

GUANGSHEN RAILWAY CO LTD

Form 20-F

April 26, 2012

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As filed with the Securities and Exchange Commission on April 26, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

or

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report

Commission file number: 1-14362

(Exact name of Registrant as specified in its charter)

GUANGSHEN RAILWAY COMPANY LIMITED

(Translation of Registrant's name into English)

People's Republic of China

(Jurisdiction of incorporation or organization)

No. 1052 Heping Road, Shenzhen, People's Republic of China 518010

(Address of Principal Executive Offices)

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No. 1052 Heping Road, Shenzhen, People's Republic of China 518010

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Listed
American Depositary Shares, each representing 50 Class H ordinary shares Class H ordinary shares, nominal value RMB 1.00 per share	New York Stock Exchange, Inc. The Stock Exchange of Hong Kong Limited

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the Registrant's classes of capital or common stock as of December 31, 2011:

Domestic shares (A shares), par value RMB 1.00 per share	5,652,237,000
H shares, par value RMB 1.00 per share (including 212,632,600 H shares in the form of American Depositary Shares)	1,431,300,000

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer
 Accelerated Filer
 Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP
 International Financial Reporting Standards as issued
 Other

by the International Accounting Standards Board

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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Forward-Looking Statements

Certain information contained in this annual report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. These forward-looking statements can be identified by the use of words or phrases such as "is expected to", "will", "is anticipated", "plan to", "estimate", "believe", "may", "intend", "should", "expressions, or the negative forms of these words, phrases or expressions, or by discussions of strategy. Such statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from our historical results and those presently anticipated or projected. You are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date on which such statements were made. Among the factors that could cause our actual results in the future to differ materially from any opinions or statements expressed with respect to future periods include changes in the economic policies of the PRC government, an economic slowdown in the Pearl River Delta region and elsewhere in mainland China, increased competition from other means of transportation, delays in major development projects, occurrence of health epidemics or outbreaks in Hong Kong or China, foreign currency fluctuations and other factors beyond our control.

When considering such forward-looking statements, you should keep in mind the factors described in ITEM 3. KEY INFORMATION D. Risk Factors and other cautionary statements appearing in ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS of this annual report. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

Certain Terms and Conventions

Solely for the convenience of the reader, this annual report contains translations of amounts from RMB into U.S. dollars and vice versa at the rate of RMB 6.29 to US\$1.00, which is rounded from 6.2939, the certified exchange rate for December 30, 2011 as published by the Federal Reserve Board of the United States, except where we specify that a different rate has been used. You should not construe these translations as representations that the RMB amounts actually represent U.S. dollar amounts or could be converted into U.S. dollars at that rate or at all. See ITEM 3. KEY INFORMATION A. Selected Financial Data Exchange Rate Information for information regarding the certified exchange rates for U.S. dollar/RMB conversions from January 1, 2007 through April 20, 2012.

We prepare and publish our consolidated financial statements in RMB.

Various amounts and percentages set out in this document have been rounded and, accordingly, may account for apparent discrepancies in the tables appearing herein.

Unless the context otherwise requires or otherwise specified:

Acquisition means our acquisition of the railway transportation business between Guangzhou and Pingshi and the related assets and liabilities from Yangcheng Railway Company according to the asset purchase agreement dated November 15, 2004 between Yangcheng Railway Company and us.

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China or PRC means the People's Republic of China.

CEPA means the Closer Economic Partnership Arrangement between Hong Kong and Chinese Mainland entered into on October 27, 2004, as amended.

GEDC means Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company, a wholly owned subsidiary of GRGC.

GRGC means Guangzhou Railway (Group) Company, our largest shareholder.

Company, we, our, our Company or us means Guangshen Railway Company Limited, a joint stock limited company incorporated in Shenzhen, China with limited liability, and its subsidiaries on a consolidated basis.

HKSE means the Stock Exchange of Hong Kong Limited.

HKSE Listing Rules means the Rules Governing the Listing of Securities on the HKSE.

Hong Kong means The Hong Kong Special Administrative Region of the PRC.

Hong Kong dollars or HKD means Hong Kong dollars, the lawful currency of Hong Kong.

Macau means the Macau Special Administrative Region of the PRC.

MOR means the Ministry of Railways.

Pearl River Delta means the area in and adjacent to the southern part of Guangdong Province, PRC, surrounding the mouth of the Pearl River and its lower reaches.

RMB means Renminbi Yuan, the lawful currency of the PRC.

Restructuring means the restructuring conducted in connection with our initial public offering in 1996 during which we succeeded to the railroad and certain other businesses of our predecessor company and certain assets and liabilities of GRGC.

SEC means the U.S. Securities and Exchange Commission.

tonne means metric tonne; and one tonne is approximately 2,205 pounds in weight.

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US\$, USD or U.S. dollars means U.S. dollars, the lawful currency of the United States.

Yangcheng Railway Company means Guangzhou Railway Group Yangcheng Railway Enterprise Development Company, a wholly owned subsidiary of GRGC, or its predecessor, Guangzhou Railway Group Yangcheng Railway Company.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated data relating to our consolidated balance sheets as of December 31, 2010 and 2011, and our consolidated comprehensive income statement, consolidated statement of changes in equity and consolidated cash flow statements for each of the years ended December 31, 2009, 2010 and 2011 are derived from and are qualified by reference to our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS . The selected consolidated balance sheet data as of December 31, 2007, 2008 and 2009 and our consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statements for each of the years ended December 31, 2007 and 2008 are derived from our audited consolidated financial statements that are not included in this annual report, except for the reclassification described in Note 41 to our audited consolidated financial statements included elsewhere in this annual report .

The consolidated financial statements from which the selected consolidated financial data set forth below have been derived were prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

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	2007 RMB	2008 RMB	Year ended December 31, 2009 RMB		2010 RMB	2011 RMB	2011 US\$ ⁽¹⁾
			(in thousands except for per share data)				
Income Statement Data:							
Revenue from railroad businesses							
- Passenger	5,622,259 ⁽²⁾	6,500,521 ⁽²⁾	6,841,659 ⁽²⁾	7,377,145 ⁽²⁾	8,026,512	1,276,075	
- Freight	1,271,164 ⁽²⁾	1,269,781 ⁽²⁾	1,164,851 ⁽²⁾	1,315,347 ⁽²⁾	1,386,753	220,469	
- Railway network usage and other transportation-related services	2,926,094 ⁽²⁾	3,052,053 ⁽²⁾	3,504,979 ⁽²⁾	3,888,367 ⁽²⁾	4,255,996	676,629	
Subtotal	9,819,517	10,822,355	11,511,489	12,580,859	13,669,261	2,173,173	
Revenue from other businesses	688,987	866,300	874,268	903,589	1,021,574	162,413	
Total revenue	10,508,504	11,688,655	12,385,757	13,484,448	14,690,835	2,335,586	
Railroad operating expenses	(8,367,791)	(9,203,347)	(9,651,278)	(10,481,496)	(11,123,133)	(1,768,383)	
Other businesses operating expenses	(458,819)	(829,077)	(797,367)	(845,774)	(977,868)	(155,464)	
Other income/(expense)	56,419	21,623	(16,808)	(47,060)	(25,786)	(4,100)	
Profit from operations	1,738,313	1,677,854	1,920,304	2,110,118	2,564,048	407,639	
Profit attributable to shareholders of the Company	1,408,554	1,193,668	1,342,450	1,486,062	1,804,107	286,821	
Profit from operations per share	0.25	0.24	0.27	0.30	0.36	0.06	
Earnings per share for profit attributable to shareholders of the Company							
- Basic and diluted	0.20	0.17	0.19	0.21	0.25	0.04	
Dividends declared per share	0.08	0.08	0.08	0.09	0.10	0.02	
Earnings per ADS for profit attributable to shareholders of the Company	9.94	8.43	9.48	10.49	12.73	2.02	
Balance Sheet Data (at year end):							
Working capital	433,615	(616,158)	31,118	1,576,567	3,064,855	487,258	
Fixed assets	21,040,892	24,922,566	25,036,329	24,466,130	23,987,080	3,813,526	
Leasehold land payments	607,971	592,368	576,379	560,391	544,403	86,551	
Total assets	27,523,542	29,011,095	29,427,247	30,604,502	32,207,347	5,120,405	
Equity attributable to shareholders of the Company	21,845,806	22,472,791	23,248,638	24,168,017	25,334,606	4,027,759	
Share capital, issued and outstanding, RMB 1.00 per value,							
domestic shares	5,652,237	5,652,237	5,652,237	5,652,237	5,652,237	898,607	
H shares	1,431,300	1,431,300	1,431,300	1,431,300	1,431,300	277,552	
Cash Flow Statement Data:							
Net cash generated from operating activities	1,957,645	1,641,069	2,617,533	3,331,458	3,329,058	529,262	
Net cash used in investing activities	(5,585,414)	(2,915,785)	(2,096,154)	(1,188,763)	(3,983,623)	(633,326)	
Net cash generated from/(used in) financing activities	128,289	483,317	(966,680)	(599,288)	(637,736)	(101,389)	
Purchase of fixed assets and payment for construction-in-progress	(1,107,320)	(2,947,804)	(1,639,674)	(1,158,399)	(943,390)	(149,983)	
Dividends paid to shareholders of the Company	(566,711)	(566,683)	(566,685)	(566,683)	(637,533)	(101,356)	
Other Data:							
Railroad transportation operating income	1,451,726	1,619,008	1,860,211	2,099,363	2,546,128	404,790	
Other businesses operating income	277,155	37,223	76,901	57,815	43,706	6,949	

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- (1) Translation of amounts from RMB into US\$, for the convenience of the reader has been made at US\$1.00 = RMB 6.29, which is rounded from RMB 6.2939, the certified exchange rate for December 30, 2011 as published by the Federal Reserve Board of the United States. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at that rate on December 30, 2011 or on any other date.

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- (2) With the change of industry practice due to the amended guidance issued by the MOR, management revised the presentation of the sub-categories of revenue in 2011, which resulted in a change in classification of sub-category items of revenue shown on the comprehensive income statement. Accordingly, certain 2007, 2008, 2009 and 2010 comparative figures have been reclassified to conform to the current year presentation. Details of the reclassifications are set forth below: (a) Revenue arising from provision of services provided to other railway companies in relation to passenger transportation (railway operation services and etc.) was recorded within the Passenger category of revenue in the prior years; such revenue has now been reclassified to the Railway network usage and other transportation-related services category of revenue; (b) Revenue arising from provision of services provided to other railway companies in relation to those cargo trucks previously unscheduled was recorded within the Freight category of revenue in the prior years; such revenue has now been reclassified to the Railway network usage and other transportation-related services category of revenue; (c) The category Railway network usage and services has been renamed as Railway network usage and other transportation-related services to properly include the new items being included as a result of the above re-classifications.

Exchange Rate Information

We derive a majority of our revenue and incur most of our expenses in RMB. In addition, we maintain our books and records in RMB and our financial statements are prepared and expressed in RMB. Solely for the convenience of the reader, this annual report contains translations of certain RMB amounts into U.S. dollars and vice versa at US\$1.00 = RMB 6.29, which is rounded from RMB 6.2939, the certified exchange rate for December 30, 2011 as published by the Federal Reserve Board of United States. These translations should not be construed as representations that the RMB amounts could have been or could be converted into U.S. dollars at such rate or at all.

Effective January 1, 2009, the Federal Reserve Bank of New York discontinued publication of foreign exchange rates certified for customs purposes. Effective January 5, 2009, the Federal Reserve Board of the United States reinstated the publication of the daily exchange rate data in a weekly version of the H.10 release. The certified exchange rate for RMB published by the Federal Reserve Board of the United States was US\$1.00 = RMB 6.3080 on April 20, 2012.

The following table sets forth information for the RMB noon buying rate in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period	Certified Exchange Rate		
	Average ⁽¹⁾	High	Low
	(RMB per U.S. dollar)		
2007	7.5806	7.8127	7.2946
2008	6.9193	7.2946	6.7800
2009	6.8295	6.8470	6.8176
2010	6.7603	6.8330	6.6000
2011	6.4630	6.2939	6.6364
October 2011	6.3710	6.3534	6.3825
November 2011	6.3564	6.3400	6.3839
December 2011	6.3482	6.2939	6.3733
2012			
January	6.3172	6.2940	6.3330
February	6.2997	6.2935	6.3120
March	6.3125	6.2975	6.3315
April (through April 20, 2012)	6.3080	6.2975	6.3150

- (1) The average rate for a year means the average of the exchange rates on the last day of each month during a year. The average rate for a month means the average of the daily exchange rates during that month.

Dividends

At a meeting of the directors held on March 27, 2012, the directors proposed a final dividend of RMB 0.10 per ordinary share for the year ended December 31, 2011, which is to be voted up on at our annual general meeting of shareholders scheduled on May 22, 2011. This proposed dividend has not been reflected as a dividend payable in the financial statements as of December 31, 2011, but instead as equity attributable to equity holders of our Company.

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In accordance with our Articles of Association, dividends for our domestic shares will be paid in RMB while dividends for our H shares will be calculated in RMB and paid in Hong Kong dollars. Hong Kong dollar dividend payments will then be converted by the depositary and distributed to holders of ADSs in U.S. dollars. The exchange rate was based on the average of the closing exchange rates for RMB to Hong Kong dollars as announced by the People's Bank of China during the calendar week preceding the date on which the dividend was declared.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Our Business

Any recurrence of a global financial crisis or economic downturn similar to that which occurred in 2008 and early 2009 could materially and adversely affect our business, financial condition, results of operations and prospects.

The global financial markets experienced periods of extreme volatility and disruption in 2008 and early 2009. The global financial crisis, concerns over inflation or deflation, energy costs, geopolitical risks, and the availability and cost of financing contributed to the unprecedented levels of market volatility and adversely affected the expectations for the continuous growth of the global economy, the capital markets and the consumer industry. These factors, combined with others, resulted in a severe global economic downturn and also a slowdown in the PRC economy. This change in the macro-economic conditions had an adverse impact on our business and operations by causing a decrease in the number of passengers and the volume of freight that we transported. Although the global and PRC economies began to show signs of recovery since the second half of 2009, the sustainability of these recoveries is uncertain due to escalating concerns regarding Europe's sovereign debt crisis, the stability of the Eurozone and concerns regarding the decreased growth rate of China's economy. In particular, we experienced decreased inbound freight volume and revenue in 2011, partially due to diminished export of PRC commodities affected by the slowdown of the global economic growth and international trades. Any recurrence of a global financial crisis as a result of the recent market volatility arising from the concerns over among other issues, the fiscal stability of certain European countries, may adversely affect the growth of the PRC economy, which could adversely affect our business, financial condition, results of operations and prospects.

We face competition, which may adversely affect our business growth and results of operations.

Our passenger and freight transportation businesses face competition from other means of transportation, such as road, air and water transportation. In our passenger transportation business, we compete with the bus and ferry services operating within Hong Kong, Guangzhou, Shenzhen and elsewhere in our service region. We compete for passengers with bus and ferry services in terms of price, speed, comfort, reliability, convenience, service quality, frequency of service and safety. In our freight transportation business, we primarily compete with water, truck and air transportation services operating within our service region. We increasingly compete for freight business with truck operators, shipping companies and airline companies on the basis of price, reliability, capacity, convenience, service quality, and safety. In addition, the inter-city traffic system is gradually expanding within the Pearl River Delta region and there are a number of new high-speed inter-city passenger rail lines in operation or under construction within our service territory. As a result, the competition in both passenger and freight transportation in our service territory could increase significantly. In December 2009, with the commencement of operations of the Wuhan-Guangzhou passenger line, the MOR restructured the passenger train services provided by our Company or by other railway companies (bureaus) whose trains pass through our service territory to enhance the operational efficiency of the Beijing-Guangzhou line and for better allocation of railway transportation capacity. Such restructuring has resulted in a slight decrease in the number of passengers using our long-distance train services in 2009 and, although we commenced the operation of one pair of passenger trains from Guangzhou to Tongren in March 2010 and another pair of passenger trains from Guangzhou to Xinyang in April 2010 to increase our passenger transportation capacity, we may continue to experience a decrease in the number of passengers using our long-distance train services in the future, which could materially and adversely affect our revenue from railway passenger transportation services. Furthermore, the operation of the Guangzhou-Shenzhen-Hong Kong passenger line, which commenced on December 26, 2011, may further increase the competition we face and materially and adversely affect our revenue and results of operations. See ITEM 4. INFORMATION ON THE COMPANY B. Business Overview Competition for additional information regarding our competition.

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Any significant decrease in the overall levels of business, industrial, manufacturing and tourism activities within the Pearl River Delta region and elsewhere in China may have a material adverse effect on our revenue and results of operations.

The volume of freight and the number of passengers we transport are affected by the overall levels of business, industrial, manufacturing and tourism activities within the Pearl River Delta region, which is our main service region, and elsewhere in China, which is in turn affected by many factors beyond our control, such as applicable policies and regulations of the PRC government, perceptions regarding the attractiveness of investing or operating a business within our service region, consumer confidence levels and interest rate levels. Any significant decrease in the overall levels of passenger travel or freight transportation, whether due to an economic slowdown or other reasons, such as freezing weather, floods, earthquake and other natural disasters or a recurrence of the SARS epidemic or outbreaks of avian flu or H1N1 influenza or other similar health epidemics, may have a material adverse effect on our business, results of operations and financial condition. For example, we experienced decreased inbound freight volume and revenue in 2011, partially due to the State's tightened policies on property and infrastructure investment projects, which led to a decrease in market demand for steel, cement and other raw materials. Furthermore, following China's accession to the WTO, the policy advantages that Shenzhen currently enjoys due to its status as a special economic zone may be phased out, and its economic growth rate may not be sustained in the long run. Other coastal regions and ports in China may develop at a faster pace and become more competitive than Shenzhen. As a result, part of the freight currently imported or exported through ports in Hong Kong, Shenzhen or Guangzhou may be shipped through other ports in China, which may adversely affect our freight transportation business.

Extensive government regulation of the railway transportation industry may limit our flexibility in responding to market conditions, competition or changes in our cost structure.

We are subject to extensive PRC laws and regulations relating to the railway transportation industry. The MOR and other Chinese governmental authorities regulate pricing, speed, train routes, new railway construction projects, and investment in the railway transportation industry. Any significant change in the relevant regulations of the PRC government is likely to have a material impact on our business and results of operations. In addition, our ability to respond to changes in our market conditions may be limited by those regulations set by the MOR and other Chinese governmental authorities.

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Significant changes with respect to the PRC railway industry could adversely affect our business and results of operations

From 2005 to 2010, the PRC railway industry experienced rapid growth in terms of total investment in infrastructure construction from RMB 88 billion to RMB 707 billion, representing a CAGR of 52%, according to statistics published by the MOR. However, after the occurrence of the Wenzhou Railway Accident (defined below) on July 23, 2011, the MOR has adjusted the development scheme of the railway industry for the period from 2011 to 2016 to reduce the budgeted total investment budget in infrastructure construction from the proposed RMB 3.5 trillion to RMB 2.8 trillion. As the railway industry is heavily reliant on capital expenditures on infrastructure construction, the reduced investment in infrastructure construction may have material adverse impact on our future development and results of operations. In addition, to ensure the safe operation of high-speed railway transportation, the MOR also set speed limits on certain high-speed railways. Corresponding with the reduced speed limits, the ticket fare of the affected high-speed railways may be reduced. Although the speed limits do not affect the railways we operate, we cannot assure you that the future policies of the PRC government authorities in relation to railway speed limits will not affect us.

Changes in freight composition in our freight transportation business may adversely affect our results of operations.

Historically, our freight transportation revenue was derived mainly from the transportation of construction materials, coal, iron ore, oil, steel and chemicals, in which our railroad transportation services have an advantage over other means of transportation, such as road transportation services. With the restructuring of these industries, the movement of labor, the upgrading of the industrial structure and shift in manufacturing focus in the Pearl River Delta region, some products and materials, such as advanced technological products, which tend to be compact, may be instead shipped by road or air. We face significant competition in the transportation of such low-volume, high-value products. For example, in 2009, the aggregate weight of goods we transported decreased by 11.6% from 2008. Changes in freight composition may affect the usage volume and pricing of our freight transportation services and adversely affect our results of operations.

Our railroads connect with the railroads of other operators and any disruption in the operation of those railroads, or our cooperation with other operators, could have a material adverse effect on our business and operations.

Our railroads are an integral part of the PRC national railway network. Our railroads connect with the Beijing-Guangzhou line in the north, the Shenzhen-Kowloon rail line in the south, the Guangzhou-Maoming rail line in the west, and the Guangzhou-Meizhou-Shantou rail line in the east, all of which are owned and operated by other operators. See ITEM 4. INFORMATION ON THE COMPANY A. History and Development of the Company Service Territory for additional information. Our train services use these other railroads to carry passengers and freight to locations outside of our service territory. The performance of our domestic long distance trains services and our Hong Kong Through Trains depends on the smooth operation of these railroads and our cooperation with the operators of these railroads. Any disruption in the operation of these railroads, or our cooperation with any one of these railroad operators for any reason, could have a material adverse effect on our business and results of operations.

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Changes in the income tax rate applicable to us as a result of a change of law could have a material adverse effect on our results of operations.

Before January 1, 2008, as a company located in the Shenzhen Special Economic Zone, we had enjoyed a preferential income tax rate of 15%, rather than the 33% income tax rate then generally applicable to domestic companies in the PRC.

On March 16, 2007, the National People's Congress of the PRC promulgated the PRC Enterprise Income Tax Law, or the EIT Law, which took effect on January 1, 2008. According to the EIT Law, the preferential income tax rate of 15% that was previously applicable to companies incorporated in Shenzhen (like us) and other special economic zones was gradually phased out over the five years beginning from January 1, 2008, and effective from January 1, 2012, the tax rate applicable to us is 25%, i.e., the unified income tax rate applicable to all domestic companies in the PRC with some minor exceptions.

The increase in our effective tax rate as a result of the above and any subsequent changes to the tax laws and regulations in the PRC may adversely affect our operating results.

Any changes in our right to own and operate our business and assets, our right to profit and our right of asset disposal as previously granted by the MOR and the State Council may have a material adverse effect on our business and results of operations.

We have been granted certain rights by the MOR and the State Council, with respect to certain aspects of our railroad businesses and operations, and also received legal clarification and confirmation of our asset ownership, corporate powers and relationships with service providers and other entities in the national railway system, in connection with our Restructuring. These rights include the right to own and operate our business and assets, the right to profit and the right of asset disposal. Although these rights were granted to us indefinitely, we cannot assure you that these rights will not be affected by future changes in PRC governmental policies or regulations or that other railway operators will not be granted similar rights within our service region. If another railway operator is granted similar rights within our service region, the level of competition we face will increase significantly.

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Guangzhou Railway (Group) Company as our largest shareholder and one of our major service providers may have interests that conflict with the best interests of our other shareholders and our Company.

Before our A Share Offering, in December 2006, Guangzhou Railway (Group) Company, or GRGC, held 67% of our issued share capital and was our controlling shareholder. Although the equity interest held by GRGC in our Company decreased to approximately 41% after the completion of the A Share Offering and further to approximately 37.1% as a result of the transfer by GRGC of a portion of its equity interest in our Company to the National Social Security Fund Council in September 2009, GRGC can still exercise substantial influence over our Company. GRGC's ownership percentage enables it to exercise substantial influence over (i) our policies, management and affairs; (ii) our determinations on the timing and amount of dividend payments and our adoption of amendments to certain of the provisions of our Articles of Association and (iii) the outcome of most corporate actions. Subject to the requirements of applicable laws and regulations in China and the HKSE Listing Rules, GRGC may also cause us to effect certain corporate transactions.

GRGC's interests may sometimes conflict with the interests of the other shareholders. We cannot assure you that GRGC, as our single largest shareholder, will always vote its shares in a way that benefits the other shareholders of our Company. In addition to its relationship with us as our single largest shareholder, GRGC, by itself or through its affiliates, such as GEDC and Guangmeishan Railway Co., Ltd., also provides us with certain services, for which we have limited alternative sources of supply. The interests of GRGC and its affiliates as providers of these services may also conflict with our interests. We have entered into service agreements, and our transactions with GRGC and its affiliates have been conducted on open, fair and competitive commercial terms. However, we only have limited leverage in negotiating with GRGC and its affiliates over the specific terms of the agreements for the provision of these services as there are no alternate suppliers. See ITEM 4. INFORMATION ON THE COMPANY B. Business Overview Suppliers and Service Providers and ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS B. Related Party Transactions for additional information regarding the services provided to us by GRGC and its subsidiaries.

We have very limited insurance coverage.

We do not maintain any insurance coverage against third party liabilities, except compulsory automobile liability insurance. In addition, we do not maintain any insurance coverage for most of our property, for business interruption or for environmental damage arising from accidents that occur in the course of our operations. As a result, we have to pay for financial and other losses, damages and liabilities, including those caused by natural disasters and other events beyond our control, out of our own funds, which could have a material adverse effect on our results of operations and financial condition.

We could incur significant costs for violations of applicable environmental laws and regulations.

