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

x **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)

Mr. Guo Xiangdong

Telephone: (86-755) 2558-8150

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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)

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	New York Stock Exchange, Inc.
Class H ordinary shares, nominal value RMB 1.00 per share	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	1,431,300,000

(including 212,632,600 H shares in the form of American Depositary Shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x 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 x

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 x 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 x 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 by the International Accounting Standards Board x	Other ¨

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 x

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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.

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 reclassificatiosn 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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	Year ended December 31,					
	2007 RMB	2008 RMB	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

(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.

(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 reinstituted 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.

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.

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.

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 , 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.

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 depositary 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 depositary 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.

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.

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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-Kwoloon 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)

(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 Business	Total Passengers for 2011 (millions)
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

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.

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 Shenhuasheng 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 Guangzhu-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.

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, 2009	2010	Change in 2010 from 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, 2009	2010	Change in 2010 from 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.

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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 Guanghzhou-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 Guanghzhou-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.

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 (*Note a*)	20 to 40 years
Track, bridges and service roads (*Note a*)	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.

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 milllion, 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.

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.

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.

		Payment due by period (RMB thousands)			
Contractual Obligations	**Total**	**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

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.

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 scretary 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.

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

	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.

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.

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;

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.

(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.

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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 of Shares	Number of Shares Held	Shareholding Percentage %
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 of Shares	Percent of Total Capital
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.

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;

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;

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 Guangzhu 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:

	As of December 31, 2009	2010	2011
	(RMB thousands)		
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.

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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	2,404,966	2,487,995	2,721,039
Operating lease rentals paid/payable to the MOR	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:

	As of December 31,		
	2009	2010	2011
	(RMB thousands)		
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

I TEM 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:

	New York Stock Exchange		HKSE	
Calendar Period	High	Low	High	Low
	(USD per ADS)		(HKD per H share)	
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

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.

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 En 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;

- 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.

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;

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.

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.

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 depositary 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 be treated as a United States person under applicable United States Treasury regulations.

If a partnership holds the H shares or ADSs, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership that holds the H shares or ADSs, we urge you to consult your tax advisors regarding the consequences of the purchase, ownership and disposition of the H shares or ADSs.

This discussion does not address any United States federal estate or gift tax consequences, or any state, local or non-United States tax consequences of the purchase, ownership and disposition of the H shares or ADSs.

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We urge you to consult your tax advisors regarding the United States federal, state, local and non-United States tax consequences of the purchase, ownership and disposition of the H shares or ADSs.

In general, if you hold ADRs evidencing ADSs, you will be treated as the owner of the H shares represented by the ADSs. The following discussion assumes that we are not a passive foreign investment company, or PFIC, as discussed under PFIC Rules below.

Distributions on the H shares or ADSs

The gross amount of any distribution (without reduction for any PRC tax withheld) we make on the H shares or ADSs out of our current or accumulated earnings and profits will be includible in your gross income as dividend income when the distribution is actually or constructively received by you, in the case of the H shares, or by the depositary in the case of ADSs. Subject to certain limitations, for taxable years beginning prior to January 1, 2013, dividends paid to non-corporate U.S. holders, including individuals, may be eligible for a reduced rate of taxation if we are deemed to be a qualified foreign corporation for United States federal income tax purposes. A qualified foreign corporation includes:

- a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program; and

- a foreign corporation if its stock with respect to which a dividend is paid (or ADSs backed by such stock) is readily tradable on an established securities market within the United States,

but does not include an otherwise qualified foreign corporation that is a PFIC in the taxable year the dividend is paid or the prior taxable year. We believe that we will be a qualified foreign corporation so long as we are not a PFIC (and were not a PFIC for our prior taxable year) and we are considered eligible for the benefits of the US PRC tax treaty. Our status as a qualified foreign corporation, however, may change.

Distributions by a corporation that exceed its current and accumulated earnings and profits (as determined for United States federal income tax purposes) generally are treated as a return of capital to the extent of a shareholder s basis in the corporation s shares, and thereafter as capital gain. We do not maintain calculations of our current and accumulated earnings and profits as determined for United States federal income tax purposes, and you should expect that the full amount of any distribution to you will be treated as a dividend for United States federal income tax purposes. Any dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from United States corporations. The amount of any distribution of property other than cash will be the fair market value of such property on the date of such distribution.

If we make a distribution paid in Hong Kong dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/U.S. dollar rate on the date such distribution is received by you or by the depositary, regardless of whether you or the depositary convert the distribution into U.S. dollars on such date. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in your income to the date you or the depositary convert the distribution into U.S. dollars will be treated as foreign currency exchange gain or loss that is United States source ordinary income or loss for foreign tax credit limitation purposes.

Subject to various limitations, any PRC tax withheld from distributions in accordance with PRC law, as limited by the US PRC tax treaty, may be creditable against your United States federal income tax liability. For foreign tax credit limitation purposes, dividends paid on the H shares or ADSs will be foreign source income, and will be treated as passive category income or, in the case of some U.S. holders, general category income. You may not be able to claim a foreign tax credit (and instead may claim a deduction) for non-United States taxes imposed on dividends paid on the H shares or ADSs if you (i) have held the H shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss with respect to such shares, or (ii) are obligated to make payments related to the dividends (for example, pursuant to a short sale).

Sale, Exchange or Other Disposition

Upon a sale, exchange or other disposition of the H shares or ADSs, you will recognize a capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H shares or ADSs. Any gain or loss will generally be United States source gain or loss for foreign tax credit limitation purposes. Capital gain of certain non-corporate U.S. holders, including individuals, is generally taxed at reduced rates where the H shares or ADSs have been held more than one year. Your ability to deduct capital losses is subject to limitations.

If any PRC tax is withheld from your gain on a disposition of H shares or ADSs, such tax would only be creditable against your United States federal income tax liability to the extent that you have foreign source income. However, in the event that PRC tax is withheld, a U.S. holder that is eligible for the benefits of the US PRC tax treaty may be able to treat the gain as foreign source income for foreign tax credit limitation purposes.

If you are paid in a currency other than U.S. dollars, any gain or loss resulting from currency exchange fluctuations during the period from the date of the payment resulting from sale, exchange or other disposition to the date you convert the payment into U.S. dollars will be treated as foreign currency exchange gain or loss that is United States source ordinary income or loss for foreign tax credit limitation purposes.

PFIC Rules

In general, a foreign corporation is a PFIC for any taxable year in which, after applying relevant look-through rules with respect to the income and assets of subsidiaries:

- 75% or more of its gross income consists of passive income, such as dividends, interest, rents and royalties; or

- 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income.

We believe that we were not a PFIC for our taxable year ended December 31, 2011 and do not currently believe that we will be treated as a PFIC for the current or subsequent taxable years. However, PFIC status cannot be determined until the close of a taxable year and, accordingly, there can be no assurance that we will not be a PFIC in the current or subsequent taxable years.

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If we were a PFIC in any taxable year that you held the H shares or ADSs, you generally would be subject to special rules with respect to excess distributions made by us on the H shares or ADSs and with respect to gain from a disposition of the H shares or ADSs. An excess distribution generally is defined as the excess of the distributions you receive with respect to the H shares or ADSs in any taxable year over 125% of the average annual distributions you have received from us during the shorter of the three preceding years or your holding period for the H shares or ADSs. Generally, you would be required to allocate any excess distribution or gain from the disposition of the H shares or ADSs ratably over your holding period for the H shares or ADSs. The portion of the excess distribution or gain allocated to a prior taxable year, other than a year prior to the first year in which we became a PFIC, would be taxed at the highest United States federal income tax rate on ordinary income in effect for such taxable year, and you would be subject to an interest charge on the resulting tax liability, determined as if the tax liability had been due with respect to such particular taxable years. The portion of the excess distribution or gain that is allocated to the current year, together with the portion allocated to the years prior to the first year in which we became a PFIC, would be included in your gross income for the taxable year of the excess distribution or disposition and taxed as ordinary income.

The foregoing rules with respect to excess distributions and dispositions may be avoided or reduced if you are eligible for and timely make a valid mark-to-market election. If your H shares or ADSs were treated as shares regularly traded on a qualified exchange for United States federal income tax purposes and a valid mark-to-market election was made, in calculating your taxable income for each taxable year you generally would be required to take into account as ordinary income or loss the difference, if any, between the fair market value and the adjusted tax basis of your H shares or ADSs at the end of your taxable year. However, the amount of loss you would be allowed is limited to the extent of the net amount of previously included income as a result of the mark-to-market election. Your basis in the H shares or ADSs will be adjusted to reflect any such gain or loss. The New York Stock Exchange on which the ADSs are traded is a qualified exchange for United States federal income tax purposes.

Alternatively, a timely election to treat us as a qualified electing fund under Section 1295 of the Code could be made to avoid the foregoing rules with respect to excess distributions and dispositions. You should be aware, however, that if we become a PFIC, we do not intend to satisfy record keeping requirements that would permit you to make a qualified electing fund election.

If you own the H shares or ADSs during any year that we are a PFIC and you recognize gain on a disposition or receive a distribution with respect to the H shares or ADSs, or make a reportable election with respect to such H shares or ADSs, you must file Internal Revenue Service, or IRS, Form 8621. You would also be required to file any other information that is required by the United States Treasury Department. We encourage you to consult your own tax advisor concerning the United States federal income tax consequences of holding the H shares or ADSs that would arise if we were considered a PFIC.

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Backup Withholding and Information Reporting

In general, information reporting requirements will apply to dividends in respect of the H shares or ADSs or the proceeds of the sale, exchange, or redemption of the H shares or ADSs paid within the United States, and in some cases, outside of the United States, other than to various exempt recipients. In addition, you may, under some circumstances, be subject to backup withholding with respect to dividends paid on the H shares or ADSs or the proceeds of any sale, exchange or transfer of the H shares or ADSs, unless you

- fall within various other exempt categories, and, when required, demonstrate this fact; or

- provide a correct taxpayer identification number on a properly completed IRS Form W-9 or a substitute form, certify that you are exempt from backup withholding and otherwise comply with applicable requirements of the backup withholding rules.

Any amount withheld under the backup withholding rules generally will be creditable against your United States federal income tax liability provided that you furnish the required information to the IRS in a timely manner. If you do not provide a correct taxpayer identification number, you may be subject to penalties imposed by the IRS.

Certain U.S. holders who are individuals that hold certain foreign financial assets (which may include the H shares or ADSs) are required to report information relating to such assets, subject to certain exceptions. You should consult your own tax advisors regarding the effect, if any, of these requirements on your ownership and disposition of the H shares or ADSs.

Hong Kong Taxation

The following discussion summarizes the material Hong Kong tax provisions relating to the ownership of H shares or ADSs held by you.

Dividends

Under current practice, no tax will be payable by you in Hong Kong in respect of dividends paid by us.

Taxation of Capital Gains

No capital gain tax is generally imposed in Hong Kong in respect of capital gains from the sale of shares (such as the H shares). However, if trading gains from the sale of property by persons as part of profit making are regarded as carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, such trading gains will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a maximum rate of 15% on unincorporated businesses. Gains from sales of the H shares affected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares realized by persons carrying on a business of trading or dealing in Hong Kong in securities.

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There will be no liability for Hong Kong profits tax in respect of profits from the sale of ADSs (i.e., the profits derived abroad), where purchases and sales of ADSs are effected outside Hong Kong, e.g. on the New York Stock Exchange.

Hong Kong Stamp Duty

Hong Kong stamp duty will be payable by each of the seller and the purchaser for every sale and purchase, respectively, of the H shares. An ad valorem duty is charged at the rate of 0.2% of the consideration of the fair value of the H shares transferred and the relevant contract notes shall be stamped (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HKD 5 is currently payable on an instrument of transfer of H shares.

The withdrawal of H shares when ADSs are surrendered, and the issuance of ADSs when H shares are deposited, may be subject to Hong Kong stamp duty at the rate described above for sale and purchase transactions, if the withdrawal or deposit results in a change of legal and beneficial ownership under Hong Kong law. The issuance of ADSs for deposited H shares issued directly to the depositary or for the account of the depositary should not lead to a Hong Kong stamp duty liability. You are not liable for the Hong Kong stamp duty payable on transfers of ADSs outside of Hong Kong.

Hong Kong Estate Duty

Prior to February 11, 2006, estate duty was levied on the value of property situated in Hong Kong passing or deemed passing on the death of a person. H shares are regarded as property situated in Hong Kong for estate duty purposes. Estate duty was abolished effective from February 11, 2006 and estates of persons who passed away on or after February 11, 2006 are therefore not subject to estate duty.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We filed with SEC in Washington, D.C. a registration statement on Form F-1 (Registration No. 333-3382) under the Securities Act of 1933, as amended, in connection with our global offering in May 1996. The registration statement contains exhibits and schedules. For further information with respect to our Company and our ADSs, please refer to the registration statement and to the exhibits and schedules filed with the registration statement.

Additionally, we are subject to the informational requirements of the Exchange Act of 1934, as amended, or the Exchange Act, and, in accordance with the Exchange Act, we file annual reports on Form 20-F within six months of our fiscal year end, and we will furnish other reports and information under cover of Form 6-K with the SEC. You may review a copy of the registration statement and other information without charge at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also inspect the registration statement and its exhibits and schedules at the office of the New York Stock Exchange, 11 Wall Street, New York, New York 10005. You may also get copies, upon payment of a prescribed fee, of all or a portion of the registration statement from the SEC s public reference room or by calling the SEC on 1-800-SEC-0330 or visiting the SEC s website at www.sec.gov.

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As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements to shareholders.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following paragraphs describe the various market risks to which we were exposed as of December 31, 2010 and 2011.

Currency Risks

We mainly operate in the PRC with most of the transactions settled in RMB. RMB is also the functional currency of our Company. RMB is not freely convertible into other foreign currencies. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. Any monetary assets and liabilities denominated in currencies other than RMB would subject our Company to currency risks. In addition, we are required to pay dividends in Hong Kong dollars in the future when dividends are declared.

The monetary assets and liabilities held by us that are denominated in U.S. dollars and Hong Kong dollars as of December 31, 2010 and 2011 are set forth below.

Monetary assets and liabilities	Currency denomination	As of December 31, 2010	2011
		(RMB thousands)	
Current assets			
Cash and cash equivalents	USD	322	261
Cash and cash equivalents	HKD	103,221	106,054
Other receivables	HKD	549	244

We may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits. We have not used any means to hedge the exposure to foreign exchange risk.

We incurred a foreign exchange loss of RMB 2.8 million for the year ended December 31, 2011. As of December 31, 2011, our assets denominated in Hong Kong dollars and U.S. dollars were translated into RMB at the applicable market exchange rates as of that date and amounted to approximately RMB 106.6 million. If the applicable market exchange rates were to change by 5%, this would result in a change in fair value of approximately RMB 5.3 million in these balances.

While our foreign currency deposits are relatively stable, they are insufficient to pay all dividends and operating expenses, therefore, we bear the risk of exchange rate fluctuations when we convert RMB to pay foreign-currency denominated dividends and operating expenses. However, our management believes that these contingent exposures relating to foreign exchange rate fluctuations have not had and are not likely to have a material effect on our financial position. As a result, we do not enter into any hedging transactions with respect to our exposure to foreign currency movements. Furthermore, we are not aware of any effective financial hedging products that serve as protection against a possible RMB devaluation or appreciation.

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Interest Rate Risks

As of December 31, 2011, funds that we do not need in the short term are generally kept as temporary cash deposits in commercial banks in the form of fixed-term deposits. We do not hold any market risk-sensitive instruments for trading purposes. As we have no significant interest-bearing assets (except for deposits held in banks), our income and operating cash flows are not materially affected by the changes of market interest rates. Our interest rate risk arises mainly from the bonds payable in connection with our issuance in December 2009 of RMB 3.5 billion 4.79% fixed rate notes due 2014, which were issued at a fixed interest rate and exposed us to fair value interest rate risk.

Credit Risks

The carrying amount of cash and cash equivalents, trade and other receivables (excluding prepayments), short-term deposits, and long-term receivables represent our maximum exposure to credit risk in relation to financial assets.

Cash and short term liquid investments are placed with reputable banks. No significant credit risk is expected.

The majority of our accounts receivable balance relate to the rendering of services or sales of products to third party customers. Our other receivable balances mainly arise from services other than the main railway transportation services. We perform ongoing credit evaluations of our customers/debtors financial condition and generally do not require collateral from the customers/debtors account on the outstanding balances. Based on the expected reliability and the timing for collection of the outstanding balances, we maintain a provision for doubtful accounts and actual losses incurred have been within management s expectation.

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

Liquidity Risks

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, our Company s treasury function allows flexibility in funding by maintaining committed credit lines.

We monitor our liquidity reserves (comprises undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flows) on a regular basis. See Note 3 to our audited consolidated financial statements included elsewhere in this annual report, which analyzes our Company s financial liabilities into relevant maturity groups based on the remaining periods at the date of the balance sheet to the contractual maturity date.

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Except as described above and in Note 3 to our audited consolidated financial statements included elsewhere in this annual report, our management believes that as of December 31, 2011, at present and in our normal course of business, we are not subject to any other material market-related risks.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

JPMorgan Chase Bank, N.A. is the depositary for our ADSs. The depositary s office is located at No.13 Building, 4 New York Plaza, New York, NY 10004. On April 25, 2008, JPMorgan Chase Bank, N.A. signed an agreement with Wells Fargo Bank, pursuant to which Wells Fargo Bank will provide the depositary service for our ADSs on behalf of JPMorgan Chase Bank, N.A. Each of our ADRs represents 50 H shares of par value RMB1.00 per share.

In April 2009, we entered into an amendment to our deposit agreement with JPMorgan Chase Bank, N.A., which we initially entered into on May 10, 1996. The revisions include allowing the depositary, in line with the current market practice, to charge the holders of the ADSs a cash distribution fee and an annual administrative fee, the aggregate of which should not exceed US$ 0.02 per ADS in any calendar year. The amendment of the deposit agreement became effective on May 25, 2009. At such effective date, every holder of our ADSs shall be deemed by holding our ADSs to consent and agree to such amendment and to be bound by the deposit agreement and the American Depositary Receipts as amended by such amendment. For further information, see the Form F-6EF we filed with the SEC on April 24, 2009 and the Form 6-K we furnished on April 28, 2009.

Fees Payable by ADS holders

The Depositary may charge each person, US$ 5.00 for each 100 ADSs (or portion thereof) for ADRs issued, delivered, reduced, cancelled or surrendered, as the case may be.

The following additional charges may be incurred by holders of our ADSs:

- a fee of US$ 1.50 per ADR for transfers of ADRs;
- a fee of US$ 0.02 or less per ADS for any cash distribution made, or the cash distribution fee;

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- a fee of US$ 5.00 for each 100 ADSs (or portion thereof) for any security distribution;
- an administration fee of US$ 0.02 per ADS per calendar year (or portion thereof), provided, however, that the aggregate amount of such administration fee and the cash distribution fee shall not exceed US$ 0.02 per ADS in any calendar year;
- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at the request of the ADS holders;
- transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
- expenses of the depositary in connection with the conversion of foreign currencies into U.S. dollars.

We will pay all other charges and expenses of the depositary and its agents (except the custodian) pursuant to the agreements between us and the depositary. The fees described above may be amended from time to time.

Payments Received by Foreign Private Issuer

The depositary has agreed to reimburse certain expenses incurred by us in connection with our ADR program. The depositary reimbursed us, or waived its fees and expenses, of approximately US$ 49,511 for the year ended December 31, 2011.

Direct Payments

The table below sets forth the types of expenses that the depositary has reimbursed us for the year ended December 31, 2011:

Category of Expenses	Amount (US$)
Investor relations	8,678
Broker reimbursements	40,833
NYSE listing fee	
Total	49,511

Indirect Payments

The depositary has also agreed to waive certain fees for standard costs associated with the administration of our ADS program. The table below sets forth those expenses that the depositary waived in the year ended December 31, 2011:

Category of Expenses	Amount (US$)
Fees waived	300,000.00

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our Chairman of the Board, General Manager, Chief Accountant and Company Secretary, evaluated the effectiveness of the design and operation of our Company s disclosure controls and procedures (as defined in the U.S. Securities Exchange Act of 1934, as amended (Exchange Act) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Form 20-F. Based on this evaluation, our Chairman of the Board, General Manager, Chief Accountant and Company Secretary concluded that our Company s disclosure controls and procedures were effective as of December 31, 2011. Our Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file and furnish under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and regulations and such information is accumulated and communicated to our Company s management including the Chairman of the Board, General Manager, Chief Accountant and Company Secretary, as appropriate, to allow timely decision regarding required disclosures.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in U.S. Securities Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our Company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our Company are being made only in accordance with authorizations of management and directors of our Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our Company s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

For the year ended December 31, 2011, under the supervision, and with the participation, of our Chairman of the Board, General Manager, Company Secretary and Chief Accountant, our management has conducted an assessment of the effectiveness of our internal control over financial reporting based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framewor*k. Based on this evaluation, our Company s management has concluded that its internal control over financial reporting was effective as of December 31, 2011.

The effectiveness of our Company s internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers (Certified Public Accountants, Hong Kong), an independent registered public accounting firm, as stated in their report which is included elsewhere in this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Lu Minlin is an audit committee financial expert as defined in Item 16A of Form 20-F. Mr. Lu Minlin and each of the other members of the Audit Committee is an independent director as defined in Section 303A.02 of the NYSE Listed Company Manual.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our Chairman, General Manager, Company Secretary, Chief Accountant and other senior officers, or the Code of Ethics for Senior Management, on April 20, 2004. On April 23, 2008, we amended the Code of Ethics for Senior Management pursuant to Section 404 of the Sarbanes-Oxley Act. On April 29, 2009, we further amended the Code of Ethics for Senior Management in order to further strengthen our corporate governance, regulate the acts of our executive officers and ensure the better performance of duties by our executive officers. According to the amended Code of Ethics for Senior Management, each of our senior officers is required to sign a certificate for the compliance with the Code of Ethics for Senior Management at his/her initial or subsequent election or engagement, and to submit an annual certificate with respect to his/her compliance with the Code of Ethics for Senior Management. A copy of this amended Code of Ethics for Senior Management is filed as Exhibit 11.1 to our annual report on Form 20-F filed with the SEC on June 25, 2009.

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ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Resolutions to appoint PricewaterhouseCoopers (certified public accountants in Hong Kong), or PwC, as our auditor for 2011 have been approved at the annual general meeting of our shareholders held on June 2, 2011.

PwC was our auditor for 2011, 2010 and 2009.

The following table presents the aggregate fees for professional services and other services rendered by PwC to us in 2010 and 2011.

	2010	2011
	(RMB millions)	
Audit Fees	8.68	7.80
Audit-related Fees		
Tax Fees		
All Other Fees		
Total	8.68	7.80

Notes:

1. Traveling expenses and tax fees are included in the audit fees and do not require additional payment.
2. As of December 31, 2011, there did not exist any amount that became payable but remained outstanding.

All non-audit services to be provided by our independent registered public accountants, PwC, must be approved by our audit committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

During the year ended December 31, 2011, there was no purchase, sale or redemption of our H shares or ADSs by us, or any of our subsidiaries.

ITEM 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Under the NYSE s corporate governance listing standards, we are required to disclose any significant ways in which our governance practices differ from those followed by U.S. domestic companies under the NYSE listing standards. There are no significant differences in our corporate governance practices compared to those followed by a U.S. domestic company under the NYSE listing standards, except for the following:

- we do not have the majority of our board of directors comprised of independent directors as defined under Section 303A.02 of the NYSE Manual;

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- we do not have a nominating committee or a corporate governance committee similar to that required for U.S. domestic companies;

- we do not have a compensation committee wholly made up of independent directors. Our remuneration committee currently consists both executive directors and independent non-executive directors with the independent non-executive directors making up the majority of such committee;

- instead of having formal corporate governance guidelines similar to those required for U.S. domestic companies, we have, in accordance with applicable PRC laws and regulations and the HKSE Listing Rules, adopted the Articles of Association, the General Meeting System, the Working Ordinance for the Board of Directors, the Working Ordinance for the supervisory committee, the Working Ordinance for the General Manager, the Capital Management Measures, the Investment Management Measures, the Code of Ethics for Senior Officers and the Audit Committee Charter that contain provisions addressing (i) director qualification standards and responsibilities; (ii) key board committee responsibilities; (iii) director access to management and, as necessary and appropriate, independent advisors; (iv) director compensation; (v) management succession and (vi) director orientation and continuing education;

- as a company listed on the HKSE, we are required to comply with applicable corporate governance and other related requirements of the HKSE Listing Rules, including the Corporate Governance Code, unless an exemption is available; and

- we have not adopted a set of formal code of business conduct and ethics for our directors, officers and employees similar to that required for U.S. domestic companies. We have implemented code of business conduct and ethics for senior management, including our General Manager, Deputy General Manager, Chief Accountant and Company Secretary. In addition, our directors are required to comply with the Model Code for Securities Transactions by Directors of Listed Companies set out in the HKSE Listing Rules, which sets out standards with which directors are required to comply with respect to transactions involving our securities.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

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PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide the financial statements and related information specified in ITEM 18 in lieu of ITEM 17.

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 to F-75 following ITEM 19.

ITEM 19. EXHIBITS

(a) See pages F-1 to F-75 following this item.

(b) Index of Exhibits

Documents filed as exhibits to this annual report:

Exhibit Number	Description
1.1	Amended and Restated Articles of Association*****
2.1	Form of Amendment No. 1 to Deposit Agreement*
2.2	Form of American Depositary Receipt*
4.1	Land Lease Agreement dated November 15, 2004 between Guangshen Railway Company Limited and Guangzhou Railway (Group) Company**
4.2	Master comprehensive services agreements dated November 5, 2007 between Guangshen Railway Company Limited and each of GRGC, GEDC and Yangcheng Railway Company***
4.3	English summary of certain material terms of the RMB 3.5 billion of 4.79% fixed rate notes due 2014*****
7.1	Statements explaining how certain ratios are calculated in this annual report
8.1	List of subsidiaries of Guangshen Railway Company Limited as of December 31, 2011
11.1	Code of Ethics for the Senior Management as amended on April 29, 2009****
12.1	Section 302 principal executive officers and principal financial officer s certifications
13.1	Certifications of principal executive officers and principal financial officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002

* Incorporated by reference from the Registrant s Form F-6EF filed with the SEC on April 24, 2009.

** Incorporated by reference from the Registrant s annual report on Form 20-F filed with the SEC on June 28, 2005.

*** Incorporated by reference from the Registrant s annual report on Form 20-F filed with the SEC on June 26, 2008.

**** Incorporated by reference from the Registrant s annual report on Form 20-F filed with the SEC on June 25, 2009.

***** Incorporated by reference from the Registrant s annual report on Form 20-F filed with the SEC on June 22, 2010.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

GUANGSHEN RAILWAY COMPANY LIMITED

Date: April 26, 2012

By: /s/ Li Wenxin
Li Wenxin
Chairman of the Board of Directors

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INDEX TO FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Guangshen Railway Company Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated comprehensive income statements, consolidated cash flow statements and the consolidated statements of changes in equity present fairly, in all material respects, the financial position of Guangshen Railway Company Limited and its subsidiaries (the Group) at December 31, 2010 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as at December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report On Internal Control over Financial Reporting in Item 15 appearing on pages 100 and 101 of the 2011 Annual Report . Our responsibility is to express opinions on these financial statements and on the Group s internal control over financial reporting based on our integrated audits . We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) . Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

PricewaterhouseCoopers, 22/F Prince s Building, Central, Hong Kong

T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers

Hong Kong

April 26, 2012

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2010 AND 2011

(Amounts in thousands)

			December 31	
	Note	2010 RMB	2011 RMB	2011 US$*
ASSETS				
Non-current assets				
Fixed assets	6	24,466,130	23,987,080	3,813,526
Construction-in-progress	7	752,862	911,962	144,986
Prepayments for fixed assets and construction-in-progress		21,650	16,986	2,700
Leasehold land payments	8	560,391	544,403	86,551
Goodwill	9	281,255	281,255	44,715
Investments in associates	11	120,661	125,920	20,019
Deferred tax assets	12	112,621	108,079	17,183
Deferred employee costs	13	5,964	1,800	286
Available-for-sale investments	16	53,826	53,826	8,557
Long-term receivable	17	35,122	34,108	5,423
		26,410,482	26,065,419	4,143,946
Current assets				
Materials and supplies	18	255,079	330,736	52,581
Trade receivables	19	592,819	613,999	97,614
Prepayments and other receivables	20	78,564	144,436	22,963
Short-term deposits	21	608,500	3,686,000	586,010
Cash and cash equivalents	21,35(c)	2,659,058	1,366,757	217,291
		4,194,020	6,141,928	976,459
Total assets		30,604,502	32,207,347	5,120,405
Equity				
Capital and reserves attributable to the Company s equity holders				
Share capital	22	7,083,537	7,083,537	1,126,159
Share premium		11,564,581	11,564,581	1,838,566
Other reserves	23	2,087,957	2,269,095	360,746
Retained earnings		3,431,942	4,417,393	702,288
		24,168,017	25,334,606	4,027,759
Non-controlling interests		54,559	52,802	8,395
Total equity		24,222,576	25,387,408	4,036,154
Liabilities				
Non-current liabilities				
Deferred income related to government grants	24	95,093	96,022	15,266
Bonds payable	25	3,471,994	3,478,568	553,031
Employee benefits obligations	26	197,386	168,276	26,753

		3,764,473	3,742,866	595,050
Current liabilities				
Trade payables	27	1,174,644	1,064,741	169,275
Payables for fixed assets and construction-in-progress		477,806	814,129	129,432
Dividends payable		54	25	4
Income tax payable		181,465	316,731	50,355
Accruals and other payables	28	783,484	881,447	140,135
		2,617,453	3,077,073	489,201
Total liabilities		6,381,926	6,819,939	1,084,251
Total equity and liabilities		30,604,502	32,207,347	5,120,405

The accompanying notes are an integral part of these consolidated financial statements.

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

Chairman General Manager Chief Accountant

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

(Amounts in thousands, except per share and per ADS data)

	Note	Years ended December 31			
		2009 RMB (Note 41)	2010 RMB (Note 41)	2011 RMB	2011 US$*
Revenue from Railroad Businesses					
Passengers	41	6,841,659	7,377,145	8,026,512	1,276,075
Freight	41	1,164,851	1,315,347	1,386,753	220,469
Railway network usage and other transportation related services	41	3,504,979	3,888,367	4,255,996	676,629
		11,511,489	12,580,859	13,669,261	2,173,173
Revenue from other businesses		874,268	903,589	1,021,574	162,413
Total revenue		12,385,757	13,484,448	14,690,835	2,335,586
Operating expenses					
Railroad businesses					
Business tax		(266,951)	(312,265)	(369,115)	(58,683)
Labour and benefits	29	(2,277,057)	(2,662,299)	(2,973,529)	(472,738)
Equipment leases and services		(2,974,805)	(3,235,868)	(3,604,408)	(573,039)
Land use right leases	37(b)	(51,200)	(52,400)	(53,600)	(8,521)
Materials and supplies		(1,395,333)	(1,457,769)	(1,530,659)	(243,348)
Repair and facilities maintenance costs, excluding materials and supplies		(588,331)	(828,438)	(647,120)	(102,881)
Depreciation of fixed assets		(1,267,907)	(1,325,032)	(1,344,927)	(213,820)
Amortization of leasehold land payments		(15,001)	(15,001)	(15,001)	(2,385)
Social services charges		(373,321)	(144,750)	(115,190)	(18,313)
Utility and office expenses		(111,816)	(125,989)	(128,795)	(20,476)
Others		(329,556)	(321,685)	(340,789)	(54,179)
		(9,651,278)	(10,481,496)	(11,123,133)	(1,768,383)
Other businesses					
Business tax		(24,671)	(26,359)	(32,148)	(5,111)
Labour and benefits	29	(347,842)	(373,420)	(414,326)	(65,871)
Materials and supplies		(318,123)	(334,501)	(391,673)	(62,269)
Depreciation of fixed assets		(24,783)	(24,178)	(25,034)	(3,980)
Amortization of leasehold land payments		(988)	(987)	(987)	(157)
Utility and office expenses		(80,960)	(86,329)	(113,700)	(18,076)
		(797,367)	(845,774)	(977,868)	(155,464)
Total operating expenses		(10,448,645)	(11,327,270)	(12,101,001)	(1,923,847)
Other expense, net	30	(16,808)	(47,060)	(25,786)	(4,100)
Profit from operations		1,920,304	2,110,118	2,564,048	407,639

Finance costs	31	(236,287)	(186,172)	(190,970)	(30,361)
Share of results of associates	11	773	1,361	5,259	836
Profit before income tax		1,684,790	1,925,307	2,378,337	378,114
Income tax expense	32	(343,403)	(440,389)	(575,965)	(91,568)
Profit for the year		1,341,387	1,484,918	1,802,372	286,546

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

(Amounts in thousands, except per share and per ADS data)

	Note	Years ended December 31, 2009 RMB	2010 RMB	2011 RMB	2011 US$*
Profit for the year		1,341,387	1,484,918	1,802,372	286,546
Other comprehensive income, net of tax					
Total comprehensive income for the year, net of tax		1,341,387	1,484,918	1,802,372	286,546
Profit attributable to:					
Equity holders of the Company		1,342,450	1,486,062	1,804,107	286,821
Non-controlling interests		(1,063)	(1,144)	(1,735)	(275)
		1,341,387	1,484,918	1,802,372	286,546
Total comprehensive income attributable to:					
Equity holders of the Company		1,342,450	1,486,062	1,804,107	286,821
Non-controlling interests		(1,063)	(1,144)	(1,735)	(275)
		1,341,387	1,484,918	1,802,372	286,546
Earnings per share for profit attributable to the equity holders of the Company during the year					
- Basic and diluted	33	RMB0.19	RMB0.21	RMB0.25	USD0.04
Earnings per equivalent ADS					
- Basic and diluted		RMB9.48	RMB10.49	RMB12.73	USD2.02

The accompanying notes are an integral part of these consolidated financial statements.

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

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

(Amounts in thousands)

	Note	Year ended December 31, 2009 RMB	2010 RMB	2011 RMB	2011 US$*
Cash flows from operating activities:					
Cash generated from operations	35(a)	3,108,375	3,889,382	3,933,083	625,291
Interest paid		(220,288)	(167,650)	(167,650)	(26,653)
Income tax paid		(270,554)	(390,274)	(436,375)	(69,376)
Net cash generated from operating activities		2,617,533	3,331,458	3,329,058	529,262
Cash flows from investing activities:					
Payments for acquisition of fixed assets and construction-in-progress and prepayment for fixed assets, net of related payables		(1,639,674)	(1,158,399)	(943,390)	(149,983)
Proceeds from disposal of fixed assets and construction-in-progress	35(b)	28,349	31,156	557	89
Proceeds from disposal of subsidiary				144	23
Government grants received				4,100	652
Interest received		24,440	29,127	28,203	4,484
Addition on available-for-sale investments		(7,500)			
Increase in short-term deposits with maturities more than three months, net		(506,700)	(94,500)	(3,077,500)	(489,269)
Dividends received		4,931	3,853	4,263	678
Net cash used in investing activities		(2,096,154)	(1,188,763)	(3,983,623)	(633,326)
Cash flows from financing activities:					
Proceeds from bonds issuance		3,499,093			
Repayments of borrowings		(3,900,000)			
Addition from non-controlling interests		1,000			
Dividends paid to non-controlling interests shareholders		(88)	(5)	(36)	(6)
Dividends paid to the Company s shareholders		(566,685)	(566,683)	(637,533)	(101,356)
Payments for management fee of bond payables			(32,600)	(167)	(27)
Net cash used in financing activities		(966,680)	(599,288)	(637,736)	(101,389)
Net (decrease)/increase in cash and cash equivalents		(445,301)	1,543,407	(1,292,301)	(205,453)
Cash and cash equivalents, at beginning of year		1,560,952	1,115,651	2,659,058	422,744
Cash and cash equivalents, at end of year	35(c)	1,115,651	2,659,058	1,366,757	217,291

The accompanying notes are an integral part of these consolidated financial statements.

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

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

(Amounts in thousands)

	Attributable to equity holders							
	Share capital RMB (Note 22)	Share premium RMB	Statutory surplus reserve RMB (Note 23)	Discretionary surplus reserve RMB (Note 23)	Retained earnings RMB	Total RMB	Non-controlling interests RMB	Total equity RMB
Balance at January 1, 2009	7,083,537	11,564,501	1,493,170	304,059	2,027,524	22,472,791	55,948	22,528,739
Total comprehensive income					1,342,450	1,342,450	(1,063)	1,341,387
Appropriations from retained earnings (Note 23)			134,902		(134,902)			
Dividends relating to 2008					(566,683)	(566,683)	(88)	(566,771)
Addition from non-controlling interests		80				80	920	1,000
Balance at December 31, 2009	7,083,537	11,564,581	1,628,072	304,059	2,668,389	23,248,638	55,717	23,304,355
Balance at January 1, 2010	7,083,537	11,564,581	1,628,072	304,059	2,668,389	23,248,638	55,717	23,304,355
Total comprehensive income					1,486,062	1,486,062	(1,144)	1,484,918
Appropriations from retained earnings (Note 23)			155,826		(155,826)			
Dividends relating to 2009					(566,683)	(566,683)	(14)	(566,697)
Balance at December 31, 2010	7,083,537	11,564,581	1,783,898	304,059	3,431,942	24,168,017	54,559	24,222,576
Balance at January 1, 2011	7,083,537	11,564,581	1,783,898	304,059	3,431,942	24,168,017	54,559	24,222,576
Total comprehensive income					1,804,107	1,804,107	(1,735)	1,802,372
			181,138		(181,138)			

Appropriations from retained earnings (Note 23)								
Dividends relating to 2010					(637,518)	(637,518)	(22)	(637,540)
Balance at December 31, 2011	7,083,537	11,564,581	1,965,036	304,059	4,417,393	25,334,606	52,802	25,387,408
Balance at December 31, 2011(*)	US$ 1,126,159	US$ 1,838,566	US$ 312,406	US$ 48,340	US$ 702,288	US$ 4,027,759	US$ 8,395	US$ 4,036,154

The accompanying notes are an integral part of these consolidated financial statements.

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

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

1 GENERAL INFORMATION

Guangshen Railway Company Limited (the Company) was established as a joint stock limited company in the People s Republic of China (the PRC) on March 6, 1996. On the same date, the Company assumed the business operations of certain railroad and other related businesses (collectively the Businesses) that had been undertaken previously by its predecessor, Guangshen Railway Company (the Predecessor) and certain of its subsidiaries; and Guangzhou Railway (Group) Company (the Guangzhou Railway Group) and certain of its subsidiaries prior to the formation of the Company.

The Predecessor is controlled by and is under the administration of the Guangzhou Railway Group. Pursuant to a restructuring agreement entered into between the Guangzhou Railway Group, the Predecessor and the Company in 1996 (the Restructuring Agreement), the Company issued to the Guangzhou Railway Group 100% of its equity interest in the form of 2,904,250,000 ordinary shares (the State-owned Domestic Shares) in exchange for the assets and liabilities associated with the operations of the Businesses (the Restructuring). After the Restructuring, the Predecessor changed its name to Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company.

In May 1996, the Company issued 1,431,300,000 shares, representing 217,812,000 H Shares (H Shares) and 24,269,760 American Depositary Shares (ADSs , one ADS represents 50 H Shares) in a global public offering for cash of approximately RMB 4,214,000,000 in order to finance the capital expenditure and working capital requirements of the Company and its subsidiaries (collectively defined as the Group).

In December 2006, the Company issued 2,747,987,000 A Shares on the Shanghai Stock Exchange through an initial public offering of shares in order to finance the acquisition of the business and related assets and liabilities associated with the railway transportation business of Guangzhou Railway Group Yangcheng Railway Enterprise Development Company (Yangcheng Railway Business), a wholly owned subsidiary of Guangzhou Railway Group which operates a railway line between the cities of Guangzhou and Pingshi in the Southern region of the PRC.

The principal activities of the Group are the provision of passenger and freight transportation on railroad. The Group also operates certain other businesses, which principally include services offered in railway stations; and sales of food, beverages and merchandises on board the trains and in the railway stations.

The registered address of the Company is No. 1052 Heping Road, Shenzhen, Guangdong Province, the People s Republic of China. The business license for the Company will expire until 2056.

As at December 31, 2011, the Company had in total approximately 33,400 employees, representing an increase of 1,200 as compared with that of December 31, 2010.

The financial statements were authorised for issue by the board of directors of the Company on April 26, 2012.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

1 GENERAL INFORMATION (CONTINUED)

The English names of all companies listed in the financial statements are direct translations of their registered names in Chinese.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2011:

IAS 24 (Revised), Related Party Disclosures is effective for annual periods beginning on or after January 1, 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government.

Amendment to IFRS1 Limited exemption from comparative IFRS7 disclosures for first-time adopters . The amendment is to provide first-time adopters with the same transition provisions as included in the March 2009 amendment to IFRS7 in relation to relief from presenting comparative information that ended before December 31, 2009 for new fair value disclosures requirements. It is effective for annual periods beginning on or after July 1, 2010 but there is no impact on the Company because it is not a first time adopter of IFRS.

Annual improvement project published in 2010 to amend the following standards:

IFRS 7 Financial Instruments: Disclosures

IAS 1 Presentation of Financial Statements

Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group (continued)

IAS 34 Interim Financial Reporting

IFRIC Int 13 Customer Loyalty Programmes

IFRS 1 First-time Adoption of International Financial Reporting Standards

IFRS 3 (Revised) Business Combinations

Except for the improved IFRS1, First-time Adoption of IFRS that has been early adopted by the Group in 2010, the amendments do not have significant impact on the Group s consolidated financial statements.

(b) Standards, amendments and interpretations to existing standards effective in 2011 but not relevant to the Group:

Amendment to IAS 32 Classification of rights issues is effective for annual periods beginning on or after February 1, 2010. This is not currently applicable to the Group, as it has not made any rights issue.

Amendment to IFRIC Int 14 Prepayments of a minimum funding requirement is effective for annual period beginning on or after January 1, 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

IFRIC Int 19 Extinguishing financial liabilities with equity instruments is effective for annual periods beginning on or after July 1, 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning January 1, 2011 and have not been early adopted:

	Effective for annual periods beginning on or after
IFRS 1 Severe hyperinflation and removal of fixed dates for first-time adopters - Amendment	July 1, 2011
IFRS 7 Disclosures - Transfers of financial assets - Amendment	July 1, 2011
IAS 12 Deferred tax: Recovery of underlying assets - Amendment	January 1, 2012
IAS 1 Presentation of financial statements - Amendment	July 1, 2012
IFRS 10 Consolidated financial statements - Amendment	January 1, 2013
IFRS 11 Joint arrangements - Amendment	January 1, 2013
IFRS 12 Disclosures of interests in other entities - Amendment	January 1, 2013
IFRS 13 Fair value measurement - Clarification	January 1, 2013
IAS 19 Employee benefits - Amendment	January 1, 2013
IAS 28 Investment in associates and joint ventures - Amendment	January 1, 2013
IAS 27 (revised 2011) Separate financial statements	January 1, 2013
IFRS 7 Financial instruments: Disclosures - Offsetting financial assets and financial liabilities - Amendment	January 1, 2013
IFRIC - Int 20 Stripping costs in the production phase of a surface mine	January 1, 2013
IAS 32 Financial instruments: Presentation - Offsetting financial assets and financial liabilities - Amendment	January 1, 2014
IFRS 9, Financial instruments - Classification and Measurement	January 1, 2015
IFRS 7 and IFRS 9 Mandatory effective date and transition disclosures - Amendment	January 1, 2015

The directors of the Company are in the process of making an assessment of the impact of these new/revised standards to the financial statements of the Group.

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest s proportionate share of the recognised amounts of acquiree s identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)
Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) Changes in ownership interests in subsidiaries without change of control
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries
When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor s share of the profit or loss of the investee after the date of acquisition. The Group s investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group s share of post-acquisition profit or loss is recognised in the comprehensive income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of result of associates in the comprehensive income statement.

Profits or losses and other comprehensive income resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group s financial statements only to the extent of unrelated investor s interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior executives that make strategic decisions.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency transaction

(a) Functional and presentation currency

Items included in the financial statements of each of the Group s entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Renminbi (RMB), which is the Company s functional and the Group s presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the comprehensive income statement.

Foreign exchange gains and losses are presented in the consolidated comprehensive income statement within Finance costs .

2.6 Fixed assets

Fixed assets are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items (for the case of fixed assets acquired by the Company from Predecessor during the Restructuring, the revaluated amount in the Restructuring was deemed costs).

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

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.6 Fixed assets (continued)

Depreciation is calculated using the straight-line method to allocate 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 (Note a)	20 to 40 years
Tracks, bridges and service roads (Note a)	16 to 100 years
Locomotives and rolling stock	20 years
Communications and signalling 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 the initial period of land use right operating leases (the Operating Lease Term), on which these assets are located (Notes 2.8 and 37(b)).

Pursuant to the relevant laws and regulations in the PRC governing the land use right lease grants, the Group has the right to renew the respective leases up to a period not less than 50 years with additional cost paid. This right can be exercised within one year before the expiry of the initial Lease Term, and can only be denied if such renewals are considered to be detrimental to the public interest. Accordingly, the directors of the Company consider that the approval process to be perfunctory. In addition, based on the provision of the land use right operating lease agreement entered into with the single largest shareholder (details contained in Note 37(b)), the Company can renew the lease at its own discretion upon expiry of the Operating Lease Term. Based on the above considerations, the directors have determined the estimated useful lives of these assets to extend beyond the initial Lease Term as well as the Operating Lease Term.

The assets residual values and estimated useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset s carrying amount is written down immediately to its recoverable amount if the asset s carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.7 Construction-in-progress

Construction-in-progress represents buildings, tracks, bridges and service roads, mainly includes the construction related costs for the associated facilities of the existing railway line of the Group. Construction-in-progress is stated at cost, which includes all expenditures and other direct costs, site restoration costs, prepayments attributable to the construction and interest charges arising from borrowings used to finance the construction during the construction period, less impairment loss. Construction-in-progress is not depreciated until such assets are completed and ready for their intended use.

2.8 Leasehold land payments

The Group acquired the right to use certain parcels of land for certain of its rail lines, stations and other businesses. The payment paid for such land represents pre-paid lease payments, which are amortised over the lease terms of 36.5 to 50 years using the straight-line method. Pursuant to the relevant laws and regulations in the PRC governing the land use right lease grant, the Group has the right to extend and renew the lease for a period not less than 50 years. This right can be exercised within one year before the expiry of the initial Lease Term, and can only be denied if such renewals are considered to be detrimental to public interest. The Group considers the approval process to be perfunctory and the renewal is reasonably assured.

2.9 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 the Group s share of identifiable net assets acquired. Goodwill arising from acquisitions of subsidiaries business is disclosed separately on the Balance Sheet.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the 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.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Other than loans and receivables and available-for-sale financial assets, the Group did not hold any financial assets carried at fair value through profit or loss during the year ended December 31, 2010 and 2011.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group s loans and receivables comprise long-term receivables , trade and other receivables , short term deposits and cash and cash equivalents in the balance sheet (Notes 2.16 and 2.17).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (continued)

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are subsequently carried at fair value, except for those investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which shall be measured at cost. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the comprehensive income statement as gains and losses from investment securities .

Dividends on available-for-sale equity instruments are recognised in the comprehensive income statement as part of other income when the Group s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. In case of unlisted equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably determined via valuation techniques, they are measured at cost, subject to impairment review.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

Significant financial difficulty of the issuer or obligor;

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

The Group, 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 reorganisation;

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;

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

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as 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 financial asset s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the comprehensive income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor s credit rating), the reversal of the previously recognised impairment loss is recognised in the comprehensive income statement.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.13 Impairment of financial assets (continued)

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the separate comprehensive income statement. Impairment losses recognised in the separate comprehensive income statement on equity instruments are not reversed through the separate comprehensive income statement.

2.14 Deferred employee costs

(a) Deferred employee costs from housing benefits

The Group implemented a scheme (the Scheme) for selling staff quarters to its employees in 2000. Under the Scheme, the Group sold certain staff quarters to their employees at preferential prices in the form of housing benefits provided to these employees. The total housing benefits (the Benefits), which represent the difference between the net book value of the staff quarters sold and the proceeds collected from the employees, are expected to benefit the Group at least over 15 years, which was determined according to the contractual service period of the employees participating in the Scheme. Upon the implementation of the Scheme in 2000, the Benefits were recorded as deferred employee costs and the balance is then amortised over the contractual service period of the employees participating in the Scheme.

By the end of December 31, 2010, all the deferred employee costs from housing benefits have been recognised in operating expenses (see Note 13).

(b) Other long-term deferred employee costs

Other long-term deferred employee costs are amortised over their estimated useful lives.

2.15 Materials and supplies

Materials and supplies are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Materials and supplies are charged as fuel costs and repair and maintenance expenses when consumed, or capitalised to fixed assets when the items are installed with the related fixed assets, whichever is appropriate. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 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 in 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 presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.17 Cash and cash equivalents

Cash and cash equivalents include cash in hand; deposits held at call with banks; and other short-term highly liquid investments with original maturities of three months or less.

2.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. 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 presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

The Group derecognises financial liability when, and only when, the Group s obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.20 Borrowings

Borrowings (including bonds payable) are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost; and any difference between proceeds (net of transaction costs) and the redemption value is recognised in the comprehensive income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.22 Current and deferred income tax

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

(a) Current income tax

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 countries where the Company s subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.22 Current and deferred income tax (continued)

(b) Deferred income tax
Inside basis differences

Deferred income tax is recognised, 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 nor 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 realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Outside basis differences

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

(c) Offsetting
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 taxes 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.23 Employee benefits

(a) Defined contribution plan

The Group pays contributions to defined contribution schemes operated by the local government for employee benefits in respect of pension and housing, etc. The Group has no further payment obligations once the contributions have been paid. The contributions to the defined contribution schemes are recognised as staff costs when they are due.

(b) Termination benefits

Termination benefits are payable when selected employees who meet certain criteria accept voluntary redundancy in exchange for these benefits, with specific approval granted by management of the Group. The Group recognises retirement benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide retirement benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.24 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.25 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 the Group s activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises 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 the Group s activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transactions and the specifics of each arrangement.

(a) Revenue from railway business

Revenue from railway business includes revenue from passenger and freight services, 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 recognised when the services are rendered and revenue can be reliably measured.

(b) Revenue from other businesses

Revenue from other business principally includes services offered in railway stations, sales of food, beverages and merchandises on board the trains and in the railway stations. Revenue from other business 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.

(c) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognised using the original effective interest rate.

(d) Dividend income

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

(e) Rental income

Revenue from operating lease arrangements is recognised on a straight-line basis over the period of the respective leases.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.26 Government grants

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

Government grants relating to costs are deferred and recognised 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.

2.27 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the comprehensive income statement on a straight-line basis over the period of the lease.

2.28 Dividend distribution

Dividend distribution to the Company s shareholders is recognised as a liability in the Group s financial statements in the period in which the dividends are approved by the Company s shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factor

The Group s activities expose it to a variety of financial risks: price risk, foreign currency risk, cash flow and fair value interest rate risk, credit risk, and liquidity risk. The Group s overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group.

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factor (continued)

(a) Price risk

The Group is exposed to price risk because of investments held by the Group and classified as available-for-sale on the consolidated balance sheet.

To manage its price risk arising from investments in equity interests, the Group diversifies its portfolio. Diversification of the portfolio is made in accordance with the limits set by the Group.

(b) Foreign currency risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. RMB is also the functional currency of the Company and its subsidiaries. RMB is not freely convertible into other foreign currencies. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. Any foreign currency denominated monetary assets and liabilities other than in RMB would subject the Group to foreign exchange exposure.

The Group s objective of managing the foreign currency risk is to minimise potential adverse effects arising from foreign transaction movements. Depending on volatility of specific foreign currency exposed, measures are taken by management to manage the foreign currency positions.

The following table shows the Group s exposures to foreign currency rate fluctuation arising from foreign currency denominated monetary assets and liabilities:

Monetary assets and liabilities	Currency denomination	As at December 31, 2010 RMB 000	2011 RMB 000
Cash and cash equivalents	USD	322	261
Cash and cash equivalents	HKD	103,221	106,054
Other receivables	HKD	549	244

The Group may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with monetary assets shown above. The Group has not used any means to hedge the exposure.

As at December 31, 2011, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, profit before tax for the year would have been RMB 5,300,000 (2010: RMB 5,200,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD-denominated cash in banks. The impact of exchange fluctuations of USD is not significant.

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factor (continued)

(c) Cash flow and fair value interest rate risk

Other than deposits held in banks, the Group does not have significant interest-bearing assets. The average interest rate of deposits held in banks in the PRC throughout the year was approximately 2.12% (2009: 1.27% and 2010: 0.87%). Any change in the interest rate promulgated by the People s Bank of China from time to time is not considered to have a significant impact to the Group.

The Group s interest rate risk which affects its income and operating cash flows mainly arises from bonds payable. The bonds bear interest at fixed rates, and expose the Group to fair value interest rate risk.

(d) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, short-term deposits, trade and other receivables (excluding prepayments) and long-term receivable.

The detailed analysis of credit risk is included in Note 15.

There were no other financial assets carrying a significant exposure to credit risk.

(e) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Management monitors rolling forecasts of the Group s liquidity reserves(cash and cash equivalents) on the basis of expected cash flows.

The table below analyses the Group s financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factor (continued)

(e) Liquidity risk (continued)

Group	Less than 1 year RMB 000	Between 1 and 2 years RMB 000	Between 2 and 5 years RMB 000
At December 31, 2010			
Bonds payable (including interests) (Note 25)	167,650	167,650	3,828,410
Trade and other payables excluding statutory liabilities and advance (Notes 27 and 28)	1,570,044		
Dividends payable	54		
Payables for fixed assets and construction-in-progress	477,806		
At December 31, 2011			
Bonds payable (including interests) (Note 25)	167,650	167,650	3,660,760
Trade and other payables excluding statutory liabilities and advance (Notes 27 and 28)	1,496,980		
Dividends payable	25		
Payables for fixed assets and construction-in-progress	814,129		

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group s objectives of managing capital are to safeguard the Group s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital by regularly reviewing the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bonds payable less cash and cash equivalents. Total capital is calculated as equity , as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at December 31, 2010 and 2011 were as follows:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Total bonds payable (Notes 25)	3,471,994	3,478,568
Less: Cash and cash equivalents (Note 35(c))	(2,659,058)	(1,366,757)
Net debt	812,936	2,111,811
Total equity	24,222,576	25,387,408
Total capital	25,035,512	27,499,219
Gearing ratio	3%	8%

The increase in the gearing ratio in 2011 is primarily due to the decrease in cash and cash equivalents, as more cash and cash equivalents were invested in the form of time deposits in 2011.

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

According to amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, it requires disclosure of fair value measurements by level of following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at December 31, 2010 and 2011, the Group did not have any financial instruments that were measured at fair value.

The fair value of bonds payable for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. As at December 31, 2011, the fair value of bonds payable was approximately RMB 3,405,771,000 (December 31, 2010: RMB 3,422,721,000). The fair values are determined by discounted cash flow method using a discount rate of 5.79% (2010: 5.42%).

As at December 31, 2010 and 2011, the fair values of other financial instruments approximated their carrying values.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. 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 addressed below.

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (continued)

(a) The 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 the directors with reference to the following: (1) the historical usage of the assets; (2) their expected physical wear and tear; (3) results of recent durability assessment performed; (4) technical or commercial obsolescence arising from changes or improvements in production of similar fixed assets; (5) the right of the Group to renew the land use right grants and the land use right lease on which these assets are located (Notes 2.8 and 37(b)); (6) the changes in market demand for, or legal or comparable limits imposed on, the use of such fixed assets.

The current estimated useful lives are stated in Note 2.6. 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 18,357,000 and RMB 22,437,000 respectively (2009: RMB 17,832,000 and RMB 21,795,000; 2010: RMB 18,712,000 and RMB 22,870,000 respectively).

(b) Estimated impairment of goodwill

The Group tests 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. 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 (Note 9).

(c) 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 judgement, 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.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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5 SEGMENT INFORMATION

The chief operating decision-makers have been identified as senior executives. Senior executives review the Group s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

Senior executives consider the business from a perspective of revenues and operating results generated from railroad and related business conducted by the Company (the Company s Business). Other segments mainly include provision of on-board catering services, warehousing services, hotel management services and sales of merchandises provided by the subsidiaries of the Group.

Senior executives assess the performance of the operating segments based on a measure of the profit before income tax. Other information provided, except as noted below, to senior executives is measured in a manner consistent with that in the financial statements.

The segment results for 2009, 2010 and 2011 are as follows:

	The Company s Business			All other segments			Elimination			Total		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
Segment revenue	12,212,031	13,249,298	14,339,356	173,726	245,977	351,479				12,385,757	13,495,275	14,690,835
Inter-segment revenue					(10,827)						(10,827)	
Total revenue	12,212,031	13,249,298	14,339,356	173,726	235,150	351,479				12,385,757	13,484,448	14,690,835
Segment result	1,672,227	1,921,229	2,377,270	21,653	19,527	9,974	(9,090)	(15,449)	(8,907)	1,684,790	1,925,307	2,378,337
Finance costs	(236,437)	(186,101)	(190,832)	150	(71)	(138)				(236,287)	(186,172)	(190,970)
Share of results of associates	773	1,361	5,259							773	1,361	5,259
Depreciation	1,287,978	1,344,525	1,365,364	4,712	4,685	4,597				1,292,690	1,349,210	1,369,961
Amortization of leasehold land payments	15,001	15,001	15,001	988	987	987				15,989	15,988	15,988
Write-down and amortization of deferred employee costs	20,048	73,804	4,286	108	107	23				20,156	73,911	4,309
Recognition of employee benefits obligations		97,930		1,200	3,059	3,464				1,200	100,989	3,464
Impairment of fixed assets	448		4,709							448		4,709
Impairment of materials and supplies			21,590									21,590
Provision/(reversal of provision) for doubtful accounts	299	(1,659)	106	115	(2)					414	(1,661)	106

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5 SEGMENT INFORMATION (CONTINUED)

A reconciliation of the segment results to profit of 2009, 2010 and 2011 is as follows:

	The Company s Business			All other segments			Elimination			Total		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000
Segment result	1,672,227	1,921,229	2,377,270	21,653	19,527	9,974	(9,090)	(15,449)	(8,907)	1,684,790	1,925,307	2,378,337
Income tax expense	(337,689)	(434,752)	(571,154)	(5,714)	(5,637)	(4,811)				(343,403)	(440,389)	(575,965)
Profit for the year	1,334,538	1,486,477	1,806,116	15,939	13,890	5,163	(9,090)	(15,449)	(8,907)	1,341,387	1,484,918	1,802,372

The Group is domiciled in the PRC. All the Group s revenues were generated in the PRC, and the total assets are also located in the PRC.

	The Company s Business			All other segments			Elimination			Total		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	
	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RMB 000	RI
	29,370,613	30,555,755	32,158,429	239,228	249,132	233,638	(182,594)	(200,385)	(184,720)	29,427,247	30,604,502	32.
nt tes	119,547	120,661	125,920							119,547	120,661	
to nt her ts ed	1,536,779	953,938	1,274,896	6,711	4,831	2,126				1,543,490	958,769	1.
	6,145,644	6,410,992	6,845,068	73,800	94,864	88,895	(96,552)	(123,930)	(114,024)	6,122,892	6,381,926	6.

Revenues of approximately RMB 12,076,872,000 (2009 and 2010: RMB 10,400,548,000 and RMB 11,520,697,000) of the Group were settled through the Ministry of Railway of the PRC (MOR)(Note 39). Except that, no revenues derived from a single external customer have exceeded 10% of the total revenues.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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6 FIXED ASSETS

	Buildings RMB 000	Tracks, bridges and service roads RMB 000	Locomotives and rolling stock RMB 000	Communications and signalling systems RMB 000	Other machinery and equipment RMB 000	Total RMB 000
At January 1, 2010						
Cost	4,677,195	14,437,512	6,945,305	1,531,255	4,449,452	32,040,719
Accumulated depreciation	(1,055,968)	(1,798,597)	(1,542,569)	(751,348)	(1,855,860)	(7,004,342)
Impairment					(48)	(48)
Net book amount	3,621,227	12,638,915	5,402,736	779,907	2,593,544	25,036,329
Year ended December 31, 2010						
Opening net book amount	3,621,227	12,638,915	5,402,736	779,907	2,593,544	25,036,329
Additions	4,335		16,272	16,595	131,947	169,149
Transfer from construction-in-progress (Note 7)	153,588	212,188	15,914	185,468	170,126	737,284
Reclassifications			(492)	4,709	(4,217)	
Disposals	(1,868)	(47,478)	(64,750)	(8,619)	(4,290)	(127,005)
Depreciation charges	(174,066)	(205,829)	(417,190)	(176,582)	(375,960)	(1,349,627)
Closing net book amount	3,603,216	12,597,796	4,952,490	801,478	2,511,150	24,466,130
At December 31, 2010						
Cost	4,832,566	14,593,786	6,873,927	1,522,555	4,716,620	32,539,454
Accumulated depreciation	(1,229,350)	(1,995,990)	(1,921,437)	(721,077)	(2,205,422)	(8,073,276)
Impairment					(48)	(48)
Net book amount	3,603,216	12,597,796	4,952,490	801,478	2,511,150	24,466,130
Year ended December 31, 2011						
Opening net book amount	3,603,216	12,597,796	4,952,490	801,478	2,511,150	24,466,130
Additions	38,871		33,804	25,799	168,866	267,340
Transfer from construction-in-progress (Note 7)	200,499	345,425	10,165	65,513	209,294	830,896
Reclassifications	(9,318)	1,549		85	7,684	
Disposals	(1,096)	(168,927)	(19,140)	(4,105)	(9,348)	(202,616)
Impairment			(1,957)		(2,752)	(4,709)
Depreciation charges	(182,744)	(208,503)	(402,186)	(169,197)	(407,331)	(1,369,961)
Closing net book amount	3,649,428	12,567,340	4,573,176	719,573	2,477,563	23,987,080

At December 31, 2011						
Cost	5,059,618	14,756,797	6,874,014	1,510,971	4,994,334	33,195,734
Accumulated depreciation	(1,410,190)	(2,189,457)	(2,298,881)	(791,398)	(2,513,980)	(9,203,906)
Impairment			(1,957)		(2,791)	(4,748)
Net book amount	3,649,428	12,567,340	4,573,176	719,573	2,477,563	23,987,080

As at December 31, 2011, the ownership certificates of certain buildings (Building Ownership Certificates) of the Group with an aggregate carrying value of approximately RMB 992,588,000 (December 31, 2010: RMB 916,538,000) had not been obtained by the Group. After consultation made with the Company s legal counsel, the directors of the Company consider that there is no legal restriction for the Group to apply for and obtain the Building Ownership Certificates and it should not lead to any significant adverse impact on the operations of the Group.

As at December 31, 2011, fixed assets of the Group with an aggregate net book value of approximately RMB 35,482,000 (December 31, 2010: RMB 27,024,000) had been fully depreciated but they were still in use.

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7 CONSTRUCTION-IN-PROGRESS

	2010 RMB 000	2011 RMB 000
At January 1	662,183	752,862
Additions	827,963	1,014,201
Disposals		(24,205)
Transfer to fixed assets (Note 6)	(737,284)	(830,896)
At December 31	752,862	911,962

Construction-in-progress as at December 31,2010 and 2011 mainly comprises the construction of new railway stations and improvement on the existing railway equipments in the PRC.

For the year ended December 31, 2011, no interest expenses (2010: Nil) were capitalised in the construction-in-progress balance.

8 LEASEHOLD LAND PAYMENTS

	RMB 000
At January 1, 2010	
Cost	791,213
Accumulated amortisation	(214,834)
Net book amount	576,379
Year ended December 31, 2010	
Opening net book amount	576,379
Amortisation charges	(15,988)
Closing net book amount	560,391
At December 31, 2010	
Cost	791,213
Accumulated amortisation	(230,822)
Net book amount	560,391
Year ended December 31, 2011	
Opening net book amount	560,391

Amortisation charges	(15,988)
Closing net book amount	544,403
At December 31, 2011	
Cost	791,213
Accumulated amortisation	(246,810)
Net book amount	544,403

As at December 31, 2011, land use right certificates (Land Certificates) of certain parcels of land of the Group with an aggregate area of 1,620,894 square meters (December 31, 2010: 1,620,894) had not been obtained. After consultation made with the Company s legal counsel, the directors consider that there is no legal restriction for the Group to apply for and obtain the Land Certificates and it should not lead to any significant adverse impact on the operations of the Group.

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9 GOODWILL

	RMB 000
Year ended December 31, 2010 and 2011	
Opening net book amount	281,255
Additions	
Closing net book amount	281,255
At December 31, 2010 and 2011	
Cost	281,255
Accumulated impairment	
Net book amount	281,255

The goodwill balance arose from the excess of a purchase consideration paid by the Company over the aggregate fair values of the identifiable assets, liabilities and contingent liabilities of the Yangcheng Railway Business acquired by the Company.

Prior to January 1, 2009, the goodwill had been allocated to a cash-generating units (CGU) comprising the Yangcheng Railway Business. The recoverable amount of that CGU is determined based on value-in-use calculations and no impairment losses had been recognised prior to January 1, 2009.

On January 1, 2009, the Group integrated the Yangcheng Railway Business with the Group s railway business in order to improve operation efficiency. As a result, the management considers that the Yangcheng Railway Business and the Group s remaining railway business (collectively the Combined Railway Business) represents the lowest level of cash-generating units within the Group at which goodwill is monitored for internal management purposes. In addition, the Combined Railway Business is not larger than an operating segment determined under with IFRS 8. Therefore, the Group has reallocated the goodwill to the cash generating unit (CGU) comprising the Combined Railway Business.

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9 GOODWILL (CONTINUED)

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial forecasts prepared by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for value-in-use calculations as at December 31, 2011 are as follows:

	Railroad business
Gross margin	26.5%
Growth rate	2%
Discount rate	11.21%

Management estimated the gross margin and growth rate based on past performance and its expectations for the market development. The discount rate used is pre-tax and reflect specific risks relating to the railroad business segment.

If the budgeted growth rate used in the value-in-use calculation for the CGU in railroad business had been 10% lower than management s estimates as at December 31, 2011, the Group would have no impairment recognised against goodwill.

If the estimated pre-tax discount rate applied to the discounted cash flows for the CGU in railroad business had been 1% higher than management s estimates as at December 31, 2011, the Group would have no impairment recognised against goodwill.

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10 INVESTMENTS IN SUBSIDIARIES

(i) As at December 31, 2011, the Company had direct or indirect interests in the following subsidiaries which are incorporated/established and are operating in the PRC:

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company		Paid-in capital	Principal activities
		Directly	Indirectly		
Dongguan Changsheng Enterprise Company Limited	May 22, 1992	51%		RMB 38,000,000	Warehousing
Shenzhen Fu Yuan Enterprise Development Company Limited	November 1, 1991	97.3%	2.7%	RMB 18,500,000	Hotel management
Shenzhen Pinghu Qun Yi Railway Store Loading and Unloading Company Limited	September 11, 1993	55%		RMB 10,000,000	Cargo loading and unloading, warehousing, freight transportation
Shenzhen Nantie Construction Supervision Company Limited	May 8, 1995	67.46%	9.2%	RMB 3,000,000	Supervision of construction projects
Shenzhen Railway Property Management Company Limited	November 13, 2001		100%	RMB 3,000,000	Property management
Shenzhen Guangshen Railway Travel Service Ltd.	August 16, 1995	75%	25%	RMB 2,400,000	Travel agency
Shenzhen Shenhuasheng Storage and Transportation Company Limited	January 2, 1985	41.5%	58.5%	RMB 2,000,000	Warehousing, freight transport and packaging agency services
Shenzhen Guangshen Railway Economic and Trade Enterprise Company Limited	March 7, 2002		100%	RMB 2,000,000	Catering management
Shenzhen