OPINION

Haiwen & Partners, the Company's legal adviser on PRC law, has sent to the Company a letter dated 2nd May, 1996 confirming that it has reviewed the summaries of PRC company and securities regulations and the summaries of certain material differences between Hong Kong company law and the Company Law so far as they relate to PRC law as contained in this Appendix, and that, in its opinion, such summaries are correct summaries of relevant PRC laws. This letter is available for inspection as referred to in the paragraph "Documents available for inspection" in Appendix X.

Any person wishing to have detailed advice on PRC laws and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

1. THE COMPANY

The Company was established as a joint stock limited company in the PRC by the sole promoter method under the Company Law on 6th March, 1996 under the name of Guangshen Railway Company Limited.

The Company has established a place of business at No. 112, M/F, Kowloon Railway Station, Hung Hom, Kowloon, Hong Kong and has submitted an application to the Registrar of Companies in Hong Kong to be registered in Hong Kong under Part XI of the Companies Ordinance of Hong Kong. Such application contains a notice of the appointment of Mr. Ren Hong Peng as the process agent of the Company for the acceptance of service of process.

The establishment of the Company involved the following procedures and approvals:

- (a) On 7th March, 1994, the Securities Commission of the State Council issued a notice [Zheng Wei Fa (1994) No. 3] in respect of preparing the issuance of H shares and listing to the Company;
- (b) On 12th April, 1994, the State Land Administration Bureau issued an approval [Guo Tu (Ji Ding) (1994) No. 9] to the MOR approving the application relating to land assessment proposal;
- (c) On 19th April, 1994, the State Assets Bureau issued an approval [Guo Zi Ping (1994) No. 235] approving the Company's asset's assessment proposal to the MOR;
- (d) On 19th September, 1995, Shenzhen Municipal Tax Bureau issued an approval [Shen Di Shui Zhi Fa (1995) No. 46] in respect of income tax rate to be applied to the Company;
- (e) On 23rd October, 1995, the Parent Company submitted a restructuring proposal report [Guang Tie Qi (1995) No. 528] to the MOR;
- (f) On 27th October, 1995, the MOR consented to the restructuring proposal report and resubmitted it to the State Commission for Restructuring the Economic System for approval [Tie Zhen Ce Han (1995) No. 522];
- (g) On 17th November, 1995, the State Land Administration Bureau issued an approval [Guo Tu Pi (1995) No. 65] in respect of the disposal of land use right of the Company;
- (h) On 23rd November, 1995, the State Assets Bureau issued a Notice [Guo Zi Ping (1995) No. 715] confirming the valuation of assets to be owned by the Company;
- (i) On 5th December, 1995, the State Assets Bureau issued an approval [Guo Zi Qi Han Fa (1995) No. 287] relating to the administration of state-owned shares in the Company;

- (j) On 14th December, 1995, the State Commission for Restructuring the Economic System issued an approval [Ti Gai Sheng (1995) No. 151] approving the establishment of the Company;
- (k) On 6th March, 1996, the Shenzhen Administration of Industry and Commerce issued a business licence [Shen Si Zhi N12183] to the Company whereupon the Company was established as a joint stock limited company and acquired the status of an enterprise legal person under PRC law;
- (l) On 14th March, 1996, an extraordinary shareholder's meeting of the Company was held at which, among other things, it was resolved that:
 - (i) the Articles of Association were conditionally approved;
 - (ii) the Company be converted into a public subscription company;
 - (iii) the Combined Offering and the Over-allotment Options were approved and;
 - (iv) the directors were authorized to take all other necessary actions in connection therewith;
- (m) On 1st April, 1996, the State Commission for Restructuring the Economic System issued an approval [Ti Gai Sheng (1996) No. 44] approving the Articles of Association and the increase of the share capital of the Company and authorised the conversion of the Company into a public subscription company; and
- (n) On 9th April, 1996, the Securities Commission of the State Council issued an approval [Zheng Wei Fa (1996) No. 7] approving the listing of H Shares on the Hong Kong Stock Exchange and the listing of ADSs on the New York Stock Exchange.

2. THE RESTRUCTURING

The Predecessor underwent the Restructuring in preparation for the Combined Offering. The Restructuring involved the following:

- (a) the restructuring of the Predecessor was conducted by the way of assets injection from the Predecessor and the Parent Company to the Company;
- (b) the assets and liabilities assumed by the Company after the Restructuring are:
 - the passenger and freight transport assets and liabilities of the principal railway business and its related business owned by the Predecessor;

- the High Speed Project and the assets relating to the Technology Improvement Project and part of the assets supplied by Yang Cheng which were being used by the Predecessor (including 14 shunting locomotives, 50 double-deck coaches, passenger transport inspection site of Shenzhen, freight transport inspection site of Shenzhen North and all terminals and infrared axis temperature alarm units);
- (c) the remaining assets of the Predecessor have been retained by the Predecessor, which changed its name into GEDC and remains as a state-owned enterprise after the Restructuring;
- (d) the matters relating to the Restructuring have been agreed among the Company, the Parent Company and the Predecessor in a restructuring agreement, under which the Parent Company and the Predecessor have given certain warranties, representations and undertakings in favour of the Company; and
- (e) the Parent Company and the Predecessor have respectively signed comprehensive services agreements with the Company, under which the former shall provide the latter with certain services relating to employee housing, health care, education for employees and their children, public security services, etc. at fees on a contractual basis.

3. JOINT VENTURE ARRANGEMENTS

The following are joint venture companies in which the Company has a substantial interest, together with details of the joint venture arrangements. These joint venture companies are established in the PRC.

The Company owns majority interests in seven joint venture enterprises. The first joint venture is Guangzhou Donglian Travel Service Company Limited, a Sino-foreign cooperative joint venture (“Donglian”). Donglian is located in Guangzhou. It was formed by the Company and Luen Tai Enterprises Company in Hong Kong (“Luen Tai”) in April 1991. The registered capital of Donglian is HK\$14 million, of which 60% was contributed by the Company. According to the joint venture agreement, profits and dividends of the joint venture are distributed between the Company and Luen Tai on a 60:40 ratio prior to April 1995 and a 70:30 ratio thereafter. The term of the joint venture is 10 years from April 1991, renewable upon agreement of the parties six months prior to the expiry of the term. Upon expiry of the term, all assets of the joint venture will belong to the Company. Prior to the expiration of the term, the joint venture may be terminated upon majority approval by the board of directors of Donglian or, when 90 days have lapsed after a material breach of the joint venture agreement by one party, by the request of the other party. There are six members of Donglian’s board of directors, three of whom are appointed by each party. The chairman of the board of directors, who has equal voting power as other directors do, even in the case of a deadlock, is appointed by the Company. The principal businesses of Donglian include the operation of restaurants and bakeries.

The second joint venture is Shenzhen Railway Station Travel Service Company, a Sino-foreign cooperative joint venture (“Shenzhen Travel”). Shenzhen Travel is located in Shenzhen. It was formed by the Company and Canton Star Co., Ltd. (“Canton Star”) in Hong Kong in December 1989. The registered capital of Shenzhen Travel is HK\$6.7 million, of which 70% was contributed by the Company. According to the joint venture agreement, as amended in 1992 and 1994, profits of the joint venture are first used to repay Canton Star’s investment at a rate of HK\$629,000 per quarter and the remaining profits are distributed to the Company and Canton Star on an 80:20 ratio until 1991 and a 70:30 ratio thereafter. The Joint Venture will terminate in December 1999 and, prior to that, it may be terminated upon agreement of the parties. Upon expiry of the term, all assets of the joint venture will belong to the Company. There are five members of the board of directors of Shenzhen Travel, three of whom are appointed by the Company and the remaining two of whom are appointed by Canton Star. The chairman of the board of directors and all members of the management of Shenzhen Travel are appointed by the Company. The principal businesses of Shenzhen Travel include the operation of restaurants, drug stores, souvenir shops and clothing stores.

The third joint venture is Shenzhen Hongdali Auto Repair Company Limited, an equity joint venture (“Hongdali”). Hongdali is located in Shenzhen. It was formed by the Company and Guangzhou Fucheng Economy Development Company, a PRC company (“Fucheng”), in January 1995. The registered capital of Hongdali is RMB1.3 million, of which 60% was contributed by the Company and the remaining 40% was contributed by Fucheng. According to the joint venture agreement, profits and dividends of the joint venture are distributed to the Company and Fucheng on a 60:40 ratio. The term of the joint venture is 10 years from January 1995. Prior to the expiration of the term, the joint venture may be terminated upon majority approval of the board of directors or the shareholders of Hongdali. Upon termination, after the joint venture has fulfilled all of its statutory and contractual obligations, assets of the joint venture will be distributed to the Company and Fucheng on a 60:40 ratio. There are five members of Hongdali’s board of directors, all of whom are nominated by Hongdali’s shareholders. The chairman of the board of directors is elected by the shareholders. Directors’ voting rights correspond to the interests of the respective shareholders they represent. Members of the management are appointed by the board of directors. The principal business of Hongdali is automobile repair and maintenance.

The fourth joint venture is Shenzhen Road Multi-modal Transportation Company Limited, an equity joint venture (“Road Multi-modal”). Road Multi-modal is located in Shenzhen. It was formed by the Company and Shenzhen Municipal Cargo Centre, a PRC state-owned enterprise, in March 1994. The registered capital of Road Multi-modal is RMB1 million, of which 60% was contributed by the Company. According to the joint venture agreement, the Company and Shenzhen Municipal Cargo Centre share profits and dividends of the joint venture on a 60:40 ratio. The term of the joint venture is 12 years from March 1994. Upon expiry of the term, after the joint venture has fulfilled all of its statutory and contractual obligations, assets of the joint venture will be distributed to the Company and Shenzhen Municipal Cargo Centre on a 60:40 ratio. During such distribution, each party to the joint venture will have pre-emptive right to purchase assets that are to be distributed to the other party. Prior to the expiration of the term, the joint venture may be terminated upon agreement of the parties or, upon the occurrence of certain events, by the request of either party without prior notice. There are five members of Road Multi-modal’s board of directors, three of whom, including the deputy chairman, are appointed by the Company and

the remaining two of whom, including the chairman, are appointed by Shenzhen Municipal Cargo Centre. Members of the management are appointed by the board of directors. The principal businesses of Road Multi-modal include multi-modal cargo and shipping services.

The fifth joint venture is Shenzhen Longgang Pinghu Qun Yi Railway Storage, Loading and Unloading Company, an equity joint venture (“Qun Yi”). Qun Yi is located in Shenzhen. It was formed by the Company and Qun Yi Enterprise Company Limited, a PRC state-owned company located in Shenzhen, in September 1993. The registered capital of Qun Yi is RMB10 million, of which 55% was contributed by the Company and the remaining 45% was contributed by Qun Yi Enterprise Company Limited. Profits and dividends of the joint venture are distributed between the Company and Qun Yi Enterprise Company Limited according to their respective capital contributions. The term of the joint venture is 15 years from September 1993, renewable upon unanimous approval of the board of directors of Qun Yi six months prior to the expiry of the term. Prior to the expiration of the term, the joint venture may be terminated upon unanimous approval by the board of directors of Qun Yi or, upon a material breach of the joint venture agreement by one party, at the request of the other party without prior notice. Upon termination, assets of the joint venture will be distributed in accordance with the parties’ respective contributions in the joint venture. There are three members of Qun Yi’s board of directors, two of whom, including the chairman, are appointed by the Company and the remaining one of whom is appointed by Qun Yi Enterprise Company Limited. Members of the management are appointed by the board of directors. The principal businesses of Qun Yi include cargo loading and unloading and warehousing.

The sixth joint venture is Shenzhen Huasheng Container Transportation Company Limited, a Sino-foreign cooperative joint venture (“Huasheng”). Huasheng is located in Shenzhen. It was formed in December 1991 by the Company and Storman Limited, a Hong Kong company. The registered capital of Huasheng is RMB20 million. The Company and Storman Limited each invested 50% of this amount. Profits from the joint venture are first used to repay the parties’ investments in the ratio of their respective contributions. Thereafter, additional profits will be shared by the Company and Storman Limited on a 53% to 47% ratio. The term of this joint venture is 10 years from December 1991. Prior to the expiration of the term, the joint venture may be terminated upon the unanimous approval by the board of directors of Huasheng or, upon a material breach of the joint venture agreement by one party, at the request of the other party. Upon expiry of the term, all joint venture assets will belong to the Company. In the event of an early termination, assets of the joint venture will be distributed either (i) upon the Company’s undertaking to repay all the outstanding debts of the joint venture and the capital contributions of Storman Limited, solely to the Company, or (ii) in the absence of such an undertaking, after the joint venture has fulfilled all of its statutory and contractual obligations, to the Company and Storman Limited on a 50:50 ratio. There are six members of Huasheng’s board of directors, three of whom, including the chairman, are appointed by the Company and the remaining three of whom, including the deputy chairman, are appointed by Storman Limited. Members of the management are appointed by the board of directors. The principal business of Huasheng is warehousing.

The seventh joint venture is Dongguan Changsheng Enterprise Company, a cooperative joint venture (“Changsheng”). Changsheng is located in Dongguan. It was formed by the

Company, Agriculture Industry and Commerce United Company, a PRC state-owned enterprise located in Changping (“United”), and Xinda Industry and Trading Company, a PRC state-owned company located in Changping (“Xinda”), in May 1992. The registered capital of Changsheng is RMB38 million. The Company, United and Xinda contributed 51%, 39% and 10%, respectively, of this amount. Profits and dividends are distributed according to the parties’ respective capital contributions. The term of the joint venture is 30 years from May 1992. Upon termination, after the joint venture has fulfilled all of its statutory and contractual obligations, assets of the joint venture will be distributed to the Company, United and Xinda on a 51:39:10 ratio. Prior to the expiration of the term, the joint venture may be terminated upon unanimous approval by the board of directors of Changsheng or, upon a material breach of the joint venture agreement by one party, at the request of the other party without prior notice. There are seven members of Changsheng’s board of directors, four of whom, including the chairman, are appointed by the Company and the remaining three of whom are appointed by United and Xinda. The general manager of Changsheng is nominated by the Company but all other members of the management are appointed by the board of directors. Changsheng’s principal business is warehousing.

The Company also owns minority interests in four joint venture enterprises. The first of such joint venture enterprises is Guangzhou Tielian Economy Development Company Limited, an equity joint venture (“Tielian”). Tielian is located in Guangzhou. It was formed in December 1994 by the Company, Shuangsha No. 5 Economy Cooperative Company in Dasha Town, Huangpu District, Guangzhou, a PRC state-owned enterprise (“No. 5 Economy Cooperative Company”) and Yihua Modern Enterprise Company, Guangzhou branch, a PRC state-owned enterprise (“Yihua”). The registered capital of Tielian is RMB1.0 million and the Company, No. 5 Economy Cooperative Company and Yihua contributed 34%, 33% and 33%, respectively, of this amount. Profits and dividends are distributed according to the parties’ respective capital contributions. The term of the joint venture is 50 years from December 1994. Prior to the expiration of the term, the joint venture may be terminated upon unanimous approval by the board of directors of Tielian or, upon a material breach of the joint venture agreement by one party, at the request of the other party without prior notice. Upon termination, after the joint venture has fulfilled all of its statutory and contractual obligations, assets of the joint venture will be distributed to the Company, No. 5 Economy Cooperative Company and Yihua on a 34:33:33 ratio. There are four members of Tielian’s board of directors, two of whom, including the chairman, are appointed by the Company. No.5 Economy Cooperative Company and Yihua may each appoint one director. According to the joint venture agreement, the head of the Company’s Xiayuan station will serve as the general manager of Tielian. Tielian’s principal businesses include warehousing and freight transport agency services.

The second of such joint venture enterprises is Shenzhen Huatie Industries Co., Ltd, a Sino-foreign equity joint venture (“Huatie”). Huatie is located in Shenzhen. It was formed in August 1993 by the Company, Euroway Development Limited, a Hong Kong company, Shenzhen Construction Materials, Industrial Materials, Storage and Transportation Company, a PRC state-owned enterprise (“Shenzhen Construction Materials”), Xiangxiang Cement Plant, a PRC state-owned company in Hunan and Dongjiang Cement Plant, a PRC state-owned company in Hunan based on their respective contributions of 32%, 25%, 15%, 14% and 14%. The registered capital is RMB20 million. Profits and dividends are distributed according to the parties’ respective capital contributions. The term of the joint venture is 15 years from August

1993. Prior to the expiration of the term, the joint venture may be terminated upon agreement of all parties or, upon a material breach of the joint venture agreement by one party, at the request of the other parties without prior notice. Upon expiry of the term or early termination, after the joint venture has fulfilled all of its statutory and contractual obligations, assets of the joint venture will be distributed to the Company, Euroway Development Limited, Shenzhen Construction Materials, Xiangxiang Cement Plant and Dongjiang Cement Plant on a 32:25:15:14:14 ratio. However, the distributions to be made to the shareholders are subject to the right of the Company to recover without payment the land occupied by Huatie which was contributed by the Company. There are seven members on Huatie's board of directors. Each of the Company and Shenzhen Construction Materials is entitled to appoint two directors and the remaining three parties are each entitled to appoint one director. The chairman of the board of directors is appointed by the Company and the two deputy chairmen are appointed by Shenzhen Construction Materials and Euroway Development Limited. The general manager serves a four-year term and the initial general manager was nominated by Shenzhen Construction Materials and appointed by the board of directors. Huatie's principal business is production of construction materials.

The third of such joint venture enterprises is Guangzhou Huangpu Yuehua Freight Transportation Joint Venture Company Limited, an equity joint venture ("Yuehua"). Yuehua is located in Guangzhou. It was formed by the Company, Huangpu Station Transportation Company, a PRC state-owned enterprise ("Huangpu Station Transportation Company"), and Maogang Town Shipping Company, a PRC state-owned enterprise ("Maogang Town Shipping Company"), in July 1990. The registered capital of Yuehua is approximately RMB6.6 million, of which the Company, Huangpu Station Transportation Company and Huangpu Station Transportation Company each contributed one-third. According to the joint venture agreement, the joint venture will continue through July 2000 and may be terminated prior to that time upon agreement of all parties. Profits and dividends of the joint venture are distributed based on the parties' respective capital contributions. Upon termination of the joint venture, all assets will be distributed among the parties equally. There are six members of Yuehua's board of directors, two of whom are appointed by each party. Members of the management are appointed by the board of directors. The principal businesses of Yuehua include cargo loading and unloading.

The fourth of such joint venture enterprises is Zengcheng Lihua Stock Company Limited ("Lihua"). Lihua is located in Zengcheng. The registered capital of Lihua is RMB100 million. Of the interest of Lihua, 27% is owned by the Company, 15% is owned by Zengcheng Automobile Parts Industry Development Company, a PRC state-owned enterprise, 15% is owned by Zengcheng Local Highway and Bridge Construction Company, a PRC state-owned enterprise, 15% is owned by Zengcheng Sanjiang County Development Company, a PRC state-owned enterprise, and the remaining interest is owned by employees of Lihua or public investors. The equity interest owned by employees of Lihua or public investors is being traded over-the-counter in Zengcheng's local securities market. Profits and dividends are distributed according to all shareholders' respective interests in Lihua. Lihua is a joint stock limited company. If any of the Company, Zengcheng Automobile Parts Industry Development Company, Zengcheng Local Highway and Bridge Construction Company and Zengcheng Sanjiang County Development Company wishes to transfer its shares in the joint venture, prior approval from the board of directors must be obtained and the other parties will have pre-emptive right to purchase the shares offered for sale.

4. DISCLOSURE OF INTERESTS

- (a) Each of the Directors has entered into a service agreement dated 10th April, 1996 with the Company. Each service agreement is for an initial term of three years from the date of appointment.
- (b) The aggregate amount of cash remuneration paid by the Company to the Directors and the Supervisors during the year ended 31st December, 1995 was approximately RMB358,000. It is expected that an aggregate amount of approximately RMB961,000 will be paid to the Directors and the Supervisors as remuneration by the Company in respect of the financial year ending 31st December, 1996 pursuant to the present arrangements.
- (c) So far as the Directors are aware, the Parent Company will immediately following completion of the Combined Offering (assuming that the Over-allotment Options are not exercised) be interested in 2,904,250,000 Domestic Shares, representing approximately 70% of the Shares carrying rights to vote in all circumstances at general meetings of the Company.
- (d) Save as disclosed in this Prospectus, but not taking into account any Shares which may be taken up under the Combined Offering, the Directors are not aware of any legal person or individual (not being a Director or the chief executive of the Company) who will, immediately following the completion of the Combined Offering, be directly or indirectly interested in 10% or more of the Shares then in issue, or an equity interest in any subsidiary of the Company representing 10% or more of the equity interest in such subsidiary.
- (e) Save as disclosed in this prospectus:
 - (i) none of the Directors or Supervisors has any interest in any Shares in or debentures of the Company or any associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)), which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which he is taken or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), once the H Shares are listed on the Hong Kong Stock Exchange; or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, once the H Shares are listed on the Hong Kong Stock Exchange; or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Hong Kong Stock Exchange, once the H Shares are listed on the Hong Kong Stock Exchange. For this purpose, the relevant provisions of the SDI Ordinance will be interpreted as if they applied to the Supervisors;
 - (ii) none of the Directors or the Supervisors nor any of the parties listed in paragraph 11(d) of this Appendix is interested in the promotion of the Company, or in any assets which have within the two years immediately preceding the issue of this

prospectus been acquired or disposed of by or leased to the Company or its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or its subsidiaries;

- (iii) none of the Directors nor any of the parties listed in paragraph 11(d) of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Company;
- (iv) none of the parties listed in paragraph 11(d) of this Appendix has any shareholding in the Company or its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or its subsidiaries;
- (v) none of the Directors or Supervisors has entered or is proposed to enter into a service contract with the Company or its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (vi) no amount or benefit has been paid or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such amount or benefit intended to be paid or given.

5. UNDERWRITING ARRANGEMENTS AND EXPENSES

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Offered Shares for subscription on, and subject to, the terms and conditions of this prospectus and the application forms relating thereto at the Hong Kong Offering Price. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of and permission to deal in the H Shares being offered pursuant to the Combined Offering (including the additional H Shares which may be made available pursuant to the exercise of the Over-allotment Options) on or before the Price Determination Date and to certain other conclusions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for, the Offered Shares which are being offered but are not taken up under the Hong Kong Offering on the terms and conditions of this prospectus and the application forms relating thereto. The obligation of the Hong Kong Underwriters to subscribe or procure subscribers for the Offered Shares is subject to termination in certain events, including force majeure, occurring at any time up to and including the Price Determination Date.

The Hong Kong Underwriters will receive a commission of 2.5% of the aggregate Hong Kong Offering Price payable for the Offered Shares, out of which they will pay any sub-underwriting commissions, and Bear Stearns will also receive a documentation fee. Such fee and commission and the commission payable under the US Offering and the International Offering,

together with the Hong Kong Stock Exchange listing fees, the Hong Kong Stock Exchange transaction levy payable by the Company, legal and other professional fees, printing, and other expenses relating to the Combined Offering, which are estimated to amount to approximately HK\$62 million in aggregate, will be payable by the Company.

The Company has agreed with the Underwriters that, except pursuant to the Combined Offering, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the date on which trading in the H Shares commences on the Hong Kong Stock Exchange, it will not (and will not permit any subsidiary to) without the Global Coordinator's prior written consent issue, accept subscriptions for, offer, sell, contract to sell, grant or agree to grant any option or other right over or otherwise dispose of, directly or indirectly, conditionally or unconditionally, any Shares (or any securities convertible into, exercisable for or exchangeable for shares) of the Company (including, but not limited to, ADSs) or any interest therein or announce any intention to do so.

Further, the Parent Company has undertaken with the Underwriters that it will not, without the Global Coordinator's prior written consent and unless in compliance with the requirements of the Listing Rules, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the date on which trading in the H Shares commences on the Hong Kong Stock Exchange, sell, offer, agree to sell, transfer or otherwise dispose of or grant or agree to grant any option or other right in or charge, encumber or otherwise create any security interest over, directly or indirectly, any Shares or ADSs (or any securities convertible into, exercisable for or exchangeable for Shares or ADSs) and will not for a further six months sell, offer, agree to sell, transfer or otherwise dispose of or grant or agree to grant any option or other right in, or charge, encumber or otherwise create any security interest over, directly or indirectly, any Shares or ADSs (or any securities convertible into, exercisable for or exchangeable for Shares or ADSs) such that the Parent Company would cease to be a controlling shareholder of the Company (within the meaning defined in the Listing Rules).

The Parent Company has also undertaken that, upon any disposal of any of the Domestic Shares held by it at the date of the Hong Kong Underwriting Agreement after the expiry of 6 months from the date on which trading in the H Shares commences on the Hong Kong Stock Exchange, all reasonable steps will be taken by it to ensure that such disposal will not create a disorderly or false market for the Domestic Shares.

As described under "Combined Offering — Hong Kong Offering", the Hong Kong Underwriting Agreement provides that the number of H Shares being offered pursuant to the Hong Kong Offering may be increased, in certain circumstances, by reallocating H Shares from the US Offering and the International Offering.

In connection with the US Offering and the International Offering, it is expected that the Company and the US Underwriters will enter into the US Underwriting Agreement and the Company and the International Underwriters will enter into the International Underwriting Agreement. Under the US and International Underwriting Agreements, the underwriters to be named therein would severally agree to purchase (subject to adjustment as provided below) ADSs

representing in aggregate 803,724,300 H Shares. The price of each ADS will be determined on the Price Determination Date and the issue price will be payable by such underwriters less underwriting commissions, selling concessions and certain other expenses.

The Company has granted to the Underwriters the Over-allotment Options to require the Company to issue additional H Shares or ADSs, together representing an aggregate of up to 186,650,000 additional H Shares, solely to cover over-allotments and over-subscriptions, if any, in the Combined Offering.

6. ESTATE DUTY

The Directors have been advised that no material liability for estate duty is likely to fall on the Company in the PRC, the jurisdiction in which the Company is incorporated, or in Hong Kong.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) comprehensive services agreement dated 3rd April, 1996 between the Company and GEDC for a term of ten years regarding the provision of certain social and related services (further particulars of such agreement are set out in the paragraph headed “Relationship with the Parent Company and affiliated companies—Continuing relationships” in the section headed “Particulars of the Company”);
- (b) comprehensive services agreement dated 3rd April, 1996 between the Company and Yang Cheng for a term of ten years regarding the provision of certain social and related services (further particulars of such agreement are set out in the paragraph headed “Relationship with the Parent Company and affiliated companies—Continuing relationships” in the section headed “Particulars of the Company”);
- (c) comprehensive services agreement dated 3rd April, 1996 between the Company and the Parent Company for a term of ten years regarding the provision of certain social and related services (further particulars of such agreement are set out in the paragraph headed “Relationship with the Parent Company and affiliated companies—Continuing relationships” in the section headed “Particulars of the Company”);
- (d) restructuring agreement dated 8th March, 1996 between the Company, the Parent Company and the Predecessor regarding the Restructuring;

- (e) underwriting agreement dated 2nd May, 1996 between the Company and, inter alios, the Hong Kong Underwriters, being the Hong Kong Underwriting Agreement referred to in paragraph 5 of this Appendix; and
- (f) 16 agreements dated 10th April, 1996 between the Company and each of the Directors, the Supervisors and the secretary of the Company respectively containing certain undertakings and provisions regarding arbitration as required by the Listing Rules.

8. LITIGATION

The Company is not engaged in any litigation or arbitration of material importance, and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company.

9. SPONSORS

Bear Stearns, China Development Finance Co., (H.K.) Ltd. and ABN AMRO HG Asia Limited have made an application on behalf of the Company to the Listing Committee of the Hong Kong Stock Exchange for listing of and permission to deal in the H Shares.

10. MATERIAL CHANGE

Save as disclosed in this prospectus, the Directors believe that there has been no material adverse change in the financial position or prospects of the Company or its subsidiaries since 31st December, 1995.

11. MISCELLANEOUS

- (a) Save as disclosed in this prospectus:
 - (i) within the two years preceding the date of this prospectus, no Share or loan capital of the Company or its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company or its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders, management or deferred shares of the Company or its subsidiaries have been issued or agreed to be issued; and

- (iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or its subsidiaries;
- (b) the preliminary expenses of the Company incurred or proposed to be incurred are estimated to be approximately RMB350,000 and are payable by the Company;
- (c) the promoter in connection with the establishment of the Company under the Company Law was the Parent Company. Save as disclosed in this prospectus, no amount, or benefit has been paid or given to or is intended to be paid or given to the promoter in connection with the Combined Offering or the related transactions described in this prospectus;
- (d) none of Bear Stearns, China Development Finance Co., (H.K.) Ltd., ABN AMRO HG Asia Limited, Arthur Andersen & Co., Frank Small & Associates, Vigers Hong Kong Ltd. and Haiwen & Partners:
 - (i) is interested beneficially or non-beneficially in any Shares in the Company or its subsidiaries; or
 - (ii) has any right or option to subscribe for or nominate persons to subscribe for any Shares in the Company or its subsidiaries; and
- (e) following the completion of the Combined Offering, the Company intends to apply for the status of Sino-foreign joint venture in the form of a foreign investment joint stock limited company.

12. BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance of Hong Kong so far as applicable.

13. CONSENTS

Bear Stearns, China Development Finance Co., (H.K.) Ltd., ABN AMRO HG Asia Limited, Frank Small & Associates, Arthur Andersen & Co., Vigers Hong Kong Ltd., and Haiwen & Partners have given and have not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

14. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the application forms, the written consents referred to in paragraph 13 of this Appendix and copies of the material contracts referred to in paragraph 7 of this Appendix.

15. CONNECTED PARTY TRANSACTION CONTRACTS

As referred to in the section headed “Relationship with the Parent Company and Affiliated Companies”, the Company has entered into a number of contracts with certain connected persons (as defined in the Listing Rules). In addition to the contracts referred to in (a) to (c) of paragraph 7 of this Appendix, such contracts are:

- (a) contract for the supply of materials dated 3rd April, 1996 between the Company and the Materials General Corporation of the Parent Company for a term of 10 years regarding the supply of certain railway related materials;
- (b) transportation service contract dated 3rd April, 1996 between the Company and Guangmeishan Railway Company for a term of 10 years regarding certain transportation related services;
- (c) transportation service contract dated 3rd April, 1996 between the Company and Sanmao Railway Company for a term of 10 years regarding certain transportation related services;
- (d) transportation service contract dated 3rd April, 1996 between the Company and Changsha Railway Company for a term of 10 years regarding certain transportation related services;
- (e) transportation service contract dated 3rd April, 1996 between the Company and Yang Cheng for a term of 10 years regarding certain transportation related services;
- (f) facilities maintenance contract dated 3rd April, 1996 between the Company and the Parent Company for a term of 10 years regarding certain maintenance services;
- (g) railway transportation agreement dated 3rd April, 1996 between the Company and the Parent Company regarding the railway and related operations of the Company;
- (h) contract for the joint development of the Shenzhen Station advertising business dated 3rd April, 1996 between the Company and Guangzhou Railway (Group) Cultural Advertising General Corporation for a term of 10 years regarding the development of advertising business at the Company’s Shenzhen Station;

- (i) repayment agreement dated 7th March, 1996 between the Company and the Parent Company regarding the terms of repayment of certain loans due to the Parent Company; and
- (j) leasing agreement on Korean high speed passenger coaches dated 3rd April, 1996 between the Company and the Parent Company for a term of 5 years regarding the leasing of certain high speed passenger coaches by the Company.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Johnson Stokes & Master, 17th Floor, Prince's Building, 10 Chater Road, Hong Kong during normal business hours up to and including 20th May, 1996:

- (a) the Articles of Association;
- (b) the accountants' report on the Company prepared by Arthur Andersen & Co., the text of which is set out in Appendix I;
- (c) the letters with valuation certificates relating to the property and machinery and equipment of the Company prepared by Vigers Hong Kong Ltd., the texts of which are set out in Appendices III and IV;
- (d) the letters relating to the profit forecast, the texts of which are set out in Appendix V;
- (e) the service agreements with the Directors referred to in paragraph 4 of this Appendix;
- (f) the material contracts referred to in paragraph 7 of this Appendix including, where appropriate, English translations thereof;
- (g) the connected party transaction contracts referred to in paragraph 15 of this Appendix including English translations thereof;
- (h) the written consents referred to in paragraph 13 of this Appendix;
- (i) the Company Law together with an unofficial English translation;
- (j) the Special Regulations on Listing Overseas together with an unofficial English translation;
- (k) the Mandatory Provisions together with an unofficial English translation; and

- (l) the PRC legal opinion dated 2nd May, 1996 issued by Haiwen & Partners, confirming that, in their opinion, the summary of relevant PRC laws and principal regulatory provisions set out in Appendix IX is a correct summary of the relevant PRC laws and regulatory provisions.

PROSPECTUSES AND APPLICATION FORMS

Copies of this prospectus, together with **WHITE** application forms, may be obtained from:

Any member of
The Stock Exchange of Hong Kong Limited

Bear Stearns Asia Limited

26th Floor, Citibank Tower
3 Garden Road,
Central, Hong Kong

China Development Finance Co., (H.K.) Ltd.

10th Floor, Bank of China Tower
1 Garden Road
Central, Hong Kong

ABN AMRO HG Asia Limited

31st Floor, Edinburgh Tower, The Landmark
15 Queen's Road Central
Central, Hong Kong

Credit Lyonnais Securities (Asia) Limited

33rd Floor, Peregrine Tower
Lippo Centre
89 Queensway, Hong Kong

HSBC Investment Bank Asia Limited

Level 15, 1 Queen's Road Central
Central, Hong Kong

Peregrine Capital Limited

23rd Floor, New World Tower
16-18 Queen's Road Central
Central, Hong Kong

SBC Warburg

A Division of Swiss Bank Corporation
25th Floor, One Exchange Square
8 Connaught Place, Central, Hong Kong

Wheelock NatWest Securities Limited

43rd Floor, NatWest Tower
Times Square
1 Matheson Street
Causeway Bay, Hong Kong

C.A. Pacific Capital Limited

Suite 603-6, 6th Floor
9 Queen's Road Central
Central, Hong Kong

Core Pacific Securities International Limited

Suite 1106-9, Two Pacific Place
88 Queensway
Hong Kong

FOTIC Capital Limited

Suite 2006, Peregrine Tower
Lippo Centre, 89 Queensway
Hong Kong

Guangdong Securities Ltd.

5th Floor, 9 Queen's Road Central
Central, Hong Kong

J & A Securities (Hong Kong) Ltd.

Suite 508-9, 5th Floor
Citibank Tower, Citibank Plaza
3 Garden Road
Central, Hong Kong

**New Japan Securities International
(Hong Kong) Limited**

30th Floor, One Exchange Square
8 Connaught Place
Central, Hong Kong

PROSPECTUSES AND APPLICATION FORMS

Seapower Securities Limited

32nd Floor, Alexandra House
16 Chater Road
Central, Hong Kong

Sun Hung Kai Investment Services Ltd.

3rd Floor, Admiralty Centre
Tower II
18 Harcourt Road
Hong Kong

or any of the following branch and sub-branches of Bank of China:

Hong Kong Islands:	Hong Kong Branch Central Sub-branch Wanchai Sub-branch North Point Sub-branch	3rd Floor, 1 Garden Road, Central 2A Des Voeux Road Central 395 Hennessy Road, Wanchai Ground Floor, Roca Centre, 464 King's Road, North Point
Kowloon:	Tsim Sha Tsui Sub-branch Yaumati Sub-branch Kwun Tong Sub-branch Lai Chi Kok Sub-branch	Ground Floor, Houston Centre, 63 Mody Road, Tsim Sha Tsui 471 Nathan Road, Yaumati 55 Hoi Yuen Road, Kwun Tong Unit 1, Ground Floor, Kowloon Plaza, 485 Castle Peak Road
New Territories:	Tsuen Wan Sub-branch Shatin Sub-branch	167 Castle Peak Road, Tsuen Wan Ground Floor, Lucky Plaza, Wang Pok Street, Shatin

The **YELLOW** application forms, together with copies of this prospectus, are available at the service counter of Hongkong Clearing, at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong and the Trading Hall of the Hong Kong Stock Exchange, at 1st Floor, One and Two Exchange Square, Central, Hong Kong.

Both **WHITE** and **YELLOW** application forms (to which cheques or banker's cashier orders should be securely stapled) should be deposited in the special collection boxes provided at the branch and sub-branches of the Bank of China referred to above at the following times:

Monday, 6th May, 1996 - 9:00 a.m. to 4:00 p.m.
Tuesday, 7th May, 1996 - 9:00 a.m. to 4:00 p.m.
Wednesday, 8th May, 1996 - 9:00 a.m. to 4:00 p.m.
Thursday, 9th May, 1996 - 9:00 a.m. to 12:00 noon

PROCEDURE FOR APPLICATION

PRICING

The Hong Kong Offering Price will be based on the Hong Kong dollar equivalent (on the basis described below) of the US dollar price at which ADSs are to be offered in the US Offering and the International Offering. The price of such ADSs will be fixed by the Underwriters and the Company on the Price Determination Date. The Hong Kong Offering Price will be determined as that amount which, when increased by 1% brokerage and 0.013% stock exchange transaction levy thereon, is (subject to any necessary rounding) equal to the US dollar price per ADS (i) converted into Hong Kong dollars at the average of the bid and offered exchange rates, quoted by The Hong Kong and Shanghai Banking Corporation Limited at the close of business on the second business day prior to the Price Determination Date, and (ii) divided by 50, being the number of H Shares represented by each ADS. In respect of the Combined Offering, only the applicants in the Hong Kong Offering are required to pay the aforesaid brokerage and transaction levy. The transaction levy otherwise payable by investors in the US Offering and the International Offering on the H Shares purchased by them will be paid by the Company. The Hong Kong Offering Price will be not more than HK\$2.91 and is expected to be not less than HK\$2.45.

Applicants for Offered Shares in the Hong Kong Offering are required to pay the maximum price of HK\$2.91 per Offered Share. If the Hong Kong Offering Price is set below the maximum price, the surplus subscription moneys (including the brokerage and transaction levy attributable thereto) will be refunded to applicants, without interest. Details of the procedures for refund are set out under “Collection/posting of certificates, deposit of certificates into CCASS and collection/return of application moneys” below.

THE PUBLIC

Applicants must not be legal or natural persons of the PRC. Applicants must not be United States persons (as defined in Regulation S under the US Securities Act of 1933, as amended).

Applications must be for a minimum of 2,000 H Shares and thereafter in the following multiples:

2,000 to 18,000 shares in multiples of 2,000 H Shares
20,000 to 90,000 shares in multiples of 10,000 H Shares
100,000 to 450,000 shares in multiples of 50,000 H Shares
500,000 shares and above in multiples of 100,000 H Shares

In addition to the price per H Share payable on application, applicants will be required to pay, at the time of application, brokerage at the rate of 1% of the application price and a Hong Kong Stock Exchange transaction levy at the rate of 0.013% of the application price (subject to refund), making a total of HK\$5,878.96 for every 2,000 H Shares. The brokerage will be paid to

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members of the Hong Kong Stock Exchange and the transaction levy will be paid to the Hong Kong Stock Exchange in respect of successful applications.

The application list will, subject as mentioned below, open at 11:45 a.m. on Thursday, 9th May, 1996 and will close at 12:00 noon on the same day. In the event of a tropical cyclone warning signal No.8 or above or a "black" rainstorm warning signal being in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on that day, the application list will open at 11:45 a.m. and close at 12:00 noon on the next banking day on which no such signal remains in force at any time between 9:00 a.m. and 12:00 noon, and all references in this prospectus and in the application forms to the time of opening and closing of the application list shall be construed accordingly.

Applications must be made on the WHITE or YELLOW application forms provided, as appropriate, and must be lodged not later than 12:00 noon on Thursday, 9th May, 1996 (or on such later date as may apply in the case of a tropical cyclone or "black" rainstorm warning signal being in force as aforesaid) at any of the branch and sub-branches of Bank of China listed under the section headed "Prospectuses and application forms", together with a remittance in Hong Kong dollars for the full amount payable on application. A table setting out the precise amounts payable is included in the application forms.

Applicants who would like to be allotted H Shares in their names should complete the WHITE application forms provided. Applicants who would like to have the allotted H Shares issued in the name of HKSCC Nominees Limited and deposited directly into CCASS for credit to their designated CCASS participants' stock accounts maintained in CCASS should complete the YELLOW application forms. In order for the YELLOW application form to be valid and to signify the consent of the designated CCASS participant, the YELLOW application form must be countersigned by the designated CCASS participant or its authorised signatories, the chop of such CCASS participant (bearing its name) must be endorsed and the participant I.D. of such CCASS participant must be inserted in the appropriate box on the YELLOW application form. Incorrect or incomplete details of the designated CCASS participant or the omission or inadequacy of its authorised signatures, participant I.D. or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their own names on behalf of different beneficial owners are requested to designate on each application form in the box marked "Application submitted by Nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each such joint beneficial owner.

Each application form must be accompanied by either a separate cheque drawn on a Hong Kong dollar bank account in Hong Kong and bearing the account name (either pre-printed by the bank before issue to the customer or certified by an authorised signatory of the bank on the reverse of the cheque) which must correspond with the name of the applicant (or, in the case of joint applicants, the name of the first-named applicant), or a separate banker's cashier order on the reverse of which the bank has certified by an authorised signatory the name of the purchaser, which must correspond with the name of the applicant (or, in the case

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of joint applicants, the name of the first-named applicant). All such cheques or banker's cashier orders must be made payable to "Bank of China (Nominees) Limited — Guangshen Railway H Share Issue" and crossed "Account Payee Only". The right is reserved to retain any share certificates and any surplus application moneys pending clearance of an applicant's cheque(s).

Applications which do not comply with the foregoing are liable to be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to the applicants (or the first-named applicant in the case of joint applicants) at their own risks at the address stated on the application form. Applications in respect of which cheques are dishonoured upon first presentation, any application made by one applicant for more than 100 per cent. of the total number of Offered Shares (before any adjustment) and multiple or suspected multiple applications are liable to be rejected and dealt with in a similar manner. Bear Stearns (in consultation with the Company) has full discretion to reject or accept any application, in full or in part, without assigning any reason.

Applications will not be accepted if the Hong Kong Underwriting Agreement fails to become unconditional or is terminated in accordance with its terms, in which event application moneys will be refunded, without interest, in accordance with the paragraph headed "Collection/posting of certificates, deposit of certificates into CCASS and collection/return of application moneys" below.

No proceedings will be taken on applications for the Offered Shares and no allotment of any such Offered Share will be made until the closing of the application list. No allotment of any of the Offered Shares will be made later than Wednesday, 5th June, 1996.

Applicants should note that by signing on the application form:

- (i) they agree with the Company and each shareholder of the Company, and the Company agrees with each shareholder, to observe and comply with the Company Law and the Articles of Association;**
- (ii) they agree with the Company, each shareholder, Director, Supervisor and officer of the Company and the Company acting for itself and for each Director, Supervisor and officer agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law and any subsequently promulgated laws or regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearing in open session and to publish its award. Such arbitration shall be final and conclusive;**
- (iii) they agree with the Company and each shareholder of the Company that shares in the Company are freely transferable by the holder thereof; and**

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- (iv) **they authorise the Company to enter into a contract on behalf of them respectively with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association.**

It will be a term of all applications that all applications will not be capable of revocation prior to Wednesday, 5th June, 1996 unless any person responsible for this prospectus pursuant to section 40 of the Companies Ordinance gives a public notice having the effect under that section of excluding or limiting the responsibility of the person giving it. In consideration therefor, the Company agrees that it will not offer any of the Offered Shares to any person other than on the terms and conditions set out in this prospectus. This paragraph constitutes a collateral contract between the Company and the applicant and becomes binding when the application is deposited with Bank of China. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation.

Any allotment made in respect of any application will be void if permission for listing of the H Shares on the Hong Kong Stock Exchange has been refused before the expiration of three weeks from the closing of the application list, or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company by or on behalf of the Hong Kong Stock Exchange.

EXISTING SHAREHOLDERS AND DIRECTORS

In accordance with the Listing Rules, no H Shares are offered to any Director or existing shareholder of the Company on a preferential basis and no preferential treatment is given to them in the allotment of H Shares.

COLLECTION/POSTING OF CERTIFICATES, DEPOSIT OF CERTIFICATES INTO CCASS AND COLLECTION/RETURN OF APPLICATION MONEYS

The Hong Kong Offering Price as determined, the basis of allotment and the results of applications (including allotments to successful WHITE form applicants, showing, where supplied, the numbers of their Hong Kong identity cards, passports, Hong Kong business registration certificates or other identification documents but not their names) are expected to be published in the South China Morning Post in English and the Hong Kong Economic Journal in Chinese on Monday, 13th May, 1996. YELLOW form applicants can arrange with their designated CCASS participants to advise them of the number of H Shares allotted under their applications on the same day.

For those successful applicants using the YELLOW applicant forms who are allotted H Shares in the name of HKSCC Nominees Limited, the Hong Kong share registrar will advise their designated CCASS participants of acceptance of application and the number of H Shares allotted.

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The allotted H Shares, subject to any adjustments, will be deposited directly into CCASS for credit to the designated CCASS participants' stock accounts maintained in CCASS at the close of business on Monday, 13th May, 1996 or such other date as may be determined by Hongkong Clearing or HKSCC Nominees Limited. The statements of stock accounts retrieved from CCASS will also list the CCASS participants' holdings of the allotted H Shares.

If an application is rejected or accepted in part only or if the conditions of the Hong Kong Offering are not fulfilled in accordance with the section headed "Conditions of the Hong Kong Offering" or if any application is revoked or any allotment pursuant thereto shall become void as provided above, or if the Hong Kong Offering Price determined as described under "Pricing" above is less than the price payable on application, the application moneys, or the appropriate portion thereof, together with the related brokerage and Hong Kong Stock Exchange transaction levy, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application moneys where appropriate.

No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to applicants (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at their own risk, to the address specified on the application form:

- (a) (i) share certificates for all the Offered Shares applied for, if the application is wholly successful; or (ii) share certificates for part of the Offered Shares applied for, if the application is partially successful (except for successful applicants on YELLOW application forms whose share certificates will be deposited into CCASS as described above); and/or
- (b) a refund cheque crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application moneys, if the application is partially successful or (if the Hong Kong Offering Price is set below the maximum price of HK\$2.91 per Offered Share) wholly successful; or (ii) all the application moneys, if the application is wholly unsuccessful, in each case including brokerage at the rate of 1.00% and a Hong Kong Stock Exchange transaction levy of 0.013%, but without interest.

Subject as mentioned below, refund cheques and share certificates are expected to be posted on Monday, 13th May, 1996. All interest on application moneys will be retained for the benefit of the Company.

Applicants for 1,000,000 Offered Shares or more, and applicants who apply for less than 1,000,000 Offered Shares but have indicated in their application forms their wish to collect refund cheques and (where applicable) share certificates from HKSCC Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, and have provided all particulars required by the application forms, may collect their refund cheques and share certificates (as applicable) from such company from 9:00 a.m. to 3:00 p.m. on the date immediately preceding the first day of trading of the H Shares, such preceding date being expected to be Monday, 13th May, 1996. Identification and (where applicable)

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authorisation documents acceptable to HKSCC Registrars Limited must be produced at the time of collection. Uncollected refund cheques and share certificates will be despatched by ordinary post at the applicants' risk promptly thereafter.

Dealing in the H Shares on the Hong Kong Stock Exchange is expected to commence on Tuesday, 14th May, 1996. The proposed board lot for trading in H Shares is 2,000 H Shares.

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange, the H Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the H Shares or such other date as may be determined by Hongkong Clearing. Settlement of transactions between members of the Hong Kong Stock Exchange on any trading day is required to take place in CCASS on the second business day thereafter.