Our railroad operations and real estate ownership are subject to extensive national and local environmental laws and regulations concerning, among other things, gaseous emissions, wastewater discharge, disposal of solid waste and noise control. In addition, environmental liabilities may arise from claims asserted by adjacent landowners or other third parties. As of December 31, 2011, we had not incurred any such liabilities and therefore, had not made any provision for such liabilities. We may also be required to incur significant expenses to remediate any violation of applicable environmental laws and regulations. In 2011, our environmental protection-related expenses were approximately RMB 13.5 million, mainly related to the operation and renovation of environmental protection facilities.

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Technological problems attributable to accidents, human error, severe weather or natural disasters could affect the performance or perception of our railway and result in decreases in customers and revenue, unexpected expenses and loss of market share.

Our operations may be affected from time to time by equipment failures, delays, collisions and derailments attributable to accidents, human error or natural disasters, such as typhoons or floods.

As our high-speed train service becomes technologically more complex, it may become more difficult for us to upkeep and repair our equipment and facilities as well as to maintain our service and safety standards. Furthermore, as we heavily rely on third parties for technical upgrades and support with regard to certain equipment and facilities, in case of any problems arising during our operation, our own staff may lack the technical expertise to identify and fix the problems in time. Moreover, the newly upgraded equipment may not be fully compatible with our existing operation system and may not meet our safety, security or other standards. The use of such equipment and facilities could result in malfunctions or defects in our services. In addition to potential technical complications, natural disasters could interrupt our rail services, thus leading to decreased revenue, increased maintenance and higher engineering costs.

If we experience any equipment failures, delays, temporary cancellations of schedules, collisions and derailments, or any deterioration in the performance or quality of any of our services, it could result in personal injuries, damage of goods, customer claims of damages, customer refunds and loss of goodwill. These problems may lead to decreases in customers and revenue, damage to our reputation, unexpected expenses, loss of passengers and freight customers, incurrence of significant warranty and repair costs, diversion of our attention from our transportation service efforts or strained customer relations, any one of which could materially adversely affect our business. For example, in January and February 2008, certain regions in southern China experienced extraordinary harsh winter weather, which caused equipment failures and delays and cancellations of some of our scheduled trains. As a result, during such period of freezing weather, our cost for repair of equipment increased and our revenue decreased. We cannot assure you that such events will not happen again in the future. In addition, on July 23, 2011, two high-speed trains collided on the Yongtaiwen railway line in the suburbs of Wenzhou, Zhejiang Province, China. 40 people were killed and 172 people were injured in this accident (the Wenzhou Railway Accident). Although we believe we have maintained effective safety measures and there has been no such collision accidents on railway lines operated by us since our inception, we cannot assure you that similar accidents will not occur on our railway lines in the future. The occurrence of any such accident could have a material adverse impact on us.

The revenue or charges settled by the MOR for certain long-distance passenger train and freight transportation businesses are finally determined by the MOR.

As described in ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS B Related Party Transactions and Notes 38 and 39 to our audited consolidated financial statements included elsewhere in this annual report, due to the fact that the railway business is centrally managed by the MOR within the PRC, we work in cooperation with the MOR and other railway companies owned and controlled by the MOR for the operation of certain long-distance passenger train and freight transportation businesses within the PRC. The revenue generated from these long-distance passenger and freight transportation businesses is collected and settled by the MOR according to its settlement systems. The charges for the use of the rail lines and services provided by other railway companies are also settled by the MOR based on its systems. Although we can, to certain extent, calculate the revenue and charges settled by the MOR based on our own data and information, the amount of settlement is finally determined by the MOR.

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We may encounter difficulties in complying with the Sarbanes-Oxley Act of 2002.

The United States Securities and Exchange Commission, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company in the United States to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, an independent registered public accounting firm must report on the effectiveness of the company's internal control over financial reporting. Although we have concluded that we maintained effective internal control over financial reporting for each of the years ended December 31, 2009, 2010 and 2011, we may not be able to conclude in future years that we have effective internal control over financial reporting, in accordance with the Sarbanes-Oxley Act of 2002. See ITEM 15. CONTROLS and PROCEDURES.

Moreover, in future years, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may disagree. If our independent registered public accounting firm is not satisfied with our internal control over financial reporting or the level at which our internal control over financial reporting is designed or operated, or if the independent registered public accounting firm interprets the requirements, rules or regulations differently than we do, then they may issue an adverse opinion. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our reporting processes, which could adversely impact the market price of our H shares and ADSs. In addition, we will continue to incur significant costs and use significant management and other resources in order to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

Risks Relating to Conducting Business in China

Substantially all of our assets are located in China and substantially all of our revenue is derived from our operations in China. Accordingly, our results of operations and prospects are subject, to a significant extent, to the economic, political and legal developments in China.

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China's economic, political and social conditions, as well as government policies, could affect our business.

As we are established, and operate substantially all of our businesses, in China, any changes in the political, economic and social conditions of the PRC or any changes in PRC governmental policies or regulations, including a change in the PRC government's economic or monetary policies or railway or other transportation regulations, may have a material adverse effect on our business and operations and our results of operations. The economic environment in the PRC differs significantly from the United States and many Western European countries in terms of its structure, stage of development, capital reinvestment, growth rate, level of government involvement, resource allocation, self-sufficiency, rate of inflation and balance of payments position. The PRC government's economic reform policies since 1978 have resulted in a gradual reduction in state planning in the allocation of resources, pricing and management of assets, and a shift towards the utilization of market forces. The PRC government is expected to continue its reforms, and many of its economic and monetary policies still need to be developed and refined. In addition, certain changes in governmental policies from time to time may negatively affect our business and operations. For example, the cooling measures imposed by PRC government on the real estate industry since early 2011 in response to rising housing prices has resulted in our decreased transportation of construction materials, coal, iron ore, oil and steel that are largely used in that industry. We cannot assure you that future changes in governmental policies or regulation will not have a material adverse effect on our business, operations or results of operations.

Government control of currency conversion may adversely affect our operations and financial results.

Our books and records are maintained and our financial statements are prepared and presented in RMB, which is not a freely convertible currency. All foreign exchange transactions involving RMB must be transacted through banks and other institutions authorized by the People's Bank of China, or PBOC. We receive substantially all of our revenue in RMB. We need to convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payment of cash dividends on our H shares and equipment purchases from overseas regions. In addition, the existing foreign exchange limitations under PRC law could affect our ability to obtain foreign currencies through debt financing, or to obtain foreign currencies for capital expenditures or for distribution of cash dividends on our H shares.

Fluctuation of the RMB could adversely affect our financial condition and results of operations.

The value of the RMB fluctuates and is subject to changes in market conditions as well as China's political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed floating band against a basket of certain foreign currencies. On April 14, 2012, the PRC government further allowed the floating band of RMB's trading prices against the U.S. dollar to widen from 0.5% to 1% on each business day effective from April 16, 2012. As of April 2012, this change in policy has resulted in a more than 30% appreciation of the RMB against the U.S. dollar since July 2005. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. We have certain U.S. dollar-denominated and HK dollar-denominated assets and the appreciation of RMB could result in a decrease of the value of these assets. For further information on our foreign exchange risks and certain exchange rates, see ITEM 3. KEY INFORMATION A. Selected Financial Data and ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - Currency Risks. We cannot assure you that any future movements in the exchange rate of RMB against the United States dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

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The differences with respect to the PRC legal system could limit the legal protections available to you.

As the PRC and the U.S. have different legal systems and the court decisions in China do not have binding force on subsequent cases, there are significant differences between the PRC legal system and the U.S. legal system. In addition, because the PRC Company Law is different in certain important aspects from company laws in Hong Kong, United States and other common law countries and regions and because the PRC laws and regulations dealing with business and economic matters, including PRC securities laws, are still evolving, you may not enjoy shareholder protections to which you may be entitled in Hong Kong, the United States or other jurisdictions.

The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you may be deprived of the benefits of such inspection.

Auditors of companies that are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the US Public Company Accounting Oversight Board (United States) (the PCAOB) and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because we have substantial operations within the PRC and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditor s work related to our operations in China is not currently inspected by the PCAOB.

This lack of PCAOB inspections of audit work performed in China prevents the PCAOB from regularly evaluating audit work of any auditors that was performed in China including that performed by our auditors. As a result, investors may be deprived of the full benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of audit work performed in China makes it more difficult to evaluate the effectiveness of our auditor s audit procedures as compared to auditors in other jurisdictions that are subject to PCAOB inspections on all of their work. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

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ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Overview

We were established as a joint stock limited company under the Company Law of the PRC on March 6, 1996, and have conducted our business for sixteen years. Our legal name is Guangshen Railway Company Limited, and its English translation is Guangshen Railway Company Limited. Our registered office is located at No. 1052 Heping Road, Shenzhen, Guangdong Province, The People's Republic of China, 518010. Our telephone number is (86-755) 2558-8150 and our fax number is (86-755) 2559-1480.

In May 1996, our H shares (stock code: 00525) were listed on the HKSE and our American Depositary Shares, or ADSs (ticker symbol: GSH), were listed on the New York Stock Exchange, Inc., or the NYSE. Our A shares (stock code: 601333) were listed on the Shanghai Stock Exchange in December 2006. We are currently the only PRC railway enterprise with shares concurrently listed in Shanghai, Hong Kong and New York.

We are mainly engaged in passenger and freight transportation businesses on the Shenzhen-Guangzhou-Pingshi Railway, which is 481.2 kilometers long, running vertically through Guangdong Province. The Guangzhou-Pingshi Railway is the southern part of Beijing-Guangzhou Railway, which connects Northern China with Southern China. The Guangzhou-Shenzhen Railway is strategically located and links with major railway networks in China, including the Beijing-Guangzhou, Beijing-Kowloon, Sanshui-Maoming, Pinghu-Nantou, and Pinghu-Yantian lines, as well as to the Kowloon Canton Railway in Hong Kong, which is an important component of the transportation network of southern China, as well as the only railway channel linking Hong Kong with Mainland China. The Guangzhou-Shenzhen Railway is currently one of the most modern railways in the PRC as well as the first wholly fenced railway with four parallel lines in the PRC that allows passenger trains and freight trains to run on separate lines.

Passenger transportation is our principal business. As of December 31, 2011, we operated 231 pairs of passenger trains in accordance with our daily train schedule, including 110 pairs of inter-city express trains between Guangzhou and Shenzhen (including 19 pairs of standby trains), 13 pairs of Hong Kong Through Trains (including 11 pairs of Guangzhou-Kowloon Through Trains, one pair of Zhaoqing-Kowloon Through Trains and one pair of Beijing/Shanghai-Kowloon Through Trains) and 108 pairs of long-distance passenger trains. We have successfully carried out our As-Frequent-As-Buses operating model by dispatching one pair of our domestically manufactured electric multiple units trains, known as China Railway High-Speed or CRHs, every 10 minutes on average during peak hours between Guangzhou and Shenzhen.

Freight transportation is another important segment of our business. Our railways are closely linked with, and we have developed business partnerships with, neighbouring ports, logistic bases, building materials markets, large factories and mines. We are also well-equipped with various freight facilities and can efficiently transport full load cargo, single load cargo, containers, bulky and overweight cargo, dangerous cargo, fresh and live cargo and oversized cargo. Our partnerships and facilities provide us with competitive advantages in transporting freight for medium to long distances in the PRC.

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Background, Restructuring and Acquisition

The railroad system between Guangzhou and Shenzhen was part of the original Canton-Kowloon railroad, which began operations in 1911. In 1949, following the establishment of the PRC, the railroad was divided into two sections, with the first linking Guangzhou and Shenzhen, and the second, across the Hong Kong border and separately owned, linking Luohu and the Kowloon peninsula in Hong Kong. The Guangzhou to Shenzhen railroad has been operated since 1949 by a sub-division of the Guangzhou Railway Bureau, a predecessor to GRGC.

In 1979, Guangshen Railway Company, our predecessor, in conjunction with KCR, which has been merged into the MTR Corporation Limited, or MTR, was engaged in the joint operation of Hong Kong Through Train passenger services between Guangzhou and Hong Kong.

In 1984, to exploit the rapid growth in the Pearl River Delta, Guangshen Railway Company, our predecessor, was established pursuant to the approval of the State Council as a state-owned enterprise administered by the Guangzhou Railway Bureau. At that time, Guangshen Railway Company had only a single-line railroad. Since then, large capital expenditures have been made to expand and upgrade its facilities and services. In 1987, construction of the second line was completed. In 1991, Guangshen Railway Company began the construction of a semi- high-speed rail line and purchased locomotives and passenger coaches, which can provide passenger train services at speeds of more than 160 kilometers per hour. Commercial operation of the EMU trains commenced in December 1994.

We were established as a joint stock limited company on March 6, 1996 following the Restructuring, which was carried out to reorganize the railroad assets and related businesses of Guangshen Railway Company and certain of its subsidiaries. As part of the Restructuring, 2,904,250,000 state legal person shares, par value RMB 1.00 per share, of our Company were issued to GRGC, a state-owned enterprise controlled by the MOR. Guangshen Railway Company retained the assets, liabilities and businesses not assumed by us, including units providing staff quarters and social services such as health care, education, public security and other ancillary services, as well as subsidiaries or joint ventures whose businesses do not relate to railroad operations and do not compete with our businesses. As part of our Restructuring, Guangshen Railway Company was renamed Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company, or GEDC.

Since April 1, 1996, we have been able to set our own prices for our EMU train services and charge a premium over average national prices for our other passenger and freight train services. See ITEM 4. INFORMATION ON THE COMPANY B. Business Overview Regulatory Overview Pricing for a more detailed description of our pricing scheme.

We completed our initial public offering of class H ordinary shares, or H shares, and our American depository shares, or ADSs, in May 1996. In that offering, we issued a total of 1,431,300,000 H shares, par value RMB 1.00 per share. Our H shares are listed for trading on the HKSE and our American depository shares, or ADSs, each representing 50 H shares, are listed for trading on the NYSE.

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On November 15, 2004, we entered into an asset purchase agreement with Yangcheng Railway Company to acquire the railway transportation business between Guangzhou and Pingshi and related assets and liabilities, or the Acquisition. In order to finance such Acquisition, on December 13, 2006, we issued 2,747,987,000 A shares that are now listed for trading on the Shanghai Stock Exchange (stock code: 601333) and raised approximately RMB 10.0 billion from the A Share Offering. After the A Share Offering, approximately 41% of our issued and outstanding shares were owned by GRGC, while institutional and public shareholders own approximately 59% of our issued and outstanding ordinary shares, including A shares, H shares and ADSs.

On December 28, 2006, we paid RMB 5.27 billion out of the proceeds raised from the A Share Offering to Yangcheng Railway Company. On January 1, 2007, the railway transportation business of the Guangzhou-Pingshi Railway came under our control as a result of the Acquisition. As a result, our operations expanded from a regional railway to a national trunk line network and our operating railway distance extended from 152 kilometers to 481.2 kilometers, running vertically through the entire Guangdong Province. In June 2007, we paid the remaining balance in the amount of RMB 4.87 billion to Yangcheng Railway Company.

In April 2010, in order to further reduce our administrative expenses and improve the overall efficiency of our administration system, we made efforts to optimize our internal management structure, including establishing the General Administrative Department, the Human Resources Department, the Planning and Finance Department, the Operation Management Department and the Audit Department, each of which is under the supervision of our general manager, and outsourcing all other administrative functions to external service providers.

Service Territory

Our rail lines traverse the Pearl River Delta and also run vertically through Guangdong Province, an area which benefited early from the PRC economic reform policies that began in the late 1970s. Throughout the 1980s and early 1990s, the economy of the Pearl River Delta, fueled by foreign investments, grew rapidly. The Pearl River Delta is currently one of the most affluent and fastest growing areas in China.

As of April 26, 2012, we had 48 stations situated on our rail lines, providing passenger and freight transportation services for cities, towns and ports situated along the Shenzhen-Guangzhou-Pingshi corridors and Hong Kong (which we serve in conjunction with MTR). In addition to our Hong Kong Through Train passenger service in conjunction with the MTR, we also allow Hong Kong-bound freight trains to use our railroad. We also provide railway operation services to other Chinese domestic railway companies.

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

Northbound. At Pingshi, our rail line connects with the Beijing-Guangzhou line, which is one of the major trunk lines linking southern China with Beijing and northern China. Another trunk line connecting northern and southern China, the Beijing-Hong Kong rail line, includes the section of our line from Dongguan to Shenzhen.

Southbound. Our line connects at Shenzhen with the rail line owned by the MTR that runs to Kowloon, Hong Kong.

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Westbound. Our line connects with the Guangzhou-Maoming rail line operated by Sanmao Railway Company, a company in which GRGC holds a 49.1% equity interest, that runs through the western part of Guangdong Province, connecting with other rail lines that continue on into the Guangxi Zhuang Autonomous Region, which provides access to southwestern China.

Eastbound. Our rail line intersects at Dongguan with the Guangzhou-Meizhou-Shantou rail line operated by Guangmeishan Railway Company, a company jointly established by GRGC, the Guangdong Provincial Railway Company and other public investors. A section of this line forms, along with our Dongguan to Shenzhen segment, a part of the Beijing-Hong Kong rail line, which terminates in Kowloon, Hong Kong.

At Pinghu, our rail line connects with two local port lines: one of them, Pingnan Railway, principally serves three ports located in western Shenzhen Shekou, Chiwan and Mawan and the other, Pingyan Railway, serves Yantian port, an international deepwater port located in eastern Shenzhen. At the Huangpu and Xiayuan stations in Guangzhou, our line connects with Huangpu port and Xinsha port. Our rail line also connects with certain industrial districts, commercial districts and the facilities of many of our customers through spur lines, which are rail lines running off the main line that are used and typically financed by a freight customer or a group of freight customers and maintained by us for a fee. We believe that the customers connected to these spur lines and customers with goods that must be shipped through these regional ports are likely to use our services on a long-term basis.

B. Business Overview

Business Operations

Our principal businesses are railroad passenger, freight transportation, railway network usage and other transportation-related services, which collectively generated 93.0% of our total revenue in 2011. The remaining 7.0% of our total revenue in 2011 mainly consists of sales of materials and supplies, maintenance and repair of trains, on-board catering services, labor services and other businesses related to railway transportation.

On January 1, 2007, we acquired the railway transportation business of Guangzhou-Pingshi Railway. The Acquisition was financed with the proceeds from the A Share Offering.

On April 18, 2007, after the national railway system of China implemented its sixth large-scale railway speed-up project, we commenced operation of the Fourth Rail Line between Guangzhou and Shenzhen. The Guangzhou-Shenzhen Railway is the first wholly fenced four-line railway in China that enables passenger trains and freight trains to run on separate lines. The start-up of the Fourth Rail Line has enhanced our transportation capacity.

In February 2009, we launched the Finance IC card and Fastpass card systems at stations along the Guangzhou-Shenzhen line, which enabled the passengers to board the trains by flashing the cards without having to queue for tickets. This has led to an increase in the passenger volume along the Guangzhou-Shenzhen line as it brings more convenience to our customers. From May 1, 2009, we began to operate our Guangzhou-Shenzhen inter-city trains under a stop-at-all-stations operating model, which allows passengers to get on and off the trains at all intermediary stations on that line, including Dongguan, Shilong and Zhangmutou stations. In addition, in order to increase the transportation capacity of our long-distance passenger lines, beginning from January 1, 2009, we converted the Guangzhou-Xi'an temporary passenger trains to regular passenger trains.

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In 2011, we proactively adapted to the macro-economic situation and changes in our industry environment, and capitalized on the opportunities of the steady and rapid growth of the PRC economy, the continuous expansion of the scale and transportation capacity of the railway network, as well as our enhanced competitiveness in the industry. Leveraging on the occasion of the 26th Universiade held in Shenzhen in August 2011, we increased our marketing efforts, adjusted our transportation arrangements, enhanced our transportation resources, and controlled our costs and expenses. As such, we sustained growth in our transportation revenue and achieved a significant increase in our profitability.

In 2011, our total revenue was RMB 14,690.8 million, representing an increase of 9.0% from RMB 13,484.4 million in 2010. Our revenue from railroad passenger transportation service, freight transportation service, railway network usage and other transportation-related services and other businesses was RMB 8,026.5 million, RMB 1,386.8 million, RMB 4,256.0 million and RMB 1,021.6 million, respectively, accounting for 54.6%, 9.4%, 29.0% and 7.0%, respectively, of our total revenue in 2011. Our profit attributable to shareholders was RMB 1,804.1 million, representing an increase of 21.4% from RMB 1,486.1 million in 2010. The revenue from our other businesses was RMB 1,021.6 million, representing an increase of 13.1% from RMB 903.6 million in 2010.

The table below summarizes our railroad transportation revenue and traffic volume in each of the five years ended December 31, 2007, 2008, 2009, 2010 and 2011.

	Year ended December 31,				
	2007	2008	2009	2010	2011
Passenger Transportation					
Total passenger revenue (RMB millions) ⁽⁴⁾	5,622.26	6,500.52	6,841.66	7,377.14	8,026.51
Total passengers (millions)	73.05	83.82	81.84	84.92	90.83
Total passenger-kilometers (millions)	26,278.20	27,923.70	27,233.10	27,472.00	28,523.99
Revenue per passenger-kilometer (RMB) ⁽¹⁾	0.21	0.23	0.25	0.27	0.28
Freight Transportation					
Total freight revenue (RMB millions) ⁽⁴⁾	1,271.16	1,269.78	1,164.85	1,315.35	1,386.75
Total freight tonnes (millions)	71.01	70.14	61.99	67.93	68.70
Revenue per tonne (RMB) ⁽²⁾	17.90	18.10	18.79	19.36	20.18
Total tonne-kilometers (millions)	15,306.90	15,557.37	13,446.70	15,191.43	15,519.10
Revenue per tonne-kilometer (RMB) ⁽³⁾	0.08	0.08	0.09	0.09	0.09
Railway Network Usage and other transportation-related services					
(RMB millions) ⁽⁴⁾	2,926.09	3,052.05	3,504.98	3,888.37	4,256.00

- (1) Revenue per passenger-kilometer is calculated by dividing total passenger revenue by total passenger-kilometers. Management believes that revenue per passenger-kilometer is a useful measure for assessing the revenue levels of our passenger transportation business.
- (2) Revenue per tonne is calculated by dividing total freight revenue by total freight tonnes. Management believes that revenue per tonne is a useful measure for assessing the revenue levels of our freight transportation business.
- (3) Revenue per tonne-kilometer is calculated by dividing total freight revenue by total tonne-kilometers. Management believes that revenue per tonne-kilometer is a useful measure for assessing the revenue levels of our freight transportation business.
- (4) With the change of industry practice due to the amended guidance issued by the MOR, management revised the presentation of the sub-categories of revenue in 2011, which resulted in a change in classification of sub-category items of revenue shown on the comprehensive income statement. Accordingly, certain 2007, 2008, 2009 and 2010 comparative figures have been reclassified to conform to the current year presentation. Details of the reclassifications are set forth below: (a) Revenue arising from provision of services provided to other railway companies in relation to passenger transportation (railway operation services and etc.) was recorded within the Passenger category of revenue in the prior years; such revenue has now been reclassified to the Railway network usage and other transportation-related services category of revenue; (b) Revenue arising from provision of services provided to other railway companies in relation to those cargo trucks previously unscheduled was recorded within the Freight category of revenue in the prior years; such revenue has now been reclassified to the Railway network usage and other transportation-related services category of revenue; (c) The category Railway network usage and services has been renamed as Railway network usage and other transportation-related services to properly include the new items being included as a result of the above re-classifications.

Table of Contents**Passenger Transportation**

Passenger transportation is our largest business segment, accounting for 54.6% of our total revenue and 58.7% of our railroad transportation revenue in 2011. Our passenger train services can be categorized as follows:

inter-city express trains between Guangzhou and Shenzhen;

Hong Kong Through Trains between Hong Kong and Guangzhou; and

domestic long-distance trains.

As of December 31, 2011, we operated 231 pairs of passenger trains per day (each pair of trains meaning trains making one round-trip between two points), representing an increase of 7 pairs from 224 pairs as of December 31, 2010, of which:

110 pairs were inter-city express passenger trains operating between Guangzhou and Shenzhen (including 19 stand-by pairs);

13 pairs were Hong Kong Through Trains, including 11 pairs of Guangzhou-Kowloon Through Trains, one pair of through trains between Zhaoqing and Kowloon, and one pair of through trains that operates on alternating days either on the Beijing-Kowloon line or the Shanghai-Kowloon line; and

108 pairs were domestic long-distance passenger trains, representing an increase of 7 pairs from 101 pairs as of December 31, 2010, which included long-distance passenger trains operated by us between Shenzhen and Yueyang, between Shenzhen and Shanghai South, between Shenzhen and Beijing West, between Kowloon and Beijing West, between Shenzhen and Shaoguan, between Guangzhou and Chongqing North, between Guangzhou and Wanzhou, between Guangzhou and Liuzhou, between Guangzhou and Xi'an, between Guangzhou and Taizhou, between Guangzhou and Shanghai South, between Guangzhou and Jiujiang, between Chenzhou and Foshan, between Guangzhou and Zhangjiajie, between Guangzhou and Lhasa and between Sanya and Beijing West, as well as domestic long-distance trains that are operated by other operators but originating or terminating on, or passing through, our railroad.

The table below sets out passenger revenue and volumes for our Hong Kong Through Trains and domestic trains in each of 2009, 2010 and 2011:

	Total passenger revenue			Total passengers			Revenue per passenger		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
	(RMB millions)			(millions)			(RMB)		
Guangzhou-Shenzhen Trains	2,046.6	2,361.3	2,606.5	33.5	36.9	39.0	61.1	63.9	66.8
Hong Kong Through Trains ⁽¹⁾	378.4	413.7	461.0	2.8	3.1	3.7	135.2	133.7	125.9
Long-distance Trains ⁽¹⁾⁽³⁾	4,770.6	4,602.2	4,958.9	45.5	44.9	48.1	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾
Combined passenger operations	7,195.7	7,377.1	8,026.5	81.8	84.9	90.8	N/A ⁽²⁾	N/A ⁽²⁾	N/A ⁽²⁾

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- (1) The operation of Beijing-Kowloon Through Trains, which run between Beijing West and Kowloon, has been handed over to our Company since January 1, 2009. Before 2009, our Company's revenue from Beijing-Kowloon Through Trains, excluding the revenue attributable to MTR in Hong Kong, was generated only from the Guangzhou East-Kowloon section that implemented a special pricing policy. Starting from January 1, 2009, all the revenue generated from the operation of Beijing-Kowloon Through Trains, excluding the revenue attributable to MTR in Hong Kong, became the revenue of our Company. We divide the revenue generated from the operation of Beijing-Kowloon Through Trains into two parts: (i) all the revenue generated from passengers departing for or from Hong Kong, excluding the revenue attributable to MTR, is accounted as revenue from Hong Kong Through Trains and (ii) the remaining revenue is accounted as revenue from long-distance trains.
 - (2) Our revenue of long-distance passenger trains includes both the revenue from the passengers arriving at our railway stations and the revenue from the passengers departing from our railway stations. However, the number of our long-distance passengers only includes the passengers departing from our railway stations. As a result, we believe that the per passenger revenue cannot fairly reflect the financial status of our passenger transportation business.
 - (3) With the change of railway statistical practice, we reclassified railway operation services revenue, locomotive and passenger cars usage revenue and passenger services revenue to Railway network usage and other transportation-related services, instead of reporting under Passenger revenue long-distance trains, since 2011. Certain 2009 and 2010 comparative figures have been adjusted accordingly.
- Guangzhou-Shenzhen Trains.* In 2011, our passenger transportation services on the trains between Guangzhou and Shenzhen contributed a substantial portion to our railroad passenger transportation revenue. In 2011, we did not operate any regular speed inter-city train between Guangzhou and Shenzhen. As of December 31, 2011, we operated, on average, a total of 110 pairs of CRH passenger trains between Guangzhou and Shenzhen daily. Such CRH passenger trains are capable of running at a top speed of 200 kilometers per hour. The number of passengers traveling on our Guangzhou-Shenzhen trains increased by 5.7% from 36.9 million in 2010 to 39.0 million in 2011. The revenue from our Guangzhou-Shenzhen trains increased by 10.4% from RMB 2,361.3 million in 2010 to RMB 2,606.5 million in 2011. The increase in passenger volume and revenue of Guangzhou-Shenzhen trains was primarily due to (i) our inter-city trains benefited from the sustained and steady growth of China's economy and the 26th Universiade held in Shenzhen in August 2011; (ii) as road transportation is subject to increasing costs due to the continuous rise in oil prices, toll fees and parking fees and worsening traffic congestion, passengers are increasingly attracted to taking the inter-city trains that are characterized by safety, timeliness, comfort and convenience; (iii) we increased the number of runs of temporary trains during the peak seasons during the Spring Festival (Chinese New Year), students' summer break and public holidays, leading to a year-to-year increase in our transportation capacity; (iv) in view of the relatively high number of long-distance trains departing from the Guangzhou station, we increased the number of pairs of inter-city trains stopping at the Guangzhou station to attract transit passengers; and (v) the fare per ticket of the inter-city trains has increased by RMB 5 as of June 18, 2010.

Hong Kong Through Trains. We currently operate, jointly with the MTR, 13 pairs of Hong Kong Through Trains, including 11 pairs of Guangzhou-Kowloon Through Trains, one pair of Zhaoqing-Kowloon Through Trains, and another pair of through train that operates on alternate days either on the Beijing-Kowloon line or the Shanghai-Kowloon line. We operate certain Hong Kong Through trains in cooperation with MTR. We are responsible for the operation of the Beijing-Kowloon Through Trains and eight pairs of Guangzhou-Kowloon Through Trains while MTR is responsible for the operation of three pairs of Guangzhou-Kowloon Through Trains. In addition, we also provide railway network usage services to MTR for the Hong Kong Through Trains it operates.

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The Hong Kong Through Train services beyond Guangzhou to Foshan, Zhaoqing, Beijing and Shanghai are provided by GRGC and Shanghai Railway Bureau. Revenue from these Hong Kong Through Trains on the Guangzhou-Hong Kong section is shared between MTR and us, in proportion to our track mileage for the Hong Kong Through Train services, with 81.2% accruing to us and 18.8% to MTR. In addition, we share all related costs with MTR at the same rate for the Hong Kong Through Train services.

Most of the passengers taking our Hong Kong Through Trains are from Hong Kong, Macau, Taiwan and foreign countries, and many are business travelers. As the prices for our Hong Kong Through Train services are higher than the prices we charge for our domestic train services, these Hong Kong Through Train services produce higher per-passenger revenue than our other passenger train services.

In 2011, the volume of passengers who traveled on the Hong Kong Through Trains increased by 19.4% from 3.1 million in 2010 to 3.7 million in 2011. The revenue from Hong Kong Through Trains increased by 11.4% from RMB 413.7 million in 2010 to RMB 461.0 million in 2011. The increase was mainly due to (i) the steady and rapid growth of China's economy with a sustained rise in commodity prices and moderate appreciation of the RMB; (ii) Hong Kong and Macau have become preferred traveling destinations for mainland citizens due to the turmoil in many other places around the world, stimulating an increase in the passenger flow to Hong Kong and Macau from mainland China; and (iii) an increasingly larger number of group passengers who travel on the Hong Kong Through Trains under the strengthened cooperation arrangements between the domestic travel agencies and Hong Kong travel agencies.

Domestic Long-distance Trains. As of December 31, 2011, we operated on a daily basis 108 pairs of domestic long-distance passenger trains on our rail lines to cities in Guangdong, Hunan, Hubei, Jiangxi, Anhui, Jiangsu, Liaoning, Shanxi, Gansu, Fujian, Heilongjiang, Jilin, Zhejiang, Hebei, Henan, Sichuan, Yunnan and Shandong provinces, Chongqing, Shanghai, Beijing and Tianjin municipalities and Guangxi Autonomous Region and Tibet Autonomous Region. In 2011, the number of passengers traveling on our long-distance trains was 48.1 million, representing an increase of 7.1% from 44.9 million in 2010. In addition, our revenue from long-distance trains was RMB 4,958.9 million, representing an increase of 7.8% from RMB 4,602.2 million in 2010. The increase was mainly due to (i) the increase in the number of pairs of trains departing from the stations on our railway lines (two pairs of Guangzhou-Pingshi, one pair of Guangzhou East-Shantou, one pair of Guangzhou-Meizhou and one pair of Shenzhen-Shaoguan East trains were added as of April 1, 2011; one pair of Shenzhen-Yueyang trains was added as of July 1, 2011; one pair of Guangzhou-Urumqi trains was added as of August 3, 2011); (ii) the continuous operation of Guangzhou-Tongren (its course was extended to Dazhou as of January 11, 2011) and Guangzhou-Xinyang long-distance trains which commenced their business operations as of March 21, 2010 and April 17, 2010, respectively; (iii) the Shenzhen-Shanghai World Expo Special Trains running as temporary trains during the Expo were adjusted to regular train status; and (iv) the large number of tourists to the 26th Universiade in Shenzhen in August 2011.

Major Stations. The following are the major train stations owned and operated by us as of December 31, 2011:

Station	Location	Connected Railways	Passenger Transportation	Total Passengers for 2011 (millions)
			Business	
Guangzhou Station	Yuexiu District, Guangzhou	Beijing-Guangzhou Railway, Guangzhou-Maoming Railway, Guangzhou-Shenzhen Railway, Line 2 and Line 5 of Guangzhou's subway system	Long-distance trains, inter-city trains between Guangzhou and Shenzhen	31.1
Guangzhou East Station	Tianhe District, Guangzhou	Beijing-Guangzhou Railway, Guangzhou-Shenzhen Railway, Line 1 and Line 3 of Guangzhou's subway system	Long-distance trains, inter-city trains between Guangzhou and Shenzhen, Hong Kong Through Trains	20.5
Shenzhen Station	Luohu District, Shenzhen	Guangzhou-Shenzhen Railway, Hong Kong railway, Luobao Line of Shenzhen's subway system		23.4
Dongguan Station	Changping Town, Dongguan	Guangzhou-Shenzhen Railway		4.9
Shaoguan East Station	Shaoguan	Beijing-Guangzhou Railway	Long-distance trains	3.4

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Freight Transportation

Revenue from our freight transportation accounted for 9.4% of our total revenue and 10.1% of our railroad transportation revenue in 2011. Our principal market for freight is domestic medium and long-haul freight, originating and/or terminating outside the Shenzhen-Guangzhou-Pingshi corridor. We are well equipped with various freight facilities and can efficiently transport full load cargo, single load cargo and containers. We have established business cooperation with ports, logistics bases and specialized building materials markets in our service region.

The majority of the freight we transport is high-volume, medium to long-distance freight received from and/or transferred to other rail lines. A portion of the freight we transport both originates and terminates in the Shenzhen-Guangzhou-Pingshi corridor. We classify our freight business into three categories:

inbound freight, which is primarily freight unloaded at freight stations and spur lines connected to ports on our rail line or in Hong Kong;

outbound freight, which is primarily freight bound for other regions in Mainland China as well as foreign countries loaded at our train stations and spur lines connected to ports on our rail line or in Hong Kong; and

pass-through freight, which refers to freight that travels on our rail line, but which does not originate from or terminate at our rail line.

The total tonnage of freight we transported in 2011 was 68.7 million tonnes, representing an increase of 1.2% from 67.9 million tonnes in 2010. Revenue from freight transportation business in 2011 was RMB 1,386.8 million, representing an increase of 5.4% from RMB 1,315.3 million in 2010. This increase is mainly due to the following factors:

the steady growth of the Chinese economy, which resulted in strong demand for our railway freight transportation services for coal, coke and petroleum products;

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we conducted effective market research, strengthened our relationships with key customers and enhanced our marketing strategies; and

the increase in the national basic freight transportation price by RMB 0.002 per tonne kilometer from April 1, 2011, which also contributed to the increase in the revenue of our freight transportation business.

We serve a broad customer base and ship a wide range of goods in our freight transportation business. We are not dependent upon any particular customers or industries.

We transport a broad range of goods, which can generally be classified as follows: metal ores, coal, containers, construction materials, steel, petroleum, and other goods. The majority of our inbound freight consists of raw materials and essential production materials for manufacturing, industrial and construction activities, while the majority of our outbound freight consists of imported mineral ores as well as coal and goods produced or processed within our service territory, for customers throughout China and abroad.

Railway Network Usage and other Transportation-Related Services Business

Revenue from our railway network usage and other transportation-related services accounted for 29.0% of our total revenue and 31.1% of our railroad transportation revenue in 2011. Railway network usage services mainly include the locomotive traction, track usage, electric catenaries (overhead wires used to transmit electrical energy to trains), vehicle coupling and other services; other transportation-related services include railway operation services and lease of locomotive and passenger trains. In 2011, our revenue from railway network usage and other transportation-related services was RMB 4,256.0 million, representing an increase of 9.5% from RMB 3,888.4 million in 2010. The increase in revenue from railway network usage and other transportation-related services was principally due to the increase in the number of long-distance trains that are operated by other railway companies that traveled on our railway tracks.

The following table shows the composition of our revenue from railway network usage and other transportation-related services for the three years ended December 31, 2009, 2010 and 2011:

	2009	2010	2011
	(RMB millions)		
Railway Network Usage	3,105.7	3,115.9	3,254.5
Locomotive traction	1,359.9	1,372.6	1,413.0
Track usage	1,026.7	965.4	1,021.1
Electric catenaries	283.3	282.9	302.4
Vehicle coupling	275.4	307.6	313.8
Other services	160.4	187.4	204.2
Railway Operation Service	97.6	469.2	717.3
Other Transportation Services	301.7	303.2	284.2
Total	3,505.0	3,888.4	4,256.0

Other Businesses

Revenue from our other businesses accounted for 7.0% of our total revenue in 2011. Our other businesses mainly consist of sales of materials and supplies, maintenance and repair of trains, on-board catering services, labor services and other businesses related to railway transportation.

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Revenue from our other businesses in 2011 was RMB 1,022 million representing an increase of 13.1% from RMB 904 million in 2010. The increase in revenue from other businesses was mainly due to (i) the increase in the sales of materials and supplies to the increased number of trains that are operated by other railway companies that traveled on our railway tracks; and (ii) the increase in the sales of food, beverages and goods on our trains and at our stations as a result of the increase in the number of our passengers.

Seasonality of Our Railway Transportation Business

There is some seasonality in our businesses. The first quarter of each year typically contributes the highest portion of our annual revenue, mainly because it coincides with the Spring Festival holidays when Chinese people customarily travel from all over the country back to their hometowns. In addition, the Spring Festival holidays, the Qingming Festival holidays, the Labor Day holidays, the Dragon Boat Festival holidays, summer holidays and the National Day holidays in China are also high travel seasons. During these holidays, we usually operate additional passenger trains to meet the increased transportation demand.

Sales

Passenger Transportation

Our passenger tickets are currently sold primarily at ticket counters and automatic selling machines and located in our train stations as well as through telephone and the internet. Additionally, our tickets are sold in Hong Kong and major cities in the Guangdong Province through ticket agents, travel agents and hotels, at our usual prices plus nominal commissions.

Hong Kong Through Train tickets are sold in Guangdong Province through our railway stations, as well as through various ticket outlets, hotels and travel agents. In Hong Kong, these tickets are sold exclusively by the MTR. As MTR's sales network for these tickets is relatively limited, MTR has engaged the China Travel Service (HK) Ltd., or CTS, as the primary agent for such sales on a non-exclusive basis.

In February 2009, we launched the Finance IC card and Fastpass card systems at stations along the Guangzhou-Shenzhen line, which enabled the passengers to board the trains by flashing the cards without having to queue for tickets.

The current settlement method stipulated by the MOR for passenger transportation provides that all revenue from passenger train services (including revenue generated from luggage and parcel services) is considered passenger transportation revenue and belongs to the railway bureau that operates that train. The railway bureau in turn pays other railway bureaus the fees for the use of their rail lines, hauling services, in-station passenger services, water supply, electricity for electric locomotives and contact wire use fees, etc. Under this settlement method, the railway bureaus operating the long-distance train services are required to pay us the following fees: (i) the portion of the revenue from the sale of tickets that is higher than the PRC national railway standards due to our special pricing standards and (ii) other fees including those for railroad line usage, in-station passenger service, haulage service, power supply for electric locomotives, usage fees of contact wires and water supply. This settlement method does not apply to the settlement of our revenue from the passenger trains between Guangzhou and Shenzhen, between Beijing and Hong Kong, between Shanghai and Hong Kong, between Zhaoqing and Hong Kong and the Hong Kong Through Trains. See ITEM 4. INFORMATION ON THE COMPANY B. Business Overview Regulatory Overview Pricing.

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Freight Transportation

Generally, we collect payment for our freight service directly from our customers. For inbound freight, we collect transportation fees incurred on our line from the receiving party prior to the release of the freight. For outbound freight, we collect the total transportation fees from the dispatching party, retain the portion allocated to us and remit the remainder to the other railroad operators on a monthly basis either directly or through a national settlement procedure administered by the MOR. These collection procedures also apply to freight transported to or from Hong Kong.

For pass-through freight, payments are collected at the originating stations, and allocated portions for the use of our rail line are remitted to us through the national settlement procedure administered by the MOR. We generally receive such funds within a month after the service is provided.

Freight customers in the Guangzhou-Shenzhen area either deal directly with us or use shipping agents. As a practical matter, we have been able to meet demands for outbound freight transportation services on short notice.

Pursuant to the settlement methods issued by the MOR, which became effective from January 1, 2005, all freight transportation fees relating to post parcels and luggage, containers and special goods shall be collected by Zhongtie Parcels Courier Company Limited, Zhongtie Container Transportation Company Limited and Zhongtie Special Goods Transportation Company Limited, or collectively the Professional Transportation Companies. The Professional Transportation Companies shall pay railway usage fees to relevant railway bureaus and companies, including us. In order to make itemized revenue from freight match freight volume, and remain comparable with previous years, these railway usage fees have been recorded, as appropriate, as revenue generated from freight dispatch, as well as freight reception and transit, based on the freight dispatched or received and transited.

Competition

We provide passenger and freight transportation services on the Shenzhen-Guangzhou-Pingshi Railway. As the Wuhan-Guangzhou passenger line commenced operation in December 2009, which passes through our service territory, we compete for long-distance travelling passengers against other railway service providers operating within our service territory. Furthermore, the operation of the Guangzhou-Shenzhen-Hong Kong passenger line, which commenced on December 26, 2011, may further increase the competition we face and materially and adversely affect our revenue and results of operations. In addition, in areas where our railroad connects with lines of other railway companies, such as in the Guangzhou area where our railroad connects with the Guangzhou-Maoming Line, and in the Dongguan area where our railroad connects with the Guangzhou-Meizhou-Shantou Line, we face competition from the railway companies operating in these areas. We also face competition from the providers of a variety of other means of transportation within our service territory.

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With respect to passenger transportation, we face competition from bus services, which are available between Guangzhou and Hong Kong, between Guangzhou and Shenzhen and between many other locations that we provide passenger transportation services. Bus fares are typically lower than the fares for our passenger train services. Furthermore, buses can offer added convenience to passengers by departing from or arriving at locations outside their central terminals, such as hotels. However, train services generally offer greater speed, safety and reliability than bus services. In addition, since the implementation of our As-Frequent-As-Buses operating model, our high-speed train services and Hong Kong Through Train services have enabled us to compete more effectively with bus operators in terms of speed and frequency. We also compete to a lesser extent with commercial air passenger transportation services and ferry services operating between Guangzhou and Hong Kong.

With respect to freight transportation, we face increasing competition from truck transportation in the medium- and short-distance freight transportation market as the expressway and highway networks in our service region and neighboring areas have increasingly improved. By comparison, in the long-distance freight transportation market, especially in the areas where water transportation is not well developed, our freight transportation service has many advantages compared to truck transportation due to the higher cost of truck transportation, susceptibility of truck transportation to traffic conditions and a scarcity of heavy duty trucks. Our freight transportation also competes with water transportation as the waterway networks have increasingly improved. Supported by its more extensive network, railway freight transportation is more competitive in terms of speed and safety compared to water transportation, especially in those areas that are far from coasts and main waterways. As air freight is very expensive and attracts a different group of customers, we do not consider that our freight transportation services face significant competition from air freight. In China, a significant portion of the bulky freight with low added-value is still transported by railroad.

Equipment, Tracks and Maintenance

As of December 31, 2011, we owned 141 diesel locomotives, 147 electric locomotives, 20 EMUs and 1,306 passenger coaches for our operations.

The freight cars we use are all leased from the MOR, to which we pay uniform rental fees based on the national standards set by the MOR. The amounts of such usage fees and depreciation charges we paid to the MOR in 2009, 2010 and 2011 were approximately RMB 162.7 million, RMB 178.9 million and RMB 200.7 million, respectively.

From 2007, we started the operation of our CRHs, which we bought from Bombardier Sifang Power (Qingdao) Transportation Ltd. and Bombardier Sweden Transportation Ltd. Each CRH is designed to have a top speed of 200 kilometers per hour and we believe that the introduction of CRHs has strengthened our capability to deliver safety, speed, comfort and quality in our transport services and increased our efficiency and competitiveness.

Our repair and maintenance facilities, including our Guangzhou passenger vehicle maintenance facility, Shipai passenger vehicle maintenance facility, Shenzhen North passenger vehicle maintenance facility, Guangzhou vehicle maintenance facility and Guangzhou North vehicle maintenance facility, provide services for general maintenance and routine repairs on our coaches and locomotives. Major repairs and overhauls are performed by manufacturers or qualified railway bureaus or plants. The repair and maintenance services for the CRHs are provided by our Guangzhou EMU vehicle maintenance facility.

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We believe that our existing tracks and equipment meet the needs of our current business and operations. Most of the rails and ties on our main lines have been installed within the last decade and are maintained and upgraded on an ongoing basis as required. In 2010 and 2011, we made improvements to approximately 120 kilometers and 216 kilometers of railroad, respectively.

Major Suppliers and Service Providers

Our major suppliers and service providers are railway companies or bureaus owned or controlled by the MOR, including the GRGC, the substantial shareholder of our Company. In 2011, the total amount of our purchase of goods and services from GRGC (and its subsidiaries) and other railway companies or bureaus owned or controlled by the MOR accounted for 28.9% and 23.3% of our total purchase amount, respectively. See ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS B. Related Party Transactions.

Our major customers are railway companies or bureaus owned or controlled by the MOR, including the GRGC, the substantial shareholder of our Company. In 2011, our revenue derived from GRGC (and its subsidiaries) and other railway companies or bureaus owned or controlled by the MOR accounted for 11.0% and 74.0% of our total revenue, respectively.

The electricity we use, including electricity used for our lines, is supplied through various entities under the jurisdiction of the Guangdong provincial power bureau on normal commercial terms. In 2009, 2010 and 2011, we paid approximately RMB 561.5 million, RMB 552.3 million and RMB 611.1 million, respectively, in electricity charges.

Regulatory Overview

As a joint stock limited company with publicly traded shares, we are subject to regulation by the PRC securities regulatory authorities with respect to our compliance with PRC securities laws and regulations. We are also subject to industry regulation by the MOR within the overall framework of the PRC national railway system.

National Railway System

Railroads in the PRC fall largely into three categories: state-owned railroads, jointly owned railroads and local railroads. State-owned railroads are invested by the central government of the PRC. The state-owned railway system comprises over 70% of all rail lines, including all trunk lines, and operates as a nationwide integrated system under the supervision and management of the MOR. Jointly owned railroads are jointly invested and operated by the central government of the PRC, the local government and other foreign or domestic investors. Local railroads consist of regional lines usually within provincial or municipal boundaries that have been constructed under the sponsorship of local governments or local enterprises to serve local needs. Although the MOR does not operate other railroads, it provides guidance, coordination, supervision and assistance with respect to industry matters to such other railroads. The MOR's responsibilities include the centralized coordination of train routing and scheduling nationwide, planning of freight shipments and freight car allocations, overseeing equipment standardization and maintenance requirements, and financial oversight and revenue clearing throughout the national railway system.

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Prior to March 18, 2005, the MOR divided the national railway system into 15 regions, each overseen and operated by a separate railway bureau or railway group company. Ten of these 15 administrations were further subdivided on a geographical basis into 41 railway sub-administrations or railway general companies. On March 18, 2005, the MOR issued a notice, pursuant to which all railway general companies were dissolved and three new railway group companies were established. As a result, the number of railway group companies increased to 18. Railway group companies are directly responsible for passenger and freight transportation as well as the coordination and supervision of operations carried out by train stations within their respective service territory.

Transport Operations

The transport operations of the PRC national railway system are organized under the centralized regulation of the MOR. In order to promote efficient utilization of the railroad network nationwide, the MOR supervises and coordinates traffic flow on national trunk lines and through any connection points, where two rail lines operated by different companies connect to each other, in the system. Based on route capacity, available equipment and national priorities, the MOR formulates and issues the plans to the railway bureaus or railway group companies regarding routings on trunk lines, allocation of transportation capacities between railway bureaus or railway group companies at the connection points and allocation of freight cars to railway bureaus or railway group companies. The MOR also regulates the dispatch of empty freight cars to designated locations in order to enhance the utilization rate of the freight cars within the national railway system. Within the plans set forth by the MOR, each railway bureau and railway group company supervises and coordinates traffic within its own jurisdiction.

Our passenger and freight operations that involve long-distance routing beyond our own lines, are conducted, in general, pursuant to quota allocations from GRGC based on the quota allocations GRGC receives from the MOR. The plans and schedules for our passenger and freight services that are conducted solely on our own lines are determined by us; while our passenger and freight services that run beyond our own lines are subject to overall planning and scheduling of GRGC and/or the MOR.

Since March 1996, the MOR and GRGC have provided us with substantially greater latitude in our transportation operations. In particular, we were granted sufficient autonomy over passenger services on our own line, including autonomy over speed, frequency and train car mix. Pursuant to this authority, we have implemented a strategy of scheduling more high-speed trains, running shorter passenger trains more frequently, and adjusting the train schedules on our line to meet passenger demand. On October 21, 2001, we successfully launched our

As-Frequent-As-Buses operating model, which provides inter-city express train services. As of December 31, 2011, the total number of inter-city passenger trains running daily between Guangzhou and Shenzhen was 110 pairs (including 19 pairs of stand-by trains). We currently have 101 pairs of long-distance trains and 13 pairs of Hong Kong Through Trains.

Where our service runs beyond our own line, clearance by and coordination with GRGC is necessary. To the extent that we operate long-distance services beyond GRGC's jurisdiction, they are subject to coordination and clearance by the MOR. In addition, in order to enable GRGC and the MOR to allocate freight cars and control traffic going through connection points, we are required to provide GRGC with prior written notice, on a monthly basis, of the number and types of freight cars we will require, as well as the number of our freight trains that will go through particular connection points. Furthermore, we must still carry out special shipping tasks, such as emergency aid and military and diplomatic transport, as directed by the MOR or GRGC. Revenue from military and diplomatic transport generally account for less than 1% of our total transportation revenue. Emergency aid transport is required only during periods of natural disasters declared by the PRC government, and is provided free of charge.

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Pricing

In general, the MOR is responsible for preparing a proposal for the baseline pricing standards for the nationwide railway system with respect to freight and passenger transportation. Such proposed pricing standards will take effect after being approved by and/or filed with relevant PRC government authorities.

Pursuant to relevant approvals from the MOR and other relevant PRC government authorities, we have some discretion to adjust and determine our service price. With respect to our freight transportation services within our Guangzhou-Shenzhen lines, we may set our prices within a range between 50% and 150% of national price levels. With respect to our passenger transportation services, we may set the prices for our regular speed Guangzhou-Shenzhen trains within a range between 25% and 225% of national price levels, and may freely determine the prices for our high-speed express trains between Guangzhou and Shenzhen. In addition, we set the prices for our Hong Kong Through Trains in consultation with MTR, our business partner and the prices for our Hong Kong Through Trains are higher than the prices we charge for our domestic train services.

Environmental Protection

We believe that we are in material compliance with all applicable PRC national and local environmental protection laws and regulations. We have not been fined or cited for any activities that have caused environmental damages. We have 14 wastewater treatment facilities used for purposes of treating wastewater generated from cleaning of special cargo freight cars, locomotives, coaches and from residential use of our employees. We pay regular fees to local authorities for the discharge of waste substances. In 2011, our environmental protection-related expenses were RMB 13.5 million, mainly related to the renovation of the sewage pipes and boilers.

Insurance

Pursuant to applicable PRC regulations, we are liable for the compensation to passengers for bodily injury arising from accidents up to the limit of RMB 150,000/person and RMB 2,000/person for loss of or damage to carry-on parcels. With respect to loss of or damage to baggage, parcels and freight, our 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 RMB 15 for each kilogram of damaged or lost baggage and/or parcels. Freight transport customers who elect not to purchase insurance, may recover up to RMB 100 for each tonne of damaged or lost freight or RMB 2,000 for each package, depending on the methods adopted to calculate such freight.

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We do not currently maintain any insurance coverage with third party carriers against third party liabilities. Consistent with what we believe to be the customary practice among railway operators in the PRC, we do not maintain insurance coverage for our property and facilities (other than for our automobiles), for business interruption or for environmental damage arising from accidents on our property or relating to our operations. As a result, in the event of an accident or other event causing loss, destruction or damage to our property or facilities, causing interruption to our normal operations or causing liability for environmental damage or clean-up, we will have to cover losses and damages out of our own pockets. See ITEM 3. INFORMATION ON THE COMPANY D. Risk Factors Risks Relating to Our Business We have very limited insurance coverage .

In addition, we have taken out basic retirement insurance, basic medical insurance, work-related personal injury insurance policies and child-bearing insurance for our employees.

C. Organizational Structure

The following table lists the significant subsidiaries of our Company as of December 31, 2011:

Name ⁽¹⁾	Country of Incorporation	Percentage of Interest held by our Company
Guangshen Railway Station Dongqun Trade and Commerce Service Company Limited	PRC	100%
Shenzhen Fu Yuan Enterprise Development Company Limited	PRC	100%
Shenzhen Guangshen Railway Travel Service Limited	PRC	100%
Shenzhen Pinghu Qun Yi Railway Store Loading and Unloading Company Limited	PRC	55%
Dongguan Changsheng Enterprise Company Limited	PRC	51%
Shenzhen Railway Station Passenger Services Company Limited	PRC	100%
Guangzhou Tielian Economy Development Company Limited	PRC	50.5%
Shenzhen Nantie Construction Supervision Company Limited	PRC	76.66%
Guangzhou Railway Huangpu Service Company Limited	PRC	100%
Shenzhen Guangshen Railway Economic and Trade Enterprise Company Limited	PRC	100%
Shenzhen Railway Property Management Company Limited	PRC	100%
Shenzhen Shenhusheng Storage and Transportation Company Limited	PRC	100%

(1) During the year ended December 2011, the Company liquidated Guangzhou Dongqun Advertising Company Limited and no gain or loss was recognized.

D. Property, Plants and Equipment

We occupy a total area of approximately 39.7 million square meters, among which, we own the land use right of approximately 11.7 million square meters on which our buildings and facilities of Guangzhou-Shenzhen railway are located, and we lease approximately 28.0 million square meters from GRGC for the Guangzhou-Pingshi Railway.

With respect to the land for which we hold the land use rights, the terms range from 36.5 to 50 years, terminating between 2031 and 2055. Pursuant to relevant PRC regulations currently in effect, these land use rights are renewable at the end of their terms upon execution of relevant documentation and payment of applicable fees. With respect to the land leased from GRGC, the term is 20 years, terminating in 2027. Based on

the land lease agreement we entered into with GRGC in 2004, we can renew such lease at our discretion upon the expiration of the term of such land lease.

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As of December 31, 2011, we had not obtained the land use right certificates, or Land Certificates, of certain parcels of land of our Company with an aggregate area of approximately 1,620,894 square meters. After consultation with our Company's PRC legal counsel, we believe there is no legal hurdle for us to apply for and to obtain the Land Certificates and we do not believe the current lack of Land Certificates will lead to any material adverse impact on the operation of our business. Accordingly, we do not consider any provision for impairment necessary.

As of December 31, 2011, we had not obtained the ownership certificates of certain buildings, or Building Ownership Certificates, with an aggregate area of approximately 554,981 square meters, which had an aggregate carrying value of approximately RMB 992.6 million. After consultation with our Company's legal counsel, we believe that there is no legal hurdle for us to apply for and obtain the Building Ownership Certificates and it should not lead to any material adverse impact on the operation of our business. Accordingly, we do not consider any provision for impairment necessary.

Railroad operators typically require substantial land use rights for 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. We have not engaged and do not have any current plans to engage in commercial development of any of our land use rights for use other than in connection with our existing businesses. We do not at present intend to contribute capital to engage in any land development projects in the future. However, we may contribute land use rights not otherwise being fully utilized by us for equity stakes in these projects if we believe these opportunities are economically viable. Any development projects will require approval from PRC government authorities responsible for regulating land development.

As of April 26, 2011, we had 48 stations situated on our rail line, of which the Guangzhou East Station is the largest, occupying an area of 402,438 square meters.

For additional information regarding our property, plants and equipment, see ITEM 4. INFORMATION ON THE COMPANY B. Business Overview Equipment, Tracks and Maintenance and Note 6 to our audited consolidated financial statements included elsewhere in this annual report.

ITEM 4A. UNRESOLVED STAFF COMMENTS

We do not have any unresolved Staff comments that are required to be disclosed under this item.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

This discussion and analysis should be read in conjunction with our audited consolidated financial statements included elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by IASB.

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Overview

Our principal businesses are railroad passenger and freight transportation as well as railway network usage and other transportation-related services on the Shenzhen-Guangzhou-Pingshi railway and certain long-distance passenger transportation services. We also operate the Hong Kong Through Trains under a cooperative arrangement with MTR in Hong Kong. Prior to the Acquisition, our key strategic focus in recent years was to provide high-speed passenger train services in the Guangzhou-Shenzhen corridor. After the Acquisition, we aim to establish ourselves as a comprehensive railway service provider on the Shenzhen-Guangzhou-Pingshi corridor by providing passenger transportation, freight transportation and railway network usage and other transportation-related services to our customers. In addition to our core railroad transportation business, we also engage in other businesses that complement our core businesses, including on-board and station sales, restaurant services, as well as advertising and tourism.

For the year ended December 31, 2011, our total revenue was RMB 14,690.8 million, profit attributable to shareholders was RMB 1,804.1 million, and earnings per share were RMB 0.25. Railroad business revenue accounted for 92.9%, 93.3% and 93.0% of our total revenue in 2009, 2010 and 2011, respectively.

Passenger transportation is our principal business. In 2011, the total number of our passengers was 90.8 million, representing an increase of 7.0% from 84.9 million in 2010. Our passenger transportation revenue was RMB 8,026.5 million, representing an increase of 8.8% from RMB 7,377.1 million in 2010.

We transported a total of 68.7 million tonnes of freight in 2011, representing an increase of 1.1% from 2010. Our freight transportation revenue in 2011 was RMB 1,386.8 million, representing an increase of 5.4% from RMB 1,315.3 million in 2010.

Revenue from our railway network usages and other transportation-related services business was RMB 4,256.0 million in 2011, representing an increase of 9.5% from RMB 3,888.4 million in 2010.

Revenue from our other businesses was RMB 1,021.6 million in 2011, representing an increase of 13.1% from RMB 903.6 million in 2010.

In 2011, we had no change in our accounting policies.

A. Operating Results

Principal Factors Affecting Our Results of Operations

Economic Development in the Pearl River Delta Region and the PRC. We are mainly engaged in railway transportation services on the trains between Guangzhou-Shenzhen intercity trains, certain long-distance trains and Hong Kong Through Trains. Our results of operations relating to passenger transportation are influenced by the economic development in the Pearl River Delta region. The level of economic activities in the Pearl River Delta region, including the economic cooperation among Hong Kong, Macau and China, affects the number of business people and migrant workers traveling in this region. In addition, the average income levels of residents in this region and elsewhere in the PRC affects the number of the tourists departing from or arriving at our train stations. The majority of the freight we transport is large-volume, medium- to long-distance freight received from and/or transferred to other railway lines. Economic development in the PRC, including but not limited to the Pearl River Delta region, determines the market demand for such goods as coal, iron ore, steel and therefore indirectly affects the market demand of freight train transportation service. Furthermore, the recent global financial crisis and economic downturn had adversely affected economies and businesses around the world, including in China. Due to the global economic downturn, the economic situation in China was severe in the second half of 2008. This change in the macro-economic conditions had an adverse impact on our business and operations by causing a decrease in the number of passengers and the volume of freight that we transported in 2009. Although the economy in China, as well as in many other places around the world, has recovered since the second half of 2009, the global economic downturn and Europe's sovereign debt crisis and the stability of the Eurozone may continue to have a material and adverse effect on our businesses, results of operations and financial condition.

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Competitive Pressure from other Railway Operators and other Means of Transportation. Sales for our passenger transportation services are also affected by the competitive pressure from other railway operators and other means of transportation, such as the automobile, bus, ferry and airplane services. For example, the operation of the Guangzhou-Shenzhen-Hong Kong passenger line, which commenced on December 26, 2011, may further increase the competition we face and materially and adversely affect our revenue and results of operations. In addition, the fast growth in the number of privately owned vehicles and a higher penetration of bus services affect the number of train passengers traveling short distances and any significant decrease in the air transportation prices affects the number of train passengers traveling long distances. Our sales of the freight transportation services are also affected by the competition from other means of transportation, such as water, truck and freight transportation services.

PRC Policies. We are allowed to be more flexible in setting the prices of both passenger transportation and the freight transportation services as compared to other domestic railroad operators. Material changes in the policies of the PRC government that affect such preferential treatments will affect our results of operations.

Year ended December 31, 2011 compared with year ended December 31, 2010***Revenue***

In 2011, our total revenue was RMB 14,690.8 million, representing an increase of 9.0% from RMB 13,484.4 million in 2010. Our revenue from railroad passenger transportation service, freight transportation service, railway network usage and other transportation-related services and other businesses was RMB 8,026.5 million, RMB 1,386.8 million, RMB 4,256.0 million and RMB 1,021.6 million, respectively, accounting for approximately 54.6%, 9.4%, 29.0% and 7.0% of our total revenue in 2011, respectively.

Passenger transportation. Passenger transportation remains our most important business. As of December 31, 2011, we operated 231 pairs of passenger trains daily, representing an increase of 7 pairs from the number in operation as of December 31, 2010. There were 110 pairs of inter-city passenger trains between Guangzhou and Shenzhen, 13 pairs of Hong Kong Through Trains, and 108 pairs of long-distance passenger trains, an increase of 7 pairs compared to 2010.

In 2011, our total number of passengers was 90.8 million, representing an increase of 7.0% from 84.9 million in 2010. Our revenue from passenger transportation was RMB 8,026.5 million in 2011, representing an increase of 8.8% from RMB 7,377.1 million in 2010. The increase of total number of passengers and our revenue from passenger transportation was mainly due to: (i) our inter-city trains benefited from the sustained and steady growth of China's economy and the 26th Universiade held in Shenzhen in August 2011; (ii) as road transportation is subject to increasing costs due to the continuous rise in oil prices, toll fees and parking fees and worsening traffic congestion, passengers are increasingly attracted to taking the inter-city trains that are characterized by safety, timeliness, comfort and convenience; (iii) we increased the number of runs of temporary trains during the peak seasons during the Spring Festival, students' summer break and other public holidays, leading to a year-to-year increase in our transportation capacity; (iv) in view of the relatively high number of long-distance trains departing from the Guangzhou station, we increased the number of pairs of inter-city trains stopping at the Guangzhou station to attract transit passengers; and (v) the fare per ticket of the inter-city trains has increased by RMB 5 as of June 18, 2010.

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The following table sets forth our revenue from passenger transportation and the number of passengers for 2010 and 2011:

	Year ended December 31, 2010	2011	Change in 2011 from 2010
Revenue from passenger transportation (RMB thousands) ⁽¹⁾	7,377,145	8,026,512	8.8%
Total passengers (thousands)	84,923	90,828	7.0%
Total passenger-kilometers (millions)	27,472.0	28,524	3.8%
Revenue per passenger-kilometer (RMB) ⁽¹⁾	0.27	0.28	3.7%

(1) Certain 2010 comparative figures have been adjusted due to the reclassification of the revenue from railway operation service, locomotive and passenger cars usage and passenger service recorded within the Passenger category of revenue in the prior years to the Railway network usage and other transportation-related services category of revenue in order to conform to the current year presentation.

Freight transportation. Freight transportation is another important business segment for us. The total tonnage of freight we transported in 2011 was 68.7 million tonnes, representing an increase of 1.2% from 67.9 million in 2010. Revenue from our freight transportation business in 2011 was RMB 1,386.8 million, representing an increase of 5.4% from RMB 1,315.3 million in 2010. The increase of revenue from freight transportation is mainly due to the following factors: (i) the steady growth of the Chinese economy, which resulted in strong demand for our railway freight transportation services for coal, coke and petroleum products; (ii) we conducted effective market research, strengthened our relationships with key customers and enhanced our marketing strategies; and (iii) the increase in the national basic freight transportation price by RMB 0.002 per tonne kilometer from April 1, 2011, which also contributed to the increase in the revenue of our freight transportation business.

The following table sets forth our revenue from freight transportation and the volumes of commodities we shipped for 2010 and 2011:

	Year ended December 31, 2010	2011	Change in 2011 from 2010
Revenue from freight transportation (RMB thousands) ⁽¹⁾	1,315,347	1,386,753	5.4%
- Revenue from outbound freight transportation	339,956	417,149	22.7%
- Revenue from inbound and pass-through transportation	925,608	913,564	(1.3%)
Revenue from other freight transportation services ⁽¹⁾	49,783	56,040	12.6%
Total freight tonnes (thousands of tonnes)	67,932	68,703	1.1%
- Outbound freight tonnage	20,963	22,331	6.5%
- Inbound and pass-through freight tonnage	46,969	46,371	(1.3%)
Revenue per tonne (RMB) ⁽¹⁾	19.36	20.18	4.2%
Total tonne-kilometers (millions)	15,191.4	15,519.1	2.2%
Revenue per tonne-kilometer (RMB) ⁽¹⁾	0.09	0.09	

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- (1) Certain 2010 comparative figures have been adjusted due to the reclassification of the revenue from freight logistics usage recorded within the Freight category of revenue in the prior years to the Railway network usage and other transportation-related services category of revenue in order to conform to the current year presentation.

Railway network usage and other transportation-related services. Revenue from our railway network usage and other transportation-related services accounted for 29.0% of our total revenue and 31.1% of our railroad business revenue in 2011. Railway network usage and other transportation-related services mainly include locomotive traction, track usage, electric catenaries, vehicle coupling and other services. In 2011, our revenue from railway network usage and other transportation-related services was RMB 4,256.0 million, representing an increase of 9.5% from RMB 3,888.4 million in 2010. The increase of revenue from our railway network usage and other transportation-related services was mainly due to (i) the increase in the sales of materials and supplies to the increased number of trains that are operated by other railway companies that traveled on our railway lines; and (ii) the increase in the operation consignment services provided by us for the increased Guangzhou-Zhuhai inter-city trains on the Guangzhou-Shenzhen inter-city trains of Guangzhou-Shenzhen-Hong Kong passenger line.

Other Businesses. Our other businesses mainly consist of the sale of materials and supplies, maintenance of trains, on-board catering services, labor services and other businesses related to railway transportation. Revenue from other businesses in 2011 was RMB 1021.8 million, representing an increase of 13.1% from RMB 903.6 million in 2010.

Operating Expenses

In 2011, our total operating expenses were RMB 12,101.0 million, representing an increase of 6.8% from RMB 11,327.3 million in 2010. The following table sets forth the principal operating expenses associated with our railroad businesses, as a percentage of our railroad business revenue, for 2010 and 2011:

	Year ended December 31,	
	2010	2011
Railroad businesses revenue (RMB millions)	12,580.9	13,669.3
Business tax	2%	3%
Labor and benefits	21%	22%
Equipment leases and services	26%	26%
Lease of land use right	0.42%	0.39%
Materials and supplies	12%	11%
Repair costs, excluding materials and supplies	7%	5%
Depreciation and amortization of leasehold land payments	11%	10%
Fee for social services	1%	1%
Utility and office expenses	1%	1%
Others	3%	2%
Operating expenses ratio ⁽¹⁾	83%	81%
Railroad businesses operating margin	17%	19%

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

Railway Operating Expenses. Our total railway operating expenses increased by 6.1% from RMB 10,481.5 million in 2010 to RMB 11,123.1 million in 2011. The following sets forth a breakdown of major changes by line item:

Business tax. In 2011, our business tax amounted to RMB 369.1 million, representing an increase of 18.2% from RMB 312.3 million. The increase was due to the increase in our operating income.

Labor and benefits. In 2011, our labor and benefits expenses amounted to RMB 2,973.5 million, representing an increase of 11.7% from RMB 2,662.3 million in 2010. The increase was mainly due to the increase in employees' basic salaries, allowances and benefits.

Equipment leases and services. Our expenses for equipment leases and services mainly consist of railway line usage fees, train hauling fees and train leasing fees paid to other railway bureaus. In 2011, our expenses relating to equipment leases and services amounted to RMB 3,604.4 million, representing an increase of 11.4% from RMB 3,235.9 million in 2010. This was mainly due to (i) the increase in railway network usage and other transportation service fees due to the increased number of pairs of long-distance trains; and (ii) the increase in leasing fees as a result of our lease of an additional 45 HXDC3 high power AC freight electric driven trains.

Materials and supplies. Our materials and supplies consist of materials, fuel, water and electricity expenses. In 2011, our materials and supplies amounted to RMB 1,530.7 million, representing an increase of 5.0% from RMB 1,457.8 million in 2010. This was mainly due to (i) the increase in material consumption cost as a result of the increase in the number of pairs of trains and the workload of our railway operation services and (ii) the increase of electricity expenses as a result of the significant increase in the workload of our electric driven trains.

Other than the above increases, certain line items of our operating expenses decreased in 2011:

Repairs and facilities maintenance costs, excluding materials and supplies. In 2011, our repairs and facilities maintenance costs, excluding materials and supplies, amounted to RMB 647.1 million, representing a decrease of 21.9% from RMB 828.4 million in 2010. This was mainly because we did not incur any expenses relating to the repair and maintenance for the majority of our CRHs which had been done and incurred expenses in 2010.

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Social service expenses. In 2011, our social service expenses amounted to RMB 115.2 million, representing a decrease of 20.4% from RMB 144.8 million in 2010. This was mainly due to the decrease of relevant expenses as a result of our acquisition of assets and business of related parties which had provided us with social services. See ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS B. Related Party Transactions and Note 38 to our audited consolidated financial statements included elsewhere in this annual report.

Profit from Operations

Our profit from operations increased by 21.5% from RMB 2,110.1 million in 2010 to RMB 2,564.0 million in 2011, primarily due to the increase of our revenue, which exceeded the increase in our operating expenses.

Taxation

The EIT Law took effect on January 1, 2008. According to the EIT Law, the preferential income tax rate of 15% that was previously applicable to companies incorporated in Shenzhen (like us) and other special economic zones was gradually phased out in five years beginning from January 1, 2008. During the five years, the applicable tax rates are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively. After such five-year period and effective from January 1, 2012, the tax rate applicable to us is fixed at 25%, i.e., the unified income tax rate applicable to all domestic companies in the PRC (with limited exceptions).

As we are registered and established in the Shenzhen Special Economic Zone, we were subject to income tax in 2011 at a rate of 24%, which was 1% lower than the standard income tax rate of 25% generally applicable to PRC companies. According to relevant tax regulations, our subsidiaries were subject to income tax at the rate of 20%, 24% or 25%, depending on the location of incorporation. Our income tax expense was RMB 576.0 million in 2011, representing an effective tax rate of 24.2% and an increase of RMB 135.6 million compared to RMB 440.4 million in 2010. The increase was mainly due to the overall increase in our effective income tax rate.

Profit attributable to shareholders of the Company

As a result of the above, our consolidated net profit increased by 21.4% from RMB 1,484.9 million in 2010 to RMB 1,802.4 million in 2011.

Year ended December 31, 2010 compared with year ended December 31, 2009

Revenue

In 2010, our total revenue was RMB 13,484.4 million, representing an increase of 8.9% from RMB 12,385.8 million in 2009. Our revenue from railroad passenger transportation service, freight transportation service, railway network usage and other transportation-related services and other businesses was RMB 7,377.1 million, RMB 1,315.3 million, RMB 3,888.4 million and RMB 903.6 million, respectively, accounting for approximately 54.7%, 9.8%, 28.8% and 6.7%, respectively, of our total revenue in 2010.

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Passenger transportation. Passenger transportation remains our most important business. As of December 31, 2010, we operated 224 pairs of passenger trains daily, representing an increase of 6 pairs from the number in operation as of December 31, 2009. There were 110 pairs of high-speed passenger trains between Guangzhou and Shenzhen, an increase of 10 pairs compared to 2009, 13 pairs of Hong Kong Through Trains, and 101 pairs of long-distance passenger trains, a decrease of 4 pairs compared to 2009.

In 2010, our total number of passengers was 84.9 million, representing an increase of 3.8% from 81.8 million in 2009. Our revenue from passenger transportation was RMB 7,377.1 million in 2010, representing an increase of 7.8% from RMB 6,841.7 million in 2009. The increase of total number of passengers and our revenue from passenger transportation was mainly due to: (i) the recovery of the Chinese economy and in particular, the economic recovery in Guangdong, Hong Kong and Macau, (ii) the Shanghai Expo and the Asian Games and Asian Para Games held in Guangzhou in 2010, (iii) the price increase of RMB 5 per one way ticket for Guangzhou-Shenzhen trains since June 18, 2010 and (iv) the increase in the number of our long-distance trains as a result of the commencement of operations of the Guangzhou to Tongren train since March 21, 2010 and the Guangzhou to Xinyang train since April 17, 2010.

The following table sets forth our revenue from passenger transportation and the number of passengers for 2009 and 2010:

	Year ended December 31,		Change in 2010 from
	2009	2010	2009
Revenue from passenger transportation (RMB thousands) ⁽¹⁾	6,841,659	7,377,145	7.8%
Total passengers (thousands)	81,838	84,923	3.8%
Total passenger-kilometers (millions)	27,233	27,472	0.9%
Revenue per passenger-kilometer (RMB) ⁽¹⁾	0.25	0.27	8%

- (1) Certain 2009 and 2010 comparative figures have been adjusted due to the reclassification of the revenue from railway operation service, locomotive and passenger cars usage and passenger service recorded within the Passenger category of revenue in the prior years to the Railway network usage and other transportation-related services category of revenue in order to conform to the current year presentation.

Freight transportation. Freight transportation is another important business segment for us. The total tonnage of freight we transported in 2010 was 67.9 million tonnes, representing an increase of 9.6% from 62.0 million in 2009. Revenue from our freight transportation business in 2010 was RMB 1,315.3 million, representing an increase of 12.9% from RMB 1,164.9 million in 2009. The increase of revenue from freight transportation is mainly due to the following factors:

the recovery of the Chinese economy, which resulted in strong demand for our railway freight transportation services;

leveraging on the launching of the Wuhan-Guangzhou passenger line, which resulted in the release of certain freight transportation capacity for the Wuhan-Guangzhou section of the Beijing-Guangzhou line, we actively increased our marketing efforts and strengthened the coordination of our freight transportation activities; and

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the increase in the national basic transportation price by RMB 0.007 per tonne kilometer from December 13, 2009, which also contributed to the increase in the revenue of our freight transportation business.

The following table sets forth our revenue from freight transportation and the volumes of commodities we shipped for 2009 and 2010:

	Year ended December 31, Change in 2010 from		
	2009	2010	2009
Revenue from freight transportation (RMB thousands) ⁽²⁾	1,164,851	1,315,347	12.9%
- Revenue from outbound freight transportation ⁽¹⁾	285,186	339,956	19.2%
- Revenue from inbound ⁽¹⁾ and pass-through transportation	836,408	925,608	10.7%
Revenue from other freight transportation services ⁽²⁾	43,257	49,783	15.1%
Total freight tonnes (thousands of tonnes)	61,987	67,932	9.6%
- Outbound freight tonnage	17,622	20,963	19.0%
- Inbound and pass-through freight tonnage	44,365	46,969	5.9%
Revenue per tonne (RMB) ⁽²⁾	18.79	19.36	3.0%
Total tonne-kilometers (millions)	13,447	15,191	13.0%
Revenue per tonne-kilometer (RMB) ⁽²⁾	0.09	0.09	

- (1) A portion of the revenue previously recorded as inbound freight revenue was recognized as revenue from outbound freight.
- (2) Certain 2009 and 2010 comparative figures have been adjusted due to the reclassification of the revenue from freight logistics usage recorded within the Freight category of revenue in the prior years to the Railway network usage and other transportation-related services category of revenue in order to conform to the current year presentation.

Railway network usage and other transportation-related services business. Revenue from our railway network usage and other transportation-related services accounted for 28.8% of our total revenue and 30.9% of our railroad business revenue in 2010. Railway network usage and other transportation-related services mainly include locomotive traction, track usage, electric catenaries, vehicle coupling and other services; other transportation-related services include railway operation services and lease of locomotives and passenger trains. In 2010, our revenue from railway network usage and other transportation-related services was RMB 3,888.4 million, representing an increase of 10.9% from RMB 3,505.0 million in 2009. The increase of revenue from our railway network usage and other transportation-related services was mainly due to (i) the increase in the vehicle coupling services provided as a result of the increase in the number of freight trains between Guangzhou and Pingshi and (ii) the increase in the ticketing and other customer services provided by us for the Wuhan-Guangzhou High Speed Railway Company Limited.

Other Businesses. Our other businesses mainly consist of the sale of materials and supplies, maintenance of trains, on-board catering services, labor services and other businesses related to railway transportation. Revenue from other businesses in 2010 was RMB 903.6 million, representing an increase of 3.4% from RMB 874.3 million in 2009.

Table of Contents**Operating Expenses**

In 2010, our total operating expenses were RMB 11,327.3 million, representing an increase of 8.4% from RMB 10,448.6 million in 2009. The following table sets forth the principal operating expenses associated with our railroad businesses, as a percentage of our railroad business revenue, for 2009 and 2010:

	Year ended December 31,	
	2009	2010
Railroad businesses revenue (RMB millions)	11,511.5	12,580.9
Business tax	2%	2%
Labor and benefits	20%	21%
Equipment leases and services	26%	26%
Lease of land use right	0.44%	0.42%
Materials and supplies	12%	12%
Repair costs, excluding materials and supplies	5%	7%
Depreciation and amortization of leasehold land payments	11%	11%
Fee for social services	3%	1%
Utility and office expenses	1%	1%
Others	3%	3%
Operating expenses ratio ⁽¹⁾	84%	83%
Railroad businesses operating margin	16%	17%

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

Railway Operating Expenses. Our total railway operating expenses increased by 8.6% from RMB 9,651.3 million in 2009 to RMB 10,481.5 million in 2010. The following sets forth a breakdown of major changes by line item:

Labor and benefits. In 2010, our labor and benefits expenses amounted to RMB 2,662.3 million, representing an increase of 16.9% from RMB 2,277.1 million in 2009. The increase was mainly due to the increase in employees' basic salaries, allowances and benefits and the increase in retirement benefits paid to retired employees.

Equipment leases and services. Our expenses for equipment leases and services mainly consist of railway line usage fees, train hauling fees and train leasing fees paid to other railway bureaus. In 2010, our expenses relating to equipment leases and services amounted to RMB 3,235.9 million, representing an increase of 8.8% from RMB 2,974.8 million in 2009. This was mainly due to (i) the increase in railway network usage and other transportation service fees due to the commencement of operations of Guangzhou-Xinyang, Guangzhou-Tongren and Shenzhen-Shanghai long-distance trains; (ii) the increase in the rental of locomotive and passenger trains as a result of the increased number of our long-distance trains and additional services provided during the Chinese New Year and (iii) the increase in freight tonnage, which resulted in increased train usage.

Repairs and facilities maintenance costs, excluding materials and supplies. In 2010, our repairs and facilities maintenance costs, excluding materials and supplies, amounted to RMB 828.4 million, representing an increase of 40.8% from RMB 588.3 million in 2009. This was mainly because (i) we completed the repairs and maintenances for the majority of our CRHs in 2010 and (ii) the route selection and passenger trains repair expenses increased.

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Materials and supplies. Our materials and supplies consist of materials, fuel, water and electricity expenses. In 2010, our materials and supplies amounted to RMB 1,457.8 million, representing an increase of 4.5% from RMB 1,395.3 million in 2009. This was mainly due to (i) the increase in material consumption cost as a result of the commencement of operations of Guangzhou-Xinyang, Guangzhou-Tongren and Shenzhen-Shanghai long-distance trains and upgrades of Guangzhou-Xi'an and Guangzhou-Wanzhou trains and (ii) the increase of electricity expenses as a result of the significant increase in the workload of our electric driven trains due to the adjustments of railway diagrams by the MOR in November 2009 and April 2010.

Utility and office expense. Our utility and office expense increased by 12.7% from RMB 111.8 million in 2009 to RMB 126.0 million in 2010. This was mainly due to the Company's internal restructuring in 2010, when certain functions that were previously outsourced, including social security, were handled by the Company itself and therefore led to an increase in the relevant expenses in 2010.

Other than the above increases, certain line items of our operating expenses decreased in 2010:

Social service expenses. Our social service expenses decreased by 61.2% from RMB 373.3 million in 2009 to RMB 144.8 million in 2010. This was primarily due to the fact that since January 1, 2010, we paid significantly less for the railway security services provided by railway security staff as a result of the reform of the railway security system. In addition, railway security fees were no longer accounted for as social services fees but as utility and office expense.

Profit from Operations

Our profit from operations increased by 9.9% from RMB 1,920.3 million in 2009 to RMB 2,110.1 million in 2010, primarily due to the increase of our revenue, which exceeded the increase in our operating expenses.

Taxation

The EIT Law took effect on January 1, 2008. According to the EIT Law, the preferential income tax rate of 15% that was previously applicable to companies incorporated in Shenzhen (like us) and other special economic zones is being gradually phased out in five years beginning from January 1, 2008. During the five years, the applicable tax rates will be 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively. After such five-year period and effective from January 1, 2012, the tax rate applicable to us will be fixed at 25%, i.e., the unified income tax rate applicable to all domestic companies in the PRC (with limited exceptions).

As we are registered and established in the Shenzhen Special Economic Zone, we were subject to income tax in 2010 at a rate of 22%, which was 3% lower than the standard income tax rate of 25% generally applicable to PRC companies. According to relevant tax regulations, our subsidiaries were subject to income tax at the rate of 20%, 22% or 25%, depending on the location of incorporation. Our income tax expense was RMB 440.4 million in 2010, representing an effective tax rate of 22% and an increase of RMB 97.0 million compared to RMB 343.4 million in 2009. The increase was mainly due to the overall increase in our effective income tax rate.

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Profit attributable to shareholders of the Company

As a result of the above, our consolidated net profit increased by 10.7% from RMB 1,341.4 million in 2009 to RMB 1,484.9 million in 2010.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with IFRS. Our principal accounting policies are set out in Note 2 to our audited consolidated financial statements included elsewhere in this annual report. IFRS also requires us to exercise our judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 to our audited consolidated financial statements included elsewhere in this annual report. Although these estimates are based on our best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of our business activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within our Company.

We recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity, and specific criteria have been met for each of our business activities as described below. We base our estimates on historical results, taking into consideration the type of customers, the type of transactions and other specifics of each arrangement.

Revenue from railway business: revenue from railway business includes revenue from passenger and freight services and revenue from railway network usage and other transportation-related services. Other transportation-related services include the railway operation service provided to other railway companies and other service provided in relation to passenger and freight transportation. Revenue from railway business is recognized when the services are rendered and revenue can be reliably measured.

Revenue from other businesses: revenue from other businesses principally includes services offered in railway stations, sales of food, beverages and merchandise on board the trains and in the railway stations. Revenue from other businesses is recognised once the related services or goods are delivered, the related risks and rewards of ownership have been transferred and revenue can be reliably measured.

Interest income: we recognize interest income using the effective interest method. When a receivable is impaired, we reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and we continue unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

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Dividend income: dividend income is recognized when the right to receive payment is established.

Rental income: revenue from operating lease arrangements is recognized on a straight-line basis over the period of the respective leases.

Fixed assets

The railway industry is capital intensive. Under IFRS, fixed assets are initially recorded at historical cost less depreciation and impairment loss. Historical cost represents expenditure that is directly attributable to the acquisition of the items (for the case of fixed assets acquired by us from GRGC during the Restructuring, the revaluated amount in the Restructuring was deemed costs). We have early adopted the amended IFRS 1, First-time Adoption of IFRS beginning from January 1, 2010. With the amended IFRS 1, the revaluated amount can become deemed costs so long as the revaluation takes place at periods before or during the first-time IFRS adoptors' first set of IFRS financial statements. In addition, the IASB has made a special provision in this IFRS 1, which allows existing IFRS preparers to retrospectively apply this rule.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the comprehensive income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write off the cost amount, after taking into account the estimated residual value of not more than 4% of cost, of each asset over its estimated useful life. The estimated useful lives are as follows:

Buildings (<i>Note a</i>)	20 to 40 years
Track, bridges and service roads (<i>Note a</i>)	16 to 100 years
Locomotives and rolling stock	20 years
Communications and signaling systems	8 to 20 years
Other machinery and equipment	4 to 25 years

Note a: The estimated useful lives of buildings, tracks, bridges and service roads exceed the initial lease periods of the respective land use right lease grants (the Lease Term) and land use right operating leases (the Operating Lease Term) of the land on which these assets are located. Pursuant to the relevant laws and regulations in the PRC governing the land use right lease grant, we have the right to renew the leases to a period not less than 50 years after payment of additional cost. This right can be exercised within one year of the expiry of the initial Lease Term and can only be denied if such renewals are considered to be detrimental to the public interest. We consider the approval process to be perfunctory. In addition, based on the provision of the land use right operating lease agreement entered into with our substantial shareholder, we can renew the lease at our own discretion upon expiration of the Operating Lease Term. Based on these considerations, we determined the estimated useful lives of these assets to extend beyond the initial Lease Term as well as the Operating Lease Term.

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The assets' residual values and estimated useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Gains and losses on disposals are determined by comparing the sales proceeds with the carrying amount and are recognized within other (expense)/income net included in the comprehensive income statement.

Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and we will comply with all attached conditions.

Government grants relating to costs are deferred and are recognized in the comprehensive income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the comprehensive income statement on a straight-line basis over the expected lives of the related assets.

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected to be completed within one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are recorded as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence to prove the following:

significant financial difficulty of the issuer or obligor;

a breach of contract, such as a default or delinquency in interest or principal payments;

we, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

it becomes probable that the borrower will enter bankruptcy or other financial reorganization;

the disappearance of an active market for that financial asset because of financial difficulties; or

observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio; and

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(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the original effective interest rate.

Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are recorded as non-current liabilities.

Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of our share of identifiable net assets acquired. Goodwill arising from acquisitions of subsidiaries' business is disclosed separately on our balance sheet. Goodwill is tested for impairment annually or, whenever there is an indication of impairment, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units, identified according to operating segment, that are expected to benefit from the business combination in which the goodwill arose.

Impairment of investment in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

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Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated comprehensive income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the PRC where our subsidiaries and associates operate and generate taxable income. We periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Employee benefits

We make contributions to employee benefit funds operated by the local governments for pension, housing, safety and other employee benefit matters. We have no payment obligations once the contributions have been paid according to the relevant laws and regulations. The contributions to such statutory employee benefit funds are recognized as staff costs when they are due.

Termination benefits are payable when qualified employees accept voluntary redundancy in exchange for such benefits, subject to approval by our management. We recognize retirement benefits after forming a formal final decision to terminate an employee or to provide retirement benefits after an employee accepts an offer for voluntary redundancy. Benefits due more than 12 months after the balance sheet date are discounted to present value.

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Critical Accounting Estimates and Assumptions

We make estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Estimates of the depreciable lives of fixed assets

The estimate of depreciable lives of fixed assets, especially tracks, bridges and service roads, was made by our Directors with reference to the historical usage of the assets; their expected physical wear and tear; results of recent durability assessment performed; technical or commercial obsolescence arising from changes or improvements in production of similar fixed assets, the right of our Company to renew the land use right grants and the land use right lease on which these assets are located, and the changes in market demand for, or legal or comparable limits imposed on, the use of such fixed assets.

See ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS A. Operating Results Critical Accounting Policies and Estimated Fixed Assets Note 2.6 to our consolidated financial statements included elsewhere in this annual report for the current estimated useful lives of fixed assets. If the estimated depreciable lives of tracks, bridges and service roads had been increased/decreased by 10%, the depreciation expenses of fixed assets for the year ended December 31, 2011 would have been decreased/ increased by approximately RMB 18.4 million and RMB 22.4 million, respectively (2010: RMB 18.7 million and RMB 22.9 million, respectively).

Estimated impairment of goodwill

We test whether goodwill has suffered any impairment annually or, whenever there is an indication of impairment, in accordance with the accounting policy stated in Note 2.9 to our consolidated financial statements included elsewhere in this annual report. The recoverable amounts of cash-generating units have been determined based on the higher of an asset's fair value less costs to sell and value in use. These calculations require the use of estimates. See Note 9 to our consolidated financial statements included elsewhere in this annual report.

Estimated impairment of non-financial assets (other than goodwill)

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, management has to exercise judgment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rate or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

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Income taxes

We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

B. Liquidity and Capital Resources

Our principal source of capital has been cash flow from operations and cash flow from financing activities, and our principal uses of capital are to fund capital expenditures, investment and payment of taxes and dividends.

We generated approximately RMB 3,329.1 million of net cash flow from operating activities in 2011. Substantially all of our revenue was received in cash, with accounts receivable arising primarily from long-distance passenger train services provided and pass-through freight transactions originating from other railway companies whose lines connect to our railroad. Similarly, some accounts payable arise from payments for railroad transportation services that we collect on behalf of other railroad companies and should pay to these companies. Accounts receivable and payable were generally settled either quarterly or monthly between us and the other railroad companies. Most of our revenue generated from our other businesses was also received in cash. We also have accounts payable associated with the purchase of materials and supplies in our other businesses.

In 2011, other than operating expenses, our cash outflow mainly related to the following:

capital expenditures of approximately RMB 943.4 million, representing a decrease of 18.6% from RMB 1,158.4 million in 2010;

payment of dividends of approximately RMB 637.5 million; and

income tax expenses of approximately RMB 436.4 million.

Our capital expenditures for 2011 consisted primarily of the following projects:

constructing the Buji passenger station;

replacing rails for the main track of Beijing-Guangzhou Railway; and

upgrading the supporting facilities to improve the safety for railway transportation.

Funds not required for immediate use are kept in short term investments and bank deposits. We had cash and cash equivalents of approximately RMB 1,366.8 million as of December 31, 2011.

As of December 31, 2011, we did not have any entrusted deposits placed with any financial institutions in the PRC and we did not engage in any trust business.

In order to satisfy our operational needs, to supplement our working capital and to improve our debt structure, our Company issued RMB 3.5 billion 4.79% fixed rate notes due 2014, or the Notes, on December 16, 2009. The Notes were issued at face value and bear fixed interest at 4.79% per annum. As of December 31, 2011, we had unsecured notes payable of RMB 3,478.6 million in connection with our issuance of the Notes. As of December 31, 2011, we did not have any banking facilities.

Table of Contents*Cash Flow*

Our net cash and cash equivalents in 2011 decreased by approximately RMB 1,292.3 million from 2010. The table below sets forth certain items in our consolidated cash flow statements for 2009, 2010 and 2011, and the percentage change in these items from 2010 to 2011.

	Year ended December 31,			Change in 2011 from 2010
	2009	2010	2011	
	(RMB thousands)			
Net cash generated from operating activities	2,617,533	3,331,458	3,329,058	(0.072%)
Net cash used in investing activities	(2,096,154)	(1,188,763)	(3,983,623)	235.1%
Net cash used in financing activities	(966,680)	(599,288)	(637,736)	6.4%
Net (decrease)/increase in cash and cash equivalents	(445,301)	1,543,407	(1,292,301)	(183.7%)

Our principal source of capital was revenue generated from operating activities. Our net cash inflow from operating activities decreased from RMB 3,331.5 million in 2010 to RMB 3,329.1 million in 2011, representing a decrease of RMB 2.4 million, because although our cash generated from operating activities increased by 43.7 million, our income tax paid increased by 46.1 million.

In 2011, our net cash used in investment activities increased from RMB 1,188.8 million in 2010 to RMB 3,983.6 million, representing an increase of RMB 2,794.8 million, mainly due to the increase in time deposit of more than three months during the year.

In 2011, our net cash used in financing activities increased from RMB 599.3 million in 2010 to RMB 637.7 million, representing an increase of RMB 38.4 million, because although our payments for management fee relating to the bonds payable decreased by 32.4 million, we had an increase of 70.9 million in the distribution of cash dividend to the shareholders in 2011.

In 2010, our net cash used in investment activities decreased from RMB 2,096.2 million in 2009 to RMB 1,188.8 million, representing a decrease of RMB 907.4 million, mainly due to the decrease in payments relating to the purchase of CRHs and construction of fixed assets and construction-in-progress relating to the Fourth Rail Line. In 2010, our net cash used in financing activities decreased from RMB 966.7 million in 2009 to RMB 599.3 million, representing a decrease of RMB 367.4 million, mainly due to the fact that we did not repay any of our outstanding bank borrowings in 2010.

In 2009, our net cash used in investment activities decreased from RMB 2,915.8 million in 2008 to RMB 2,096 million, representing a decrease of RMB 820 million, mainly due to the decrease in expenses in connection with the purchase of CRHs and the construction of certain fixed assets and construction-in-progress relating to the Fourth Rail Line. In 2009, our net cash used in financing activities was RMB 966.7 million, while our net cash generated from financing activities was RMB 483.3 million in 2008. The change in our cash flows from financing activities was primarily due to the less financing need for our railway construction and the repayment of our outstanding long-term and short-term bank borrowings in 2009. In 2009, our expenses for the purchase of fixed assets and payments for construction-in-progress totalled RMB 1,639.7 million. In addition, we paid RMB 270.6 million for income taxes and approximately RMB 566.7 million for dividends in 2009.

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Our working capital was mainly used for capital expenditures, operating expenses and payment of taxes and dividends and temporary cash investments. In 2011, our expenses for the purchase of fixed assets and payments for construction-in-progress totalled RMB 943.4 million. In addition, we paid RMB 436.4 million for income taxes and approximately RMB 637.5 million for dividends.

We believe we have sufficient financial resources to meet our operational and development requirements in 2012.

C. Research and Development, Patents and Licenses, etc.

We do not generally conduct our own research and development with respect to major capital projects. In the past, in connection with our high-speed train and electrification projects, our predecessor relied upon the engineering and technical services of various research and design institutes under the MOR. In recent years, we conducted limited research and development activities in connection with the implementation of automated ticket sales, including the development of related computer software.

We do not anticipate a significant need for research and development services in the foreseeable future, and do not expect to require any such services in connection with our other businesses. To the extent that these services are needed, we expect to engage outside service providers to satisfy this need. In connection with major engineering and construction projects, as well as major equipment acquisitions, we intend to conduct technical research and feasibility studies with relevant engineering service organizations, so as to ensure the cost-effectiveness of our capital expenditures.

D. Trend Information

The Pearl River Delta has been one of China's fastest growing economic regions. We believe that various factors, including the increasing economic cooperation within the Pearl River Delta region and its adjacent areas, the Relaxed Individual Travel program, the improvement of the subway system in Shenzhen and Guangzhou, will continue to increase passenger travel and freight transportation within our service region. We expect the PRC government's current economic, import and export, foreign investment and infrastructure policies to generate additional demand for transportation services in our service areas. These policies and measures may have both positive and negative effects on our business development. They are expected to promote economic growth and create new demand for our transportation services.

At the same time, however, with the improvement of highway and waterway transportation facilities, we anticipate additional competition. In addition, the economic measures PRC government implemented to manage its economy may have an impact on our business and results of operations in 2012. In addition, any change of the benchmark interest rates set by the PRC government and the implementation of other applicable policies may have an impact on our business and results of operations in 2012.

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While the PRC government is in the progress of lessening restrictions on foreign investment, the opening up of domestic railway transportation will be gradual and we expect competition from foreign and domestic railway to be limited in the short term. However, China's entry into the WTO may increase other Chinese coastal cities' significance in trading. As a result, part of the freight currently transferred through ports in Hong Kong and Shenzhen may be diverted to other ports in the PRC, which could adversely affect our freight transportation business. In addition, as the PRC government lifts control over foreign investments, including allowing foreign participation in railway construction, our competitive position in our service region may be challenged by foreign strategic investment. Furthermore, the operation of the Guangzhou-Shenzhen-Hong Kong passenger line, which commenced on December 26, 2011, may further increase the competition we face and materially and adversely affect our revenue and results of operations.

In addition, the global financial crisis and economic downturn since 2008 had adversely affected economies and businesses around the world, including in China. Due to the global economic downturn, the economic situation in China was severe in the second half of 2008. This change in the macro-economic conditions had an adverse impact on our business and operations by causing a decrease in the number of passengers and the volume of freight that we transported in 2009. Although the economy in China, as well as in many other places around the world, has recovered since the second half of 2009, the sustainability of these recoveries is uncertain due to escalating concerns regarding Europe's sovereign debt crisis, the stability of the Eurozone and sustainability of high rates of growth in China.

Looking into 2012, China remains in a strategic opportunity phase for its development. Under the background of the steady growth of China's economy and its stable social situation, the railway transportation industry is expected to develop in a more scientific, orderly, sustained and stable manner in 2012, with continuous growth of the railway network and transportation capacity, as well as volume of passengers and freight.

E. Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations, capital commitments and operating lease commitments as of December 31, 2011 for the periods indicated.

Contractual Obligations	Total	Payment due by period (RMB thousands)			
		Less than 1 year	1-3 year	3-5 year	More than 5 years
Long-Term Debt Obligations (including interests) ⁽¹⁾	3,996,060	167,650	335,330	3,493,110	
Capital Expenditure Obligation ⁽²⁾	283,880	261,503	22,377		
Operating Lease Obligations ⁽³⁾	1,110,000	74,000	148,000	148,000	740,000
Other Long-Term Liabilities reflected on the Company's balance Sheet under IFRS ⁽⁴⁾	260,374	79,760	178,787	1,827	
Total	5,650,314	582,913	684,494	3,642,937	740,000

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- (1) See Note 25 to our audited consolidated financial statements, Bonds Payable .
- (2) See Note 37(a) to our audited consolidated financial statements, Capital Commitments .
- (3) See Note 37(b) to our audited consolidated financial statements, Operating Lease Commitments .
- (4) See Note 26 to our audited consolidated financial statements, Employee Benefits Obligations .

Based on the current progress of our new projects, we estimate that our capital expenditures for 2012 will amount to approximately RMB 2 billion, which consists primarily of the following projects:

constructing the Buji auxiliary passenger station and Buji railway apartment;

replacing down-direction tracks of the Pingshi-Guangzhou Railway line;

replacing track switches and switch ties of the main track of the Pingshi-Guangzhou Railway line; and

renovating the UM71 automatic blocks between Pingshi to Shaoguan of the Pingshi-Guangzhou Railway line.

G. Safe Harbor**Safe Harbor**

See Forward-Looking Statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. Directors and Senior Management****Directors**

Our board of directors is composed of six non-independent directors and three independent directors. Except for Mr. Li Wenxin, all of our directors were elected or re-elected at our annual shareholders' general meeting held on June 2, 2011 by cumulative voting. Mr. Li Wenxin was elected as a director at our shareholders' extraordinary general meeting on November 10, 2011 and then the Chairman of the Board of Directors at a Board meeting on January 31, 2012. The business address of each of our directors is No. 1052 Heping Road, Shenzhen, People's Republic of China 518010.

The table below sets forth the information relating to our directors as of April 26, 2012:

Name	Age	Position	Date First Elected or Appointed
Li Wenxin	49	Chairman of the Board of Directors	2011
Shen Yi	56	Director and General Manager	2008
Xu Xiaoming	56	Director	2010
Li Liang	51	Director	2009
Yu Zhiming	53	Director	2008
Luo Qing	47	Director	2009
Lu Minlin	58	Independent Director	2011

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Liu Xueheng	39	Independent Director	2011
Liu Feiming	42	Independent Director	2011

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Li Wenxin, aged 49, joined our Company in November 2011 and is the Chairman of the Board of Directors of the Company. Mr. Li holds a master's degree and is a senior engineer. Mr. Li previously served in various positions including the assistant general manager of Guangzhou Railway (Group) Company, the general manager of Huaihua Railway Company, the vice chairman of the board of Guangzhou Railway (Group) Company, the general manager of Qingzhang Railway Company, the deputy chief of transportation control center of the MOR, the chief of transportation capacity resource center of the MOR, the deputy dean of Railway Research Institute and the chief of diversified development center of the MOR. He has served as the chairman of the board and general manager of Guangzhou Railway (Group) Company since January 2012.

Shen Yi, age 56, joined our Company in October 2008 and is a Director and the General Manager of our Company. Mr. Shen graduated from the Northern Jiaotong University (currently known as Beijing Jiaotong University) with a bachelor's degree in Transportation. Mr. Shen has over 30 years experience in railway transportation management in China. He previously was the general manager of Hong Kong Qiwen Trade Company Limited, Guangmeishan Railway Company Limited and Huaihua Railway Company, and the general manager of Shichang Railway Company Limited.

Xu Xiaoming, age 56, joined our Company in June 2010 and is a Director of our Company. Mr. Xu holds a master's degree in Engineering and is a senior engineer. Mr. Xu started working in the railway industry in 1973 and has more than 35 years' experience in transportation management. Prior to joining our Company, Mr. Xu has served various senior management positions with Zhengzhou Railway Bureau and the Transport Bureau of the MOR. Immediately before joining our Company, Mr. Xu worked as the Chief Dispatch Officer of the MOR. From May 2010 to December 2012, Mr. Xu was appointed as Chairman of GRGC.

Li Liang, age 51, joined our Company in June 2009 and is a Director of our Company. He is a university graduate and an engineer. Mr. Li previously served in various positions including head of Anyang Engineering Section and Xinxiang Engineering Section of Xinxiang Sub-bureau of Zhengzhou Railway Bureau, deputy head of Zhengzhou Sub-bureau and Wuhan Sub-bureau of Zhengzhou Railway Bureau and deputy head of Wuhan Railway Bureau. He has been an executive deputy general manager of GRGC since December 2006.

Yu Zhiming, age 53, joined our Company in June 2008 and is a Director of our Company. He has a university qualification and a master's degree in Engineering. He is a senior accountant with numerous years of experience in finance. He was the director of the finance sub-division of Wuhan Railway Sub-bureau of Zhengzhou Railway Bureau. From 2005 to 2006, he was the director of the finance division and capital settlement center of Wuhan Railway Bureau. He was a standing vice director of the capital settlement center of the MOR from September 2006 to April 2008. Mr. Yu has been the chief accountant of GRGC since April 2008.

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Luo Qing, age 47, joined our Company in December 2008 and is a Director of our Company. Mr. Luo graduated with a bachelor's degree in Economic Management from the Correspondence Institute of the Party School of the Central Committee of the Chinese Communist Party. He has served in various positions including athlete, coach and secretary-general of Guangdong provincial sports team, trade union of Guangzhou Sub-bureau of Guangdong Railway Bureau, trade union of Yangcheng Railway Company, Locomotive Sports Association of Yangcheng Railway Company and Locomotive Sports Association of GRGC. From April 2006 to November 2008, he was the chief of the organization division of the trade union of GRGC. He has been the chairman of trade union of our Company since November 2008.

Lu Minlin, age 58, joined our Company in June 2011 and is an independent non-executive Director of our Company. Mr. Lu has served as a director and senior consultant for multinational financial and other corporations prior to joining our Company. He currently also serves as a non-executive Chairman of Luk Fook Holdings (International) Limited, a non-executive Director and Vice Chairman of Asian Capital Resources (Holdings) Limited and an independent non-executive Director of Shanghai Zendai Property Limited, all of which are companies listed on HKSE. Mr. Lu graduated from the University of Wisconsin-Madison, obtained an L.L.M. degree from the University of Hong Kong, a Doctor of Laws degree from California South University and a J.D. degree from Northwestern California University. Mr. Lu is a chartered accountant of the United Kingdom and Canada.

Liu Xueheng, age 39, joined our Company in June 2011 and is an independent non-executive Director of our Company. Mr. Liu has served as a senior assistant manager of DBS Bank, Hong Kong from 2000 to 2002, an executive Director of Partners Capital International Limited from 2002 to 2006 and an executive Director of Vision Finance Group Limited since June 2006. Mr. Liu has been an executive Director of Beijing Properties (Holdings) Limited, a Hong Kong listed company, since January 2011. Mr. Liu obtained a master's degree in Business Administration from Cambridge University.

Liu Feiming, age 42, joined our Company in June 2011 and is an independent non-executive Director of our Company. She has served as Finance Manager of China Motion Telecom Group Limited from May 1996 to September 2002 and Vice President of China Motion Telecom International Limited from October 2002 to March 2004. She has been a Director and Vice President of Finance for Shangkai Group (Shenzhen) Limited Company since April 2004. Ms. Liu graduated from Hefei Industrial University with a bachelor's degree in Management Engineering in 1989. Ms. Liu also obtained a master's degree in Economics from Nankai University in July 1997 and a doctorate degree in International Economics from Nankai University in July 2007.

Supervisors

The table below sets forth the information relating to our supervisors as of April 26, 2012:

Name	Age	Position	Date First Elected or Appointed
Xu Ling	56	Chairman of the supervisory committee	2010
Chen Shaohong	45	Supervisor	2008
Li Zhiming	50	Supervisor	2005
Shen Jiancong	43	Supervisor	2011
Xu Huiliang	48	Supervisor	2010
Chen Jianping	45	Supervisor	2011

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Xu Ling, age 56, joined our Company in June 2010 and is the Chairman of the Supervisory Committee of our Company. Mr. Xu holds a bachelor's degree. Mr. Xu previously served as the party secretary of Huaihua Railway Company, the chief of Huaihua office of GRGC and the Chief of Changsha office of GRGC. Mr. Xu has been the deputy secretary of the Communist Party, the secretary of discipline division of GRGC since March 2010.

Chen Shaohong, age 45, joined our Company in June 2008 and is a Supervisor of our Company. Mr. Chen graduated from South China Normal University and is an economist. He was a deputy chief and also chief of the structural reform division of the corporate management office, deputy head of the corporate management office, and deputy chief and chief of the corporate and legal affairs division of GRGC. Since June 2008, he has served as the deputy chief economist of GRGC.

Li Zhiming, age 50, joined our Company in May 2005 and is a Supervisor of our Company. Mr. Li graduated from the Party School of CPC, majoring in Economics and Management and is an accountant. Mr. Li has served in various managerial positions in Hengyang Railway Sub-administration and Changsha Railway Company. From 1996 to March 2005, he served as the chief of the finance sub-division of Changsha Railway Company. Since April 2005, Mr. Li has been the head of the audit department of GRGC.

Shen Jiancong, age 43, joined our Company in June 2011 and is a Supervisor of our Company. Mr. Shen graduated from Changsha Railway University, majoring in Air-conditioning and is an economist. Mr. Shen held various management positions at GRGC and our company, including deputy director and director of the Division of Personnel of GRGC, deputy director of the Division of Human Resources of GRGC, director of the Organization Department of the Party Committee of GRGC and party secretary and vice stationmaster of Shenzhen Station. He has been a director of the Division of Human Resources and director of the Organization Department of the Party Committee of GRGC since March 2011.

Xu Huiliang, age 48, joined our Company in 1992 and is a Supervisor of our Company. Mr. Huang graduated from the Southwest Jiaotong University (currently known as Central South University), majoring in Computer Science and Technology. Mr. Xu holds a master's degree in engineering and is a senior engineer. Mr. Xu has extensive experience in working in the railway-related information and technology industry and has developed and completed numerous computer engineering projects. Mr. Xu was named as the Expert entitled to Special Allowance from the State Council in 2001. Mr. Xu has been the chief of the technology division of our Company since March 2009. Mr. Xu has been elected as a Supervisor by the employee representatives of our Company since June 2010.

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Chen Jianping, age 45, joined our Company in October 2007 and has been a Supervisor of our Company from June 2011. Mr. Chen graduated from Guangdong Academy of Social Sciences, majored in Economic Management, and is a political engineer. Mr. Chen held various management positions at GRGC and our Company, including the office secretary of the trade union of GRGC, the director of the Logistic Department of our Company, the deputy secretary of the Communist Party Committee and concurrently the secretary of Committee for Disciplinary Inspection of the Passenger Transportation Business Unit of our Company, the deputy office manager of the General Office of our Company, and the chairman of the Trade Union of the Mechanized Line Center of GRGC. Mr. Chen has served as the section chief of the Guangzhou Passenger Transportation Division from July 2007.

Senior Management

The table below sets forth information relating to our senior management as of April 26, 2012:

Name	Age	Position	Date First Elected or Appointed
Shen Yi	56	General Manager	2008
Mu Anyun	51	Deputy General Manager	2009
Guo Xiangdong	46	Deputy General Manager and Company Secretary	2004
Tang Xiangdong	43	Chief Accountant	2008

Shen Yi is our Director and General Manager.

Mu Anyun, age 51, joined our Company in February 2009 and is a Deputy General Manager of our Company. Mr. Mu obtained a master's degree in Business Management from Macau University of Technology and Science and is an economist. In 1981, Mr. Mu joined the railway industry and has served in various managerial positions in Guangzhou Railway Bureau and GRGC. From May 2000 to February 2009, he served as Director and Deputy General Manager of Guangmeishan Railway Company Limited. Since February 2009, he has served as Deputy General Manager of our Company.

Guo Xiangdong, age 46, joined our Company in 1991 and is Deputy General Manager and Company Secretary. Mr. Guo graduated from Central China Normal University with a bachelor's degree in Laws and a master's degree in Business Administration. Mr. Guo is an economist. He has served as Deputy Section Chief, Deputy Director and Director of Secretariat of the Board. Mr. Guo has been Company Secretary of our Company since January 2004 and Deputy General Manager of our Company since December 2010.

Tang Xiangdong, age 43, joined our Company in 1990 and is Chief Accountant of our Company. Mr. Tang obtained a master's degree in Business Management from Jinan University and is a senior accountant. Mr. Tang has served in various managerial positions in the labor and capital department, diversified business department and capital settlement center. From March 2006 to December 2008, he served as the director of the accounting department. Since December 2008, Mr. Tang has served as the Chief Accountant of our Company.

Table of Contents**Additional Information**

Our non-independent directors, members of our supervisory committee and senior management also serve as the directors, supervisors or senior management members in other companies as follows:

Name	Position
Li Wenxin	<p><i>Chairman of the Board of Directors of:</i></p> <p>Guangzhou-Meizhou-Shantou Railway Company Limited</p> <p>Guangdong Sanmao Railway Company Limited</p> <p>Yuehai Railway Company Limited</p> <p>Shichang Railway Company Limited</p>
Shen Yi	<p><i>Director of:</i></p> <p>Guangzhou Tiecheng Industrial Company Limited</p>
Li Liang	<p><i>Executive Deputy General Manager of:</i></p> <p>GRGC</p>
Yu Zhiming	<p><i>Chairman of the supervisory committee of:</i></p> <p>Yuehai Railway Company Limited</p> <p>Guangzhou-Shenzhen-Hong Kong Express Rail Link Company Limited, Guangzhou-Zhuhai</p> <p>Guangzhou-Zhuhai Intercity Rail Transportation Company Limited</p> <p>Maozhan Railway Company Limited</p> <p><i>Director of:</i></p> <p>Guangmeishan Railway Company Limited</p> <p>Guangdong Sanmao Railway Company Limited</p> <p>Shichang Railway Company Limited</p> <p>Hainan Donghuan Railway Company Limited</p> <p>Hukun Railway Passenger Line (Hunan) Company Limited</p> <p>Ganshao Railway Company Limited</p> <p>Guangdong Pearl Delta Inter-city Rail Transportation Company Limited</p>

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China Railway Container Transportation Company Limited

China Railway Special Goods Transportation Company Limited

Supervisor of:

Guangzhou-Zhuhai Railway Company Limited

Chief Accountant of:

GRGC

Xu Ling

Chairman of the supervisory committee of:

Guangmeishan Railway Company Limited

Guangdong Sanmao Railway Company Limited

Supervisor of:

Guangzhou-Zhuhai Railway Company Limited

Chen Shaohong

Director of:

Yuehai Railway Company Limited

Guangmeishan Railway Company Limited

Xiashen Railway Guangdong Company Limited

Jinyue Railway Company Limited

Guangdong Sanmao Railway Enterprise Development Company Limited

Chairman of the supervisory committee of:

Shichang Railway Company Limited

Hukun Railway Passenger Line (Hunan) Company Limited

Supervisor of:

Guangdong Sanmao Railway Company Limited

Hunan Inter-city Railway Company Limited

Guangdong Pearl River Delta Inter-city Railway Company Limited

Hainan Donghuan Railway Company Limited

GanShao Railway Company Limited

China Railway Express Co., Ltd.

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Li Zhiming

Chairman of the supervisory committee of:

Beijing Xingguangji Company Limited

Guangzhou Tiecheng Industrial Company Limited

Director of:

Hong Kong Kai Man Limited

Hainan Railway Economy and Technology Development Company Limited

Supervisor of :

Guangmeishan Railway Company Limited

Guangdong Sanmao Railway Company Limited

Guangdong Sanmao Railway Enterprise Development Company Limited

Yuehai Railway Company Limited

Shichang Railway Company Limited, Hukun Passenger Railway Line (Hunan) Co., Ltd.

Xiashen Railway (Guangdong) Company Limited

Hukun Railway Passenger Line (Hunan) Company Limited

GanShao Railway Company Limited

Guiyang-Guangzhou Railway Co., Ltd.

Hunan-Guangzhou Railway Co., Ltd.

JingYue Railway Company Limited

Tang Xiangdong

Supervisor of:

Guangdong Tiecheng Industrial Company Limited

The lines operated by Guangmeishan Railway Company, Sanmao Railway Company, Shichang Railway Company and Yuehai Railway Company are all local railroads. Sanmao Railway Enterprise Development Company is a subsidiary of GRGC. Guangzhou Tiecheng Industrial Company is our joint venture partner.

B. Compensation

Directors and Senior Management

Total remuneration of our directors, supervisors and senior management members during 2011 included wages, bonuses, other schemes and allowances. Directors or supervisors who are also officers and employees of our Company receive certain other benefits in kind from GRGC or

us, such as subsidized or medical insurance, housing and transportation, as customarily provided by the railway companies in the PRC to their employees.

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The aggregate amount of cash remuneration paid by our Company in 2011 to all individuals who are our directors, supervisors and senior management members was approximately RMB 4.14 million, of which approximately RMB 2.10 million was paid to our non-independent directors and supervisors and approximately RMB 0.37 million was paid to the independent non-executive directors.

The aggregate amount of cash remuneration we paid during the year ended December 31, 2011 for pension and retirement benefits to all individuals who are currently our directors, supervisors and senior management members was approximately RMB 0.17 million.

Interests of Our Directors, Supervisors and Other Senior Management in Our Share Capital

As of December 31, 2011, there was no record of interests or short positions (including the interests or short positions which were taken or deemed to have under the provisions of the Hong Kong Securities and Futures Ordinance) held by our directors or supervisors in our shares, debentures or other securities, or securities of any of our associated corporation (within the meaning of the Hong Kong Securities and Futures Ordinance) in the register required to be kept under section 352 of the Hong Kong Securities and Futures Ordinance. We had not received notification of such interests or short positions from any of our directors or supervisors as required to be made to us and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the HKSE Listing Rules. We have not granted any of our directors or supervisors, or any of their respective spouses or children under the age of 18, any right to subscribe for any of our shares or debentures.

Service Contracts of Our Directors and Supervisors

Each of our directors and supervisors has entered into a service agreement with us. Except as disclosed, no other service contract has been entered into between any of our subsidiaries or us on one hand, and any of our directors or supervisors on the others, that cannot be terminated by us within one year without payment of compensation (other than statutory compensation).

Contracts Entered into by Our Directors and Supervisors

None of our directors or supervisors had any direct or indirect material interests in any contract of significance subsisting during the year ended on December 31, 2011 or as of December 31, 2011 to which we or any of our subsidiaries was a party.

Remuneration of Our Directors and Supervisors

The level of remuneration of our directors and supervisors was determined by reference to various factors, including the prevailing rates of remuneration in Shenzhen, where we are located, and the job nature of each of our directors and supervisors. The remuneration and annual incentive of the Directors and the Supervisors will be considered and recommended by the Remuneration Committee and will be approved and authorized by the shareholders at shareholders' general meetings of our Company. No Director or Supervisor is involved in determining his own remuneration.

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C. Board Practices

Board of Directors

In accordance with our currently effective Articles of Association, our board of directors comprises nine directors, one of whom is the chairman. Directors are appointed at our shareholders' general meeting through voting, and serve for a term of three years. Upon the expiration of the term of their office, they can serve consecutive terms if re-appointed at the next shareholders' general meeting. The service contracts that we have entered into with our directors do not provide for any payment of compensation upon termination.

Supervisory Committee

We have a supervisory committee consisting of five to seven supervisors. Supervisors serve a term of three years. Upon the expiration of their terms of office, they may be re-appointed to serve consecutive terms. The supervisory committee is presided over by a chairman who may 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 is three years, renewable upon re-election. Our supervisory committee currently consists of four representatives of the shareholders who may be elected or removed by our shareholders' general meeting, and two representatives of our employees who may be elected by our employees at the employees' congress or employees' general meeting or through any other democratic means. Members of our supervisory committee may also attend meetings of the board of directors. The current members of our supervisory committee are: Xu Ling, Chen Shaohong, Li Zhiming, Shen Jiancong, Xu Huiliang and Chen Jianping. All shareholder representatives of our supervisory committee were elected or re-elected at the annual shareholders' general meeting held on June 2, 2011. Mr. Xu Huiliang and Mr. Chen Jianping were elected as the Supervisors of our Company as employee representatives at the employees' congress held in 2010 and 2011, respectively. The term of these supervisors is 3 years. Our supervisory committee held five meetings during the year ended December 31, 2011, at which resolutions concerning identified key issues were passed and notified to our board of directors. Our supervisors attended shareholders' general meetings, meetings of our board of directors and other important meetings concerning our operation during the year ended December 31, 2011. Our supervisory committee reviews the report of our directors, the financial report and proposed profit distribution presented by our board of directors at our annual general meeting of shareholders.

Supervisors attend board meetings as non-voting members. The supervisory committee is accountable to the shareholders' general meeting and has the following duties and responsibilities:

to examine the Company's financial situation;

to supervise the performance of duties of the directors, general manager, deputy general managers and other senior management; to propose the dismissal of directors, general manager, deputy general managers and other senior management who have violated any law, administrative regulations, the Articles of Association or resolutions of the shareholders' general meetings;

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to demand a director, general manager, deputy general manager or any other senior management to rectify such breach when the acts of such persons are harmful to the Company's interest;

to propose the convening of shareholders' general meetings, and to convene and chair the shareholders' general meetings if the board of directors fails to perform this duty as stipulated in the Articles of Association;

to propose motions to shareholders' general meetings; and

to initiate legal proceedings against any director, general manager, deputy general manager and other senior management in accordance with Article 152 of the Company Law.

Supervisors may attend meetings of the board of directors and question or give advice on the resolutions of the board of directors.

The supervisory committee may conduct investigation if they find the operation of the Company unusual and may engage professionals such as lawyers, certified public accountants or practicing auditors to assist if necessary. All reasonable fees so incurred shall be borne by the Company.

Audit Committee

We have an audit committee consisting of three independent non-executive directors. The current members of our audit committee, appointed by the Board of Directors, are: Mr. Lu Minlin (Chairman), Mr. Liu Xueheng and Ms. Liu Feiming. Mr. Lu, Mr. Liu and Ms. Liu are independent directors of our Company as defined in Section 303A.02 of the New York Stock Exchange's Listed Company Manual. The audit committee must convene at least four meetings each year, and may invite the executive directors, persons in charge of the financial and audit departments and our independent auditors to participate. The audit committee must have at least two meetings with management and at least two meetings with the auditors each year without any executive directors present. The duties of the audit committee include:

reviewing the annual financial statements and interim financial statements of the Company, including the disclosures made by the Company in this annual report;

reviewing the financial reports and the reports of the Company prepared by the independent auditor and its supporting documents, including the review of the internal control and disclosure controls and procedures, and to discuss with the auditor the annual audit plan and solutions to problems in the previous year;

reviewing and approving the selection of and remuneration paid to the independent auditor;

pursuant to the resolutions of the annual general meeting, determining with the Board of Directors the annual auditing fees paid to our independent auditor;

reviewing with the management and the independent auditor the performance, adequacy and effectiveness of the internal controls and risk management, as well as any material deficiencies and weakness existing in the internal controls;

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evaluating the Company's performance in complying with industrial practices, market rules, and statutory duties, and the safeguarding of its own interests and the interests of its shareholders;

considering and determining whether any senior executive officer or senior financial personnel is in violation of their code of conduct, and the consequences for such a violation; and

overseeing the management of the retirement pension fund of the Company.

Remuneration Committee

We have a remuneration committee consisting of two executive Directors and three independent non-executive Directors, namely, Mr. Lu Minlin (Chairman), Mr. Li Wenxin, Mr. Shen Yi, Mr. Liu Xueheng and Ms. Liu Feiming. The remuneration committee will meet from time to time when required to consider remuneration-related matters of the Company.

The principal duties of the remuneration committee include reviewing and making recommendations to the Board for the remuneration packages for the Directors and the Supervisors of our Company. The remuneration policy of our Company seeks to provide, in the context of our business strategy, reasonable remuneration to attract and retain high caliber executives. The remuneration committee obtains benchmark information from internal and external sources in relation to market conditions, packages offered in the industry and the overall performance of our Company when determining the Directors' and the Supervisors' emoluments.

D. Employees

As of December 31, 2009, 2010 and 2011, we had approximately 33,170, 32,179 and 33,379 employees, respectively. The increase in the number of our employees in 2011 was due to increases in the number of the service personnel, the crew and the safety inspection staff for passenger transportation as a result of our larger workload of consigned management. The following chart sets forth the number of our employees by function as of December 31, 2011:

Function	Employees
transportation personnel ⁽¹⁾	14,106
Mechanical personnel ⁽²⁾	4,167
Power and water supply personnel ⁽³⁾	1,710
Vehicle personnel ⁽⁴⁾	2,759
Maintenance personnel ⁽⁵⁾	3,597
Power service personnel ⁽⁶⁾	1,338
Construction and apartment personnel ⁽⁷⁾	1,011
Diversified businesses and other supporting personnel ⁽⁸⁾	221
Technical and administrative personnel ⁽⁹⁾	3,903
Other personnel ⁽¹⁰⁾	567
Total	33,379

- (1) Transportation personnel mean those people that provide station boarding and train services and those people responsible for organization of freight transportation.

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- (2) Mechanical personnel mean those people responsible for train operation and overhaul.
- (3) Power and water supply personnel mean those people responsible for contact network operation and overhaul as well as power and water consumption maintenance.
- (4) Vehicle personnel mean those people responsible for vehicle operation and overhaul.
- (5) Maintenance personnel mean those people responsible for station track and railroad switch maintenance.
- (6) Power service personnel mean those people responsible for signal equipment maintenance.
- (7) Construction and apartment personnel mean those people responsible for construction, apartments and dining halls.
- (8) Diversified businesses and other supporting personnel mean all personnel involved in diversified businesses.
- (9) Technical and administrative personnel mean all managerial personnel other than the personnel of diversified businesses.
- (10) Other personnel include all personnel who have been sick, studying or early-retired.

All of our employees are located in Guangzhou, Shenzhen, Pingshi and the area adjacent to our Shenzhen-Guangzhou-Pingshi line.

We have established a trade union to protect employees' rights, assist in the fulfillment of their economic objectives, encourage employee participation in management decisions and assist in mediating disputes between the management and union members. Each of our train stations and railway units has a separate branch of the trade union. Most of our employees belong to the trade union. We have not experienced any strikes or other labor disturbances that have interfered with our operations in the past, and we believe that our relations with our employees are good.

We have implemented a salary policy which links our employees' salaries with results of operations, labor efficiency and individual performance. Employees' salaries distribution is subject to our overall operational results and is based on their performance records and reviews. In addition, pursuant to applicable government policies and regulations, we set aside statutory funds for our employees and also maintain various insurance policies for the benefits of our employees, including housing fund, retirement insurance, supplemental retirement insurance, basic and supplemental medical insurance, pregnancy-related medical insurance and other welfare programs. In 2011, we paid approximately RMB 3,388.0 million in aggregate salaries and benefits to our employees.

In addition, pursuant to an early retirement scheme implemented by our Company, certain employees who meet certain specified criteria were provided with the option to retire early and enjoy certain early retirement benefits, such as payments of the basic salary and other relevant benefits, offered by our Company, until they reach the statutory retirement age. Under the terms of the scheme, all applications are subject to our approval. Expenses incurred on such employee early retirement benefits have been recognized in the income statement when we approved such applications from the employees. The specific terms of these benefits vary among different employees, depending on their position held, tenure of service and employment location.

Details of our statutory welfare fund and retirement benefits are set out in Notes 26 and 29 to our audited consolidated financial statements included elsewhere in this annual report.

E. Share Ownership

As of April 26, 2011, none of our directors, supervisors or senior management owned any interest in any shares or options to purchase our shares.

Table of Contents**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. Major Shareholders**

We are a joint stock company organized under the laws of the PRC in March 1996. Before the A Share Offering, GRGC, a state-owned enterprise under the administration of the MOR, owned approximately 66.99% of our outstanding ordinary shares. Although the equity interest held by GRGC decreased to approximately 41% after the completion of our initial public offering of A shares in December 2006 and further reduced to 37.1% as a result of the transfer by GRGC of a portion of its shares to the National Social Security Fund Council in September 2009, GRGC can still exercise substantial influence over our Company. In addition, GRGC also acts as an administrative agent of the MOR that controls and coordinates railway operations in Guangdong Province, Hunan Province and Hainan Province. As an instrumentality of the MOR, GRGC performs direct regulatory oversight functions with respect to us, including determining and enforcing technical standards and implementing special transportation directives.

Shareholding Structure of our Company

Set out below is the current shareholding structure of our Company as of April 26, 2012:

Name of Shareholders	Types		Shareholding Percentage %
	of Shares	Number of Shares Held	
Public Shareholders of H shares (including ADSs)	H shares	1,431,300,000	20.2
Guangzhou Railway (Group) Company	A shares	2,629,451,300	37.1
National Social Security Fund Council ⁽¹⁾	A shares	274,798,700	3.9
Other Public Shareholders of A shares	A shares	2,747,987,000	38.8
Total		7,083,537,000	100.0

- (1) On September 22, 2009, in accordance with relevant PRC regulations on transferring a portion of state-owned shares to the National Social Security Fund Council, the state-owned assets supervision and administration authority ordered China Securities Depository and Clearing Co., Ltd. to transfer 274,798,700 state-owned shares held by GRGC to the National Social Security Fund Council, with an extended lock-up period of an additional three years following the expiry of the original three-year lock-up period.

The following table sets forth information regarding ownership of our issued and outstanding capital stock as of April 26, 2012, including all persons who are known by us to own, either as beneficial owners or holders of record, five percent or more of our capital stock.

Title of Class	Identity of Person or Group	Amount Owned	Percentage of Class	Percent of Total Capital
			of Shares	
Ordinary Shares (A shares) ⁽¹⁾	GRGC	2,629,451,300	46.5	37.1

- (1) A shares held by GRGC are no longer restricted from sales and redemption starting from December 22, 2009. The following table sets forth all persons who were known by us to beneficially own five percent or more of our issued and outstanding H shares as of April 17, 2012.

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Identity of Person or Group	Shares Owned	Percentage of H Shares	Percentage of Total Capital
The Bank of New York Mellon Corporation	89,237,571(L)	6.23(L)	1.26
	60,639,071(P)	4.24(P)	0.86
Credit Suisse Group AG	87,916,155(L)	6.14(L)	1.24
	146,993,089(S)	10.27(S)	2.07
FIL Limited	86,646,000(L)	6.05(L)	1.22
BlackRock, Inc.	86,441,890(L)	6.03(L)	1.22
	0(S)	0.00(S)	0
Hillhouse Capital Management, Ltd.	86,286,000(L)	6.03(L)	1.22
Gaoling Fund, L.P.	86,026,000(L)	6.01(L)	1.21

(1) The letter L denotes a long position. The letter S denotes a short position. The letter P denotes lending pool. As of the date of this annual report, we are not aware of any arrangement that may at a subsequent date result in a change of control of our Company.

In accordance with our Articles of Association, each share of our capital stock has one vote and the shares of the same class have the same rights. Other than restrictions on the controlling shareholder as described under ITEM 10. ADDITIONAL INFORMATION B. Memorandum and Articles of Association Restrictions on Controlling Shareholders, the voting rights of our major holders of domestic shares are identical to those of any other holders of our domestic shares, and the voting rights of our major holders of H shares are identical to those of our other holders of H shares. Holders of domestic shares and H shares are deemed to be shareholders of different classes for some matters, which may affect their respective interests. Holders of H shares and domestic shares are entitled to the same voting rights.

B. Related Party Transactions

Under IAS 24, parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

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As of December 31, 2011, our principal related parties included:

Name of related parties	Relationship with us
Substantial shareholder and fellow subsidiaries	
GRGC	Substantial shareholder
Guangmeishan Railway Company Limited	Subsidiary of GRGC
GEDC	Subsidiary of GRGC
Guangzhou Railway Group Yangcheng Railway Enterprise Development Company	Subsidiary of GRGC
Guangzhou Railway Material Supply Company	Subsidiary of GRGC
Guangzhou Railway Engineer Construction Enterprise Development Company	Subsidiary of GRGC
Yangcheng Construction Company of Yangcheng Railway Enterprise Development Company	Subsidiary of GRGC
Guangzhou Railway Real Estate Construction Company	Subsidiary of GRGC
Yuehai Railway Company Limited	Subsidiary of GRGC
Shichang Railway Company Limited	Subsidiary of GRGC
Guangzhou Railway Station Service Center	Subsidiary of GRGC
Changsha Railway Construction Company Limited	Subsidiary of GRGC
Guangdong Sanmao Railway Company Limited	Subsidiary of GRGC
Guangzhou Qingda Transportation Company Limited	Subsidiary of GRGC
Guangzhou Yuetie Operational Development Company	Subsidiary of GRGC
Guangzhou Railway Rolling Stock Factory	Subsidiary of GRGC
Guangzhou Railway Group Foreign Economic & Trade Development Corporation	Subsidiary of GRGC
Shenzhen Guangshen Railway Living Service Center	Subsidiary of GRGC
Guangsheng Yangcheng Living Service Center	Subsidiary of GRGC
Pajiangkou Stone Pit	Subsidiary of GRGC
Guangdong Tieqing International Travel Agency Company Limited	Subsidiary of GRGC
Guangdong Sanmao Enterprise Development Company Limited	Subsidiary of GRGC
Guangdong Guangzhou Intercity Rail Transportation Company Limited	Subsidiary of GRGC
Guangshengang Passenger Special Line Company Limited	Subsidiary of GRGC
Associates of our Company	
Zengcheng Lihua Stock Company Limited	Associate of our Company
Guangzhou Tiecheng Enterprise Company Limited	Associate of our Company
Shenzhen Guangshen Railway Civil Engineering Company	Associate of our Company
Other Related Party	
Guangzhu Railway Company Limited	Entity supervised by the chairman of our Company

Since the Restructuring carried out in 1996 in preparation for our initial public offering, certain transactions between our Company and GRGC and the subsidiaries of GRGC, including Yangcheng Railway Company and GEDC, continued in the form of cross-provision of goods and services.

We previously entered into comprehensive services agreements with each of GRGC, Yangcheng Railway Company and GEDC, all of which expired on December 31, 2010. As a result, we entered into the Framework Comprehensive Services Agreement with GRGC on October 27, 2010, or the Framework Agreement, which governs the mutual provision of services between our Company and GRGC and the subsidiaries of GRGC, including Yangcheng Railway Company and GEDC. The Framework Agreement has a term of three years beginning from January 1, 2011 and was approved by the independent shareholders at the extraordinary shareholders' general meeting held on December 21, 2010.

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According to the Framework Agreement, the principal goods and services provided by GRGC and some of its subsidiaries to our Company include the following:

production coordination, safety management and scheduling;

leasing of locomotives;

railway communications;

railway network services (including but not limited to passenger coordination, provision of water to trains, locomotive traction and electricity provision and ticket sale services;

passenger agency services;

maintenance service of large scale railroad machinery, track replacement and overhauling services for railroads and bridges, and locomotive and train repair and maintenance services;

agency services for purchase of railway transportation -related materials;

security services;

hygiene and epidemic prevention services;

property management, construction and maintenance services and leasing of properties; and

construction project management and supervision services.

In addition, under the Framework Agreement, the principal goods and services provided by us to GRGC and some of its subsidiaries include railway network services, locomotive leasing and maintenance services, transportation agency services for passenger lines and other related services.

The prices at which these goods and services are provided for us by GRGC and its subsidiaries are determined according to the following principles:

for production coordination, safety management and scheduling, the prices will be determined with reference to the unit cost (which is in turn calculated with reference to the total cost incurred by GRGC for the provision of the relevant services, divided by the total amount of services provided during certain period) and the actual volume of services provided by GRGC;

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for leasing of locomotives, if the MOR settlement method is available, the prices will be determined in accordance with the settlement price lists issued by the MOR. If the MOR settlement method is not available, the prices will be determined in accordance with the settlement price lists agreed after arm's length negotiations between the parties. Such prices shall not be higher than (i) those offered by the GRGC and its subsidiaries to the other GRGC subsidiaries, any enterprises invested by GRGC and any independent third party, or (ii) those offered by independent third parties in the market;

for railway communication services and railway network services, the prices will be determined based on the settlement method or pricing standards issued by the MOR;

for passenger agency services, the prices will comprise a service contract fee (which is determined with reference to the total cost incurred by GRGC and/or its subsidiaries for the provision of such passenger services and the workload incurred) and a portion of revenue from ticket sales on the trains, which are determined after arm's length negotiations between the parties;

for maintenance services, the prices will be determined with reference to the costs incurred by the GRGC and/or its subsidiaries for the provision of such services plus a profit margin of 8% (if there is no MOR standard available for charging fees regarding track replacement and overhauling services or locomotive or train repair and maintenance services);

for agency services, the prices of the materials will not be higher than those offered by the GRGC and its subsidiaries to the other GRGC subsidiaries, any enterprises invested by GRGC and any independent third party, or those offered by independent third parties in the market; and the service fees shall not be (i) not more than 0.3% of the total purchase price in the case of the purchase of diesel; (ii) not more than 1% of total purchase price in the case of the purchase of steel tracks; and (iii) not more than 5% of the total purchase price in the case of other materials. Such service fees will be determined on an arm's length basis by taking into account the historical transactions between the parties;

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for security services, the service fees have been and will continue to be determined with reference to the actual costs incurred by GRGC and/or its subsidiaries for the provision of such services plus a profit margin of 8%;

for hygiene and epidemic prevention services, the prices will be calculated based on the kind of services provided and the relevant standard prices set by the relevant provincial government without any adjustments;

for property management, construction and maintenance services, the prices of most of such services will continue to be determined with reference to the actual costs incurred by GRGC and/or its subsidiaries for the provision of such services plus a profit margin of 8%. For leasing of properties, the rental shall not exceed the market price or an amount payable by any independent third parties to GRGC and/or its subsidiaries for the same properties; and

for construction project management and supervision services, the prices will be determined in accordance with the settlement method issued by the MOR.

The prices at which these goods and services are provided by us for GRGC and its subsidiaries are determined according to the following principles:

for railway network services, the prices will be determined in accordance with the settlement method issued by the MOR; and

for transportation services other than railway network services, the prices will be determined in accordance with the following principles:

market price (if available);

if market price is not available, settlement method or pricing standards issued by the MOR; and

if neither market price nor MOR standard is available, the prices shall be determined between the parties based on arm's length negotiations in each case.

The profit margin of 8% as mentioned above was determined by the Company and GRGC after negotiations with regard to: (i) the guideline issued by the local taxation authority in Guangdong Province that suggests that the profit rate for the purpose of calculating enterprise's business tax should be 10%; and (ii) the fact that such pricing policy is the same as the past pricing arrangement.

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The chart below sets forth the material transactions we undertook with related parties in 2009, 2010 and 2011:

	Year ended December 31,		
	2009	2010	2011
	(RMB thousands)		
Provision of Services			
Revenue collected by the MOR for services provided to GRGC and its subsidiaries	1,069,053	1,115,028	1,155,391
Revenue collected through GRGC for provision of repairing services for cargo trucks	220,000	191,369	
Provision of train transportation services to GRGC and its subsidiaries	208,860	347,849	407,220
Revenue from railway operation service provided to Guangzhou Railway Group's subsidiaries			273,460
Receipt of Services			
Cost settled by the MOR for services provided by GRGC and its subsidiaries	1,530,479	1,367,444	1,488,224
Train transportation services provided by GRGC and its subsidiaries	347,969	428,288	637,099
Social services (employee housing and public security services and other ancillary services) provided by GEDC and Yangcheng Railway Company	369,257	144,750	115,190
Provision of construction services by GRGC and its subsidiaries	241,753	115,075	224,892
Provision of repair and maintenance services by GRGC and its subsidiaries	115,455	171,154	260,118
Purchase			
Purchase of materials and supplies from GRGC and its subsidiaries	631,149	431,988	709,014
Sales			
Sales of materials and supplies to GRGC and its subsidiaries	2,520	17,827	23,696
Others			
Operating lease rental paid to GRGC for the leasing of land use rights	51,200	52,400	53,600
Acquisition of certain assets and liabilities from GRGC's subsidiaries			14,920
Compensation of loss on construction-in-progress from Guangzhou Railway Company Limited			17,039

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As of December 31, 2009, 2010 and 2011, we had the following material balances with our related parties:

	2009	As of December 31, 2010 (RMB thousands)	2011
Due from GRGC	113,195	299,400	309,159
- Trade receivables ⁽¹⁾	108,341	292,504	296,449
- Prepayment and other receivables	4,854	6,896	12,710
Due to GRGC	63,396	18,408	37,374
- Trade payables ⁽¹⁾	53,955	9,694	36,105
- Prepayment and other payables ⁽³⁾	9,441	8,714	1,269
Due from subsidiaries of GRGC	28,733	33,629	219,188
- Trade receivables	13,126	26,682	191,230
Less: impairment provision	113	19	19
- Prepayment and other receivables	15,720	6,966	27,977
Due to subsidiaries of GRGC	230,260	158,522	187,499
- Trade payables ⁽²⁾	174,054	135,999	164,221
- Other payables ⁽³⁾	56,206	22,523	23,278
Due from an associate	1,312	1,451	1,733
- Trade receivables		22	
- Other receivables	13,624	13,741	14,045
Less: impairment provision ⁽⁵⁾	12,312	12,312	12,312
Due to an associate	9,534	6,991	5,803
- Trade payables	135		2
- Other payables ⁽⁴⁾	9,399	6,991	5,801
Due from Guangzhu Railway Company Limited			17,039
- Prepayment and other receivables			17,039
Payables for fixed assets and construction-in-progress	101,316	96,328	145,416
- GRGC and its subsidiaries	101,316	77,423	123,107
- Associates		18,905	22,309

- (1) The trade balances due from/to GRGC and subsidiaries of GRGC mainly represented service fees and charges payable and receivable balances arising from the provision of passenger transportation and cargo forwarding businesses jointly with these related parties within the PRC.
 - (2) The trade balances due to subsidiaries of GRGC mainly represent payables arising from unsettled fees for purchase of materials and provision of other services according to various service agreements entered into between us and the related parties.
 - (3) The non-trade balances due to subsidiaries of GRGC mainly represent the deposits of related parties maintained in the deposit-taking center of our Company.
 - (4) The non-trade balance due to an associate mainly represents the payable balance arising from unsettled balance for the construction project services undertaken by an associate.
 - (5) Impairment loss provision set up against a receivable balance due from Zengcheng Lihua, which was brought forward from prior years.
- As of December 31, 2011, all the balances maintained with related parties are unsecured, non-interest bearing and are repayable on demand.

Our related party transactions have been carried out on normal commercial terms according to the HKSE Listing Rules and the contracts we entered into with our related parties. Except for the transactions discussed in this section, no other material related party transactions were entered into in 2011. Our independent non-executive directors have confirmed that these transactions (which are connected transactions as defined in the HKSE Listing Rules) entered into by us in 2011 were entered into in the ordinary and usual course of our business on normal commercial terms and in accordance with the terms of an agreement governing such transactions.

Table of Contents**Transaction with the MOR**

The MOR is the controlling entity of GRGC, the substantial shareholder of our Company and also centrally manages the railway business within the PRC. We work in cooperation with the MOR and other railway companies owned and controlled by the MOR in order to operate certain long-distance passenger train transportation and freight transportation services within the PRC. The related revenue is collected by other railway companies, which are then remitted to the MOR and centrally processed. A certain portion of the revenue so collected is allocated to our Company for the use of our rail lines or for services rendered by us in connection with the delivery of these services. On the other hand, our Company is also allocated by the MOR certain charges for the use of the rail lines and services provided by other railway companies. Such allocations are determined by the MOR based on its standard charges applied on a nationwide basis.

The chart below sets forth the material transactions our Company undertook with the MOR in 2009, 2010 and 2011:

	Year ended December 31,		
	2009	2010	2011
	(RMB thousands)		
Recurring Transactions:			
Income			
Revenue collected from the MOR, including revenue collected by the MOR for services provided to GRGC and its subsidiaries			
- Passenger transportation	6,542,333	7,569,570	7,769,115
- Freight transportation	752,561	835,216	831,860
- Railway network usage and services	3,105,654	3,115,911	3,254,511
- Repairing services for cargo trucks ⁽¹⁾			221,386
Charges and Payments			
Services charges allocated from the MOR, including cost settled by the MOR for services provided to GRGC and its subsidiaries			
Operating lease rentals paid/payable to the MOR	2,404,966	2,487,995	2,721,039
	162,651	178,917	200,693

(1) Such revenue was collected through Guangzhou Railway Group before 2011. Since 2011, such revenue has been collected through the MOR.

The service charges are determined based on a pricing scheme set by the MOR or by reference to current market prices with guidance provided by the MOR.

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As of December 31, 2009, 2010 and 2011, we had the following material balances maintained with the MOR:

	2009	As of December 31, 2010 (RMB thousands)	2011
Due from the MOR			
- Trade receivables	273,300	24,805	18,017
Due to the MOR			
- Trade payables		166,271	193,856

C. Interests of Experts and Counsel

Not applicable

ITEM 8. FINANCIAL INFORMATION**A. Consolidated Statements and Other Financial Information****A.1 A.6:**

See pages F-1 to F-78 following ITEM 19.

A.7 Legal Proceedings

We have been unable to recover the deposit from Li Cheng Credit Cooperative (Li Cheng) upon maturity. We have initiated several legal proceedings against Li Cheng in order to enforce recovery but so far have not succeeded. As a result, for the year ended December 31, 2011, we had a provision for impairment loss of RMB 31,365,000 against the principal balance of a deposit placed with Li Cheng.

Except as disclosed, we are not a party to any material legal proceeding and no material legal proceeding is known to us to be pending against us or with respect to our properties.

A.8 Dividend Distributions

We make decisions concerning the payment of dividends on an annual basis. Any dividends are paid at the discretion of our board of directors, which makes a recommendation in this regard that must be confirmed at our annual general meeting. Our Articles of Association permit us to distribute dividends from profits more than once a year. The amount of these interim dividends cannot exceed 50% of our distributable income as stated in our interim profit statements. In accordance with our Articles of Association, the amounts available for the purpose of paying dividends will be deemed to be the lesser of:

net after-tax income determined in accordance with PRC accounting standards and regulations; and

net after-tax income determined in accordance with either international accounting standards or the accounting standards of the countries in which our shares are listed.

See ITEM 10. ADDITIONAL INFORMATION E. Taxation for a discussion of the tax consequences related to the receipt of dividends.

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Our Articles of Association prohibit us 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 the payment of dividends, our profits are subject to deductions such as allocations to a statutory common reserve fund. The common reserve fund may be used to make up losses or be converted into share capital or reinvested.

Our Articles of Association require that cash dividends in respect of H shares be declared in RMB and paid in Hong Kong dollars at the average of the exchange rate as published by the People's Bank of China for each day of the calendar week preceding the date of the dividend declaration. To the extent that we are unable to pay dividends in Hong Kong dollars from our own foreign exchange resources, we will have to obtain Hong Kong dollars through the inter-bank system or by other permitted means. Hong Kong dollar dividend payments will be converted by the depositary and distributed to holders of ADSs in U.S. dollars.

On March 27, 2012, our Board of Directors proposed a final dividend distribution of RMB 0.10 per share to our shareholders for the year ended December 31, 2011. The final dividend payment is expected to be approved by our shareholders at our annual general meeting of shareholders held on May 22, 2012.

B. Significant Changes

Other than events already mentioned in this annual report, there have been no significant changes since December 31, 2011.

ITEM 9. THE OFFER AND LISTING**A. Offer and Listing Details****Price Range of our H shares and ADSs**

As of December 31, 2011 and April 12, 2011, there were 1,431.3 million H shares issued and outstanding. As of December 31, 2011 and April 12, 2012, there were, respectively, 4,252,652 ADSs and 4,133,212 ADSs outstanding held by 176 and 172 registered holders.

The HKSE is the principal non-US trading market for our H shares. The ADSs, each representing 50 H shares, have been issued by JPMorgan Chase Bank as depositary and are listed on the NYSE. The following table sets forth, for the periods indicated, the reported high and low closing sales prices for our securities on each of these stock exchanges:

Calendar Period	New York Stock Exchange		HKSE	
	High (USD per ADS)	Low	High (HKD per H share)	Low
2007	45.22	27.11	6.91	4.40
2008	36.45	13.72	5.71	2.10
2009	25.52	13.83	3.93	2.23
2010	22.26	16.03	3.48	2.56
January to March	21.91	19.83	3.48	3.07
April to June	20.49	16.03	3.14	2.56
July to September	18.95	16.76	2.92	2.62
October to December	22.26	18.28	3.40	2.82
2011	21.67	13.82	3.40	2.22
January to March	21.15	18.02	3.32	2.78
April to June	21.67	19.00	3.40	2.91
July to September	21.31	14.81	3.32	2.22
October to December	18.26	13.82	2.90	2.25
October	18.21	13.82	2.86	2.25
November	18.26	16.83	2.90	2.25
December	18.18	16.99	2.83	2.65
2012				
January	18.41	17.37	2.84	2.70

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February	19.90	18.02	3.16	2.78
March	19.66	18.48	3.09	2.91
April (through April 23)	20.12	18.63	3.07	2.92

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During the year ended December 31, 2011, we did not purchase, sell or redeem any of our H shares.

In addition to our H Shares, our A shares have been listed for trading on the Shanghai Stock Exchange starting from December 22, 2006.

B. Plan of Distribution

Not applicable.

C. Markets

Our H shares are listed on the HKSE under the stock code 00525 and American Depositary Shares representing our H shares are listed on the New York Stock Exchange under the stock code GSH . Our A shares are listed for trading on the Shanghai Stock Exchange under the stock code 601333.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Table of Contents**ITEM 10. ADDITIONAL INFORMATION**

We were established as a joint stock limited company under the Company Law of the PRC on March 6, 1996. Our legal name is _____, and its English translation is Guangshen Railway Company Limited.

A. Share Capital

We issued a total of 2,747,987,000 A shares in our initial public offering of A shares on the PRC domestic market in December 2006, and raised proceeds of approximately RMB 10.0 billion. Each A share has a par value of RMB 1.00 and has been listed for trading on the Shanghai Stock Exchange.

The total number of shares of our Company after the A Share Offering is 7,083,537,000.

As of December 31, 2011, our issued share capital consisted of:

Type of share capital	Number of shares	Percentage of shares (%)
Domestic tradable shares with restriction on sales (A shares)	274,798,700	3.88
Domestic tradable shares without restriction on sales (A shares)	5,377,438,300	75.91
H shares	1,431,300,000	20.2
Total	7,083,537,000	100.00

Public Float

As of April 26, 2012, at least 25% of our total issued share capital was held by the public, as required under the HKSE Listing Rules.

Pre-Emptive Rights

There is no provision in our Articles of Association or under the laws of the PRC which provides for pre-emptive rights of our shareholders.

B. Memorandum and Articles of Association

Described below is a summary of the significant provisions of our Articles of Association as currently in effect. As this is a summary, it does not contain all the information that may be important to you. Our current Articles of Association took effect on June 25, 2009, the full text of which was filed as Exhibit 1.1 to our annual report on Form 20-F filed with the SEC on June 22, 2010.

General

We are a joint stock limited company established in accordance with the Company Law of China, the Rules of the State Council on the Overseas Issuance and Listings and other relevant laws and regulations of the PRC. Our Company was established by way of promotion with approval evidenced by the document Ti Gai Sheng [1995] No. 151 of the PRC's State Commission For Economic Restructuring. We were registered with and obtained a business license from the Administration for Industry And Commerce of Shenzhen, Guangdong Province on March 6, 1996. The number of our business license is Shen Si Zi 4403011022106. Article 12 of our Articles of Association states that our object is to carry on the business of railway transportation.

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Significant Differences between H shares and A shares

Holders of H shares and A shares (also referred to as domestic shares), with minor exceptions, are entitled to the same economic and voting rights. However, our Articles of Association provide that holders of H shares will receive dividends in Hong Kong dollars while holders of A shares will receive dividends in RMB. Other differences between the rights of holders of H shares and A shares relate primarily to ownership and transferability. H shares may only be subscribed for and owned by legal and natural persons of any country other than the PRC (excluding Taiwan, Hong Kong, and Macau), and must be subscribed for, transferred and traded in a foreign currency. Other than the limitation on ownership, H shares are freely transferable in accordance with our Articles of Association. A shares may only be subscribed for and owned by legal or natural persons in the PRC (excluding Taiwan, Hong Kong and Macau), and must be subscribed for and traded in RMB. Transfers of A shares are subject to restrictions set forth under PRC rules and regulations, which are not applicable to H shares. Transfers of A shares owned by our directors or employees are also subject to restrictions under PRC rules and regulations. A shares and H shares are also distinguished by differences in administration and procedure, including provisions relating to notices and financial reports to be sent to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and appointment of dividend receiving agents.

Restrictions on Transferability

H shares may be traded only among foreign investors, and may not be sold to PRC investors (except investors from Hong Kong, Macau and Taiwan). PRC investors (except investors from Hong Kong, Macau and Taiwan) are not entitled to be registered as holders of H shares. Under our Articles of Association, we may refuse to register a transfer of H shares unless:

relevant transfer fees have been paid, if any;

the instrument of transfer only involves H shares;

the stamp duty chargeable on the instrument of transfer has been paid;

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;

if the shares are being transferred to joint owners, the maximum number of joint owners does not exceed four; and

we do not have any lien on the relevant shares.

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Dividends

Unless otherwise resolved by a shareholders' general meeting, we may distribute dividends more than once a year, provided that the amount of interim dividends to be distributed shall not exceed 50% of the distributable profit as stated in our interim profit statement. In accordance with our Articles of Association, our net profit for the purpose of profit distribution will be deemed to be the lesser of the amount determined in accordance with:

PRC accounting standards and regulations; and

international accounting standards or the accounting standards of the countries in which our shares are listed.

Our Articles of Association allow for distributions of dividends in the form of cash or shares, and encourage the Board to first consider a payment of cash dividends as opposed to share dividends. In particular, according to our Articles of Association, interim dividends may be distributed by way of cash dividends. Dividends may only be distributed, however, after allowance has been made in the following sequence:

making up losses;

allocations to the statutory common reserve fund;

allocations to the discretionary common reserve fund upon the approval of shareholders at a general meeting; and

payment of dividends in respect of ordinary shares.

The board of directors shall, in accordance with the laws and administrative regulations of the State (if any) and the Company's operation and development requirements, determine the proportions of allocations to the discretionary common reserve fund and payment of ordinary share dividends subject to approval of shareholders at the general meeting. The Company may not distribute any dividend before making up for its losses and allocating funds to the statutory common reserve fund.

Our Articles of Association require us to appoint on behalf of the holders of H shares a receiving agent to receive on behalf of these shareholders dividends declared and all other moneys in respect of the H shares. The receiving agent appointed shall be a company that is registered as a trust company under the Trustee Ordinance of Hong Kong. Our Articles of Association require that cash dividends in respect of H shares be declared in RMB and paid by us in Hong Kong dollars. If we record no profit for the year, we may not normally distribute dividends for the year.

Voting Rights and Shareholder Meetings

Shareholders' general meetings can be annual shareholders' general meetings or extraordinary general meetings. Shareholders' meetings shall be convened by the board of directors. The board of directors shall convene an annual shareholders' meeting within six months from the end of the preceding accounting year. The shareholders provide us with principal authority at general meetings. We exercise our functions and powers in compliance with our Articles of Association.

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We are not permitted to enter into any contract with any person other than a director, supervisor, general manager, deputy general manager, or other senior officers of the Company whereby the management and administration of the whole of the Company or any material business of the Company is to be handed over to such person without the prior approval of the shareholders in a general meeting.

The board of directors shall convene an extraordinary shareholders meeting within two months if any one of the following circumstances occurs:

the number of directors falls short of the number stipulated in the Company Law of the PRC or our by-laws or is below two-thirds of the number required in our Articles of Association;

our unrecovered losses that have not been made up amount to one-third of our paid-in share capital;

shareholder(s), severally or jointly, holding 10% or more of our issued shares carrying the right to vote make a request in writing to convene an extraordinary general meeting;

the board of directors considers it necessary; or

the supervisory committee proposes to convene such a meeting.

Where we convene a shareholders' general meeting (when we have more than one shareholder), we shall give not less than 45 days prior public notice or other means as specified in our Articles of Association to all shareholders whose names appear in the share register of the items to be considered and the date and venue of the meeting. Any shareholder intending to attend the shareholders' general meeting shall give us a written reply stating his or her intention to attend the meeting 20 days prior to the date of the meeting.

Where the Company convenes an annual general meeting, shareholders who severally or jointly hold more than 3 percent of the Company's shares, may present an extraordinary proposal for the shareholders' general meeting in written form to the Company. If the subject of the extraordinary proposal falls within the functions and powers of a shareholders' general meeting, then it should be included in the agenda of the meeting.

A shareholder extraordinary general meeting shall not resolve any matter not stated in the notice of such meeting. A notice of meeting of shareholders shall:

be given by way of public notice or other means as specified under our Articles of Association;

specify the place, date and the time of the meeting;

state the motions to be discussed at the meeting;

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provide such information and explanations 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 merge the Company with another entity, to repurchase the shares of the Company, to reorganize its 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 the proposal must be properly explained;

contain disclosure of the nature and extent, if any, of material interests of any director, supervisor, general manager, deputy general manager or other senior officers of the Company 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 other shareholders of the same class;

contain the full text of any special resolution proposed to be approved at the meeting;

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 or her and that a proxy need not also be a shareholder; and

state the time within which and the address to which voting proxies for the meeting are to be delivered.

The Company may send the notice to the domestic shareholders by way of public notice published in one or more newspapers designated by the securities regulatory authority under the State Council at least forty-five (45) days before the date of the meeting. After the publication of such notice, all holders of domestic shares shall be deemed to have received the notice of the relevant shareholders' general meeting. Notice of a shareholders' general meeting to holders of overseas-listed foreign-invested shares shall be published on our Company's website (www.gsrc.com) at least forty-five (45) days prior to the date of the meeting. After the publication of such notice, all holders of overseas-listed foreign-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 meeting or the resolutions adopted therein. Where we convene an annual general meeting, we shall include in the agenda of the meeting any resolutions submitted by shareholders (including proxies) who either separately or in aggregate hold more than three percent of the total number of our shares, provided that these resolutions fall within the scope of powers of a shareholders' general meeting.

The following matters shall be resolved by way of ordinary resolution of the shareholders' general meeting:

work reports of the board of directors and the supervisory committee;

profit distribution proposals and loss recovery proposals formulated by the board of directors;

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removal of members of the board of directors and the supervisory committee, their remuneration and methods of payment;

our annual financial budget, final accounts, balance sheet, income statement and other financial statements; and

matters other than those that are required by laws, administrative regulations or our Articles of Association to be adopted by way of special resolution.

The following matters shall be resolved by way of special resolution of the shareholders' general meeting:

increase or reduction of our share capital and the issuance of shares of any class, warrants and other similar securities;

issuance of Company debentures;

division, merger, dissolution and liquidation of the Company;

amendment to our Articles of Association;

alteration to the form of the Company;

acquisition or disposal within one year of material assets exceeding 30% of the total assets of the Company; and

any other matter that, according to an ordinary resolution of the shareholders meeting, may have a significant impact on the Company and requires adoption by way of a special resolution.

Shareholders have the right to attend general meetings of shareholders and to exercise their voting rights, in person or by proxy, in relation to the amount of voting shares they represent. Each share carries the right to one vote. Any share of the Company held by the Company does not carry any voting right.

At any meeting of shareholders a resolution shall be decided by a show of hands unless a poll is demanded before or after any vote by show of hands:

by the chairman of the meeting;

by at least two shareholders who possess the right to vote, present in person or by proxy; or

by one or more shareholders (including proxies) representing either separately or in aggregate, not less than one-tenth of all shares having the right to vote at the meeting.

Unless a poll is demanded, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried 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 favor of or against that resolution, that the resolution has been carried. A demand for a poll may be withdrawn. A poll demanded on the

election of the chairman, or on a question of suspension of the meeting, shall be taken at the meeting immediately. A poll demanded on any other questions shall be taken at such time as the chairman of the meeting directs, and any business other than that on which the poll has been demanded may be proceeded with. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. On a poll taken at a meeting, a shareholder (including their proxies) entitled to two or more votes need not cast all his or her votes in the same way. In the case of a tie, the chairman of the meeting shall be entitled to one additional vote.

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Board of Directors

Where a director is interested in any resolution proposed at a board meeting, the director shall not be present and shall not have a right to vote at the meeting. That director shall also not be counted in the quorum of the relevant meeting.

Our directors' compensation is determined by resolutions approved at shareholders' general meetings. Our directors have no power to approve their own compensation.

Our directors are not required to hold shares of our Company. There is no age limit requirement with respect to retirement or non-retirement of our directors.

At least one-third of our board members shall be independent directors. An independent director is a director who does not act in other capacities in our Company other than as a director, and who does not have any relationship with our Company or our Company's substantial shareholders which may affect the director in making independent and objective judgment. An independent director shall have certain special duties, including, among others, to approve a connected transaction of which the total consideration accounts for more than five percent of the latest audited net asset value of our Company before submission to the board of the directors for discussion, to propose the convening of a board meeting, to engage external auditors or consultants independently, and to make independent opinion on significant events of our Company. To ensure that the independent directors can effectively perform their duties, our Company shall provide them with certain working conditions.

Liquidation Rights

In the event of the termination or liquidation of our Company, our shareholders shall have the right to participate in the distribution of surplus assets of our Company in accordance with the type and number of shares held by those shareholders.

Liability of Shareholders

The liability of holders of our shares for our losses or liabilities is limited to their capital contributions in our Company.

Increases in Share Capital and Preemptive Rights

Our Articles of Association require that approval by a special resolution of the shareholders and by special resolution of holders of domestic shares and H shares at separate shareholder class meetings be obtained prior to authorizing, allotting, issuing or granting shares, securities convertible into shares or options, warrants or similar rights to subscribe for any shares or convertible securities. No approval is required to be obtained from separate class meetings if, but only to the extent that, we issue domestic shares and H shares, either separately or concurrently, in numbers not exceeding 20% of the number of domestic shares and H shares then in issue, respectively, in any 12-month period, as approved by a special resolution of the shareholders. New issues of shares must also be approved by relevant PRC authorities.

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Reduction of Share Capital and Purchase by Us of Our Shares

We may, following the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase any of our issued shares under the following circumstances:

cancellation of shares for capital reduction;

merging with another company that holds our shares;

paying shares to our employees as bonus; or

repurchasing, upon request, any shares held by any shareholder who is opposed to the Company's resolution for merger or spin-off at a shareholders' general meeting.

Any repurchase of shares under items (1) to (3) of the foregoing paragraph shall be approved by shareholders' general meeting of the Company. After repurchase of the shares according to the foregoing paragraph by the Company, the shares repurchased under item 1 shall be cancelled within ten days from the date of the repurchase; and the shares repurchased under items 2 and 4 shall be transferred or cancelled within six months.

The shares repurchased by the Company under item 3 may not exceed five percent of the total of the Company's issued shares. Such repurchase shall be financed by the Company's profit after tax. The shares so repurchased shall be transferred to the employees within one year.

We may not accept our shares as the subject of any pledge.

In the event that the regulatory authorities at the place of listing of our overseas-listed foreign shares have different requirements, such requirements shall prevail.

Subject to approval by PRC securities regulatory authorities and compliance with applicable law, we may carry out a share repurchase by one of the following methods:

under a general offer;

open offer on a stock exchange; or

by off-market contract.

We may, with the prior approval of shareholders in general meeting obtained in accordance with our Articles of Association, repurchase our shares by an off-market contract, and we may rescind or vary such a contract or waive any of our rights under the contract 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 and an agreement to acquire the right to repurchase our shares. We may not assign a contract to repurchase our own shares or any rights provided thereunder.

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Shares repurchased by us shall be canceled and the amount of our registered capital shall be reduced by the par value of those shares. The amount of our registered capital so reduced to the extent that shares are repurchased out of an amount deducted from our distributable profits, shall be transferred to our capital common reserve account.

Unless we are in the process of liquidation:

where we repurchase our shares at par value, the amount of the total par value of shares so repurchased shall be deducted from our book balance distributable profits or out of the proceeds of a new issue of shares made in respect of the repurchase; and

where we repurchase our shares at a premium, an amount equivalent to their total par value shall be deducted from our book balance distributable profits or the proceeds of a new issue of shares made in respect of the repurchase. Payment of the portion in excess of their par value shall be effected as follows:

if the shares being repurchased were issued at par value, payment shall be made out of our book balance distributable profits; and

if the shares being repurchased were issued at a premium, payment shall be made out of our distributable profits or out of proceeds of a new issue of shares made in respect of the repurchase, provided that the amount paid out of the proceeds of the new issue may not exceed the aggregate of premiums received by us on the issue of the shares repurchased or the current balance of our capital common reserve account (inclusive of the premiums from the new issue of shares).

Payment by us in consideration for:

the acquisition of rights to repurchase our shares;

the variation of any contract to repurchase our shares; or

the release of any of our obligations under any contract to repurchase our shares; shall be made out of our distributable profits.

Restrictions on Controlling Shareholders

In addition to obligations imposed by law or required by the stock exchanges on which our shares are listed, a controlling shareholder (as defined below) shall not exercise his or her voting rights in respect of the following matters in a manner prejudicial to the interests of the shareholders generally or any part of our shareholders:

to relieve a director or supervisor of his or her duty to act honestly in our best interests;

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to approve the expropriation, by a director or supervisor (for his or her own benefit or for the benefit of another person), in any guise, of our assets, including without limitation opportunities advantageous to us; or

to approve the expropriation by a director or supervisor (for his or her 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 and except where it was done pursuant to a restructuring submitted to and approved by our shareholders in accordance with our Articles of Association.

Controlling shareholder means a shareholder whose shareholdings represent over 50% of the total share capital of the Company, or if less than 50%, whose entitlement to voting rights is sufficient to materially affect the resolutions at general meetings of the Company.

Changing Rights of a Class of Shareholders

Rights conferred on any class of shareholders in the capacity of shareholders may not be varied or abrogated unless approved by a special resolution of shareholders at a general meeting and by holders of shares of that class at a separate class meeting conducted in accordance with our Articles of Association.

Duties of Directors, Supervisors and Other Senior Officers in Interested Transactions

Where any director, supervisor, general manager, deputy general manager or other senior officers (or an associate thereof) is in any way materially interested in a contract or transaction or arrangement or proposed contract or transaction or arrangement with us (other than his or her contract of service with us), he or she shall declare the nature and extent of his or her interest to the board of directors at the earliest opportunity, whether or not the contract, transaction or proposal or arrangement is subject to the approval of the board of directors.

Unless the interested director, supervisor, general manager deputy general manager or other senior officers has disclosed his or her interests and the contract or transaction is approved by the board of directors at a meeting in which the interested director, supervisor, general manager, deputy general manager or other senior officers has not been counted in the quorum and has refrained from voting, a contract or transaction in which that director, supervisor, general manager, deputy general manager or other senior officers is materially interested is voidable except as against a bona fide party to the contract or transaction acting without notice of the breach of duty by the interested director, supervisor, general manager, deputy general manager or other senior officers.

We shall not directly or indirectly make a loan to or provide any guarantees in connection with a loan to a director, supervisor, general manager, deputy general manager or other senior officers of our Company or of GRGC or any of their respective associates. However, the following transactions are not subject to this prohibition:

the provision by us of a loan or a guarantee of a loan to one of our subsidiaries;

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the provision by us of a loan or a guarantee in connection with a loan or any other funds to any of our directors, supervisors, general managers, deputy general managers or other senior officers to pay expenditures incurred or to be incurred on our behalf by him or her or for the purpose of enabling him or her to perform his or her duties properly, in accordance with the terms of a service contract approved by the shareholders at a general meeting; and

the provision by us of a loan or a guarantee in connection with a loan to any of our directors, supervisors, general managers, deputy general managers or other senior officers or their respective associates on normal commercial terms, provided that the ordinary course of our business includes the lending of money or the giving of guarantees.

Recent Amendments to Our Articles of Association

In 2008, we made some minor amendments to our Articles of Association, which were approved by shareholders at our annual shareholders general meeting held on June 26, 2008. In 2009, we made additional amendments to our Articles of Association, which amendments were approved by shareholders at our annual shareholders general meeting held on June 25, 2009.

C. Material Contracts

Except for the agreements we entered into in connection with the issuance of the Notes and the Framework Agreement we entered into with GRGC, as discussed in ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS B. Liquidity and Capital Resources and ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS, all other material contracts we entered into during the fiscal years of 2010 and 2011 were made in the ordinary course of business.

D. Exchange Controls

The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. Effective January 1, 1994, the dual foreign exchange system in China was abolished in accordance with the notice of the People's Bank of China concerning future reform of the foreign currency control system issued December 1993. The conversion of RMB into U.S. dollars in China currently must be based on the People's Bank of China rate. The People's Bank of China rate is set based on the previous day's Chinese inter-bank foreign exchange market rate and with reference to current exchange rates on the world financial markets. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. On April 14, 2012, the PRC government further allowed the floating band of RMB's trading prices against the U.S. dollar to widen from 0.5% to 1% on each business day effective from April 16, 2012. As of April 26, 2012 this change in policy has resulted in a more than 30% appreciation of the RMB against the U.S. dollar since July 2005.

Any future fluctuation of the RMB against the U.S. dollar (whether due to a decrease in the foreign currency reserves held by the PRC government or any other reason) will have an adverse effect upon the U.S. dollar equivalent and Hong Kong dollar equivalent of our net income and increase the effective cost of foreign equipment and the amount of foreign currency expenses and liabilities. In 2011, due to the continuous appreciation of RMB against U.S. dollar and Hong Kong dollar, we incurred a foreign exchange loss of approximately RMB 2.8 million. We have no plans to hedge our currency exposure in the future. No assurance can be given that the Hong Kong dollar to U.S. dollar exchange rate link will be maintained in the future. Furthermore, any change in exchange rate that has a negative effect on the market for the H shares in either the United States or Hong Kong is likely to result in a similar negative effect on the other market.

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We have been, and will continue to be, affected by changes in exchange rates in connection with our ability to meet our foreign currency obligations and will be affected by such changes in connection with our ability to pay dividends on H shares in Hong Kong dollars and on ADSs in U.S. dollars. As of December 31, 2011, we maintained the equivalent of approximately RMB 106.6 million in U.S. dollar and Hong Kong dollar-denominated balances for purposes of satisfying our foreign currency obligations (*e.g.*, to purchase foreign equipment) and paying dividends to our overseas shareholders. See Note 3 to our audited consolidated financial statements included elsewhere in this annual report. We believe that we have or will be able to obtain sufficient foreign exchange to continue to satisfy these obligations. We do not engage in any financial contract or other arrangement to hedge our currency exposure.

E. Taxation**PRC Taxation*****Tax Basis of Assets***

As of June 30, 1995, our 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 January 1, 1994 to December 31, 2007, income tax payable by PRC domestic enterprises (other than foreign-invested enterprises), including state owned enterprises and joint stock companies, had been governed by the PRC Enterprise Income Tax Provisional Regulations and its implementation measures, or EIT Regulations, which provided for an income tax rate of 33%, unless a lower rate was provided by law or administrative regulations. Our Company was generally subject to tax at a rate of 33% pursuant to the EIT Regulations. However, as a result of our incorporation in the Shenzhen Special Economic Zone, our corporate income tax rate was reduced to 15%. Pursuant to an approval from the Shenzhen Local Tax Bureau dated November 12, 1997, our Company was also entitled to a 50% further reduction of income tax arising from our high-speed train services in 1997, 1998 and 1999. To the extent that our Company engaged in other businesses through its subsidiaries, those other companies were subject to corporate income tax rates of either 15% (Shenzhen or other special economic zones) or 33% (applicable to places other than Shenzhen), depending mainly on their places of incorporation.

The EIT Law took effect on January 1, 2008. According to the EIT Law and the Notice Regarding Implementation of the Preferential Enterprise Income Tax in the Transition Period issued by the State Council, the preferential income tax rate of 15% that was applicable to companies incorporated in Shenzhen and other special economic zones was phased out over five years beginning on January 1, 2008, and after such five-year period, is changed to 25%, *i.e.*, the unified income tax rate applicable to almost all domestic companies in the PRC with minor exceptions. Within the five-year transitional period, the tax rates applicable to those companies which used to enjoy a preferential tax rate of 15% are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively.

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Value Added Tax

Pursuant to the Provisional Regulations of the PRC Concerning Value Added Tax effective from January 1, 1994, which was amended by the State Council on November 10, 2008 and the related implementing rules, our passenger and freight transportation businesses are not subject to value added tax, while our other businesses, such as retail sales of food, beverages and merchandise aboard our trains and in our stations, and some of the businesses conducted by our subsidiaries are subject to value added tax at the rate ranging from 3% to 17%, depending on the scale and nature of the businesses.

Business Tax

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax effective from January 1, 1994, which was amended by the State Council effective from January 1, 2009 and its implementing rules, business tax is imposed on enterprises that provide transportation services in the PRC. Business tax is levied at a rate of 3% or 5% on the revenue of the transport of passengers and goods in or out of the PRC.

Tax on Dividends

For an Individual Investor. According to the Individual Income Tax Law of the PRC, an income tax of 20% shall be withheld on dividend payments from PRC enterprises to an individual. For a foreign individual who is not a resident of the PRC, according to the Notice on the Issues Concerning the Collection and Administration of Individual Income Tax Following the Repeal of Circular 45 issued by the PRC State Tax Bureau, the receipt of dividends from a company in the PRC is normally subject to 10% PRC withholding tax. A foreign individual of countries which have entered into a double taxation agreement with the PRC with an applicable treaty rate which is above 10 percent but below 20 percent will be subject to the treaty rate in the relevant tax treaty. A foreign individual of countries which have not entered into any double taxation agreement with the PRC or in any other case will be subject to 20% PRC withholding tax.

For An Enterprise. According to the EIT Law and its implementing rules, and pursuant to the Notice on the Issues Regarding Withholding of the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident Enterprises issued by State Administration of Taxation on November 6, 2008, when a non-PRC-resident enterprise with no establishment or office in the PRC receives dividends from a company in the PRC, or a non-PRC-resident enterprise with establishment or office in the PRC receives dividends from a company in the PRC, which dividends so received are not effectively connected with such establishment or office, the non-PRC-resident enterprise is normally subject to a PRC withholding tax of 10% under the EIT Law.

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Capital Gains Tax

For An Individual Investor. According to the Notice Concerning the Continuation of Exemption from Individual Income Tax on the Income from Stocks Transfer issued by the PRC Ministry of Finance and the PRC State Tax Bureau on March 30, 1998, effective from January 1, 1997, gains realized by individuals from transferring stocks of listed companies are still not subject to income tax.

For An Enterprise. Pursuant to the EIT law and its implementing rules, when a non-PRC-resident enterprise with no establishment or office in the PRC receives capital gains from its sale of H shares issued by PRC domestic companies, or a non-PRC-resident enterprise with establishment or office in the PRC receives capital gains from its sale of H shares issued by PRC domestic companies but such capital gains so received are not effectively connected with such establishment or office, the non-PRC-resident enterprise is subject to a 10% withholding tax on such capital gains.

Tax Treaties

For non-PRC-resident enterprises with no establishment in the PRC and individuals not resident in the PRC, if their home countries or jurisdictions have entered into double taxation treaties with the PRC, such enterprises and individuals may be entitled to a reduction of any withholding tax imposed on the payment of dividends from a PRC 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 PRC Government for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, together with related protocols, referred to herein as the US-PRC tax treaty, currently limit the rate of PRC withholding tax upon dividends paid by our Company to a U.S. holder 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 U.S. holder arising from the sale or disposition of H shares or ADSs. U.S. holders are advised to consult their tax advisors with respect to these matters.

United States Federal Income Taxation

The following is a general discussion of the material United States federal income tax consequences of purchasing, owning and disposing of the H shares or ADSs if you are a U.S. holder, as defined below, and hold the H shares or ADSs as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code. This discussion does not address all of the United States federal income tax consequences relating to the purchase, ownership and disposition of the H shares or ADSs, and does not take into account U.S. holders who may be subject to special rules including:

banks, insurance companies and financial institutions;

United States expatriates;

tax-exempt entities;

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certain insurance companies;

broker-dealers;

traders in securities that elect to mark to market;

U.S. holders liable for alternative minimum tax;

U.S. holders that own 10% or more of our voting stock;

U.S. holders that hold the H shares or ADSs as part of a straddle or a hedging or conversion transaction; or

U.S. holders whose functional currency is not the U.S. dollar.

This discussion is based on the Code, its legislative history, final, temporary and proposed United States Treasury regulations promulgated thereunder, published rulings and court decisions as in effect on the date hereof, all of which are subject to change, or changes in interpretation, possibly with retroactive effect. In addition, this discussion is based in part upon representations of the depository and the assumption that each obligation in the deposit agreement and any related agreements will be performed according to its terms.

You are a U.S. holder if you are:

a citizen or resident of the United States for United States federal income tax purposes;

a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized under the laws of the United States or any political subdivision thereof;

an estate the income of which is subject to United States federal income tax without regard to its source; or

a trust:

subject to the primary supervision of a United States court and the control of one or more United States persons; or

that has elected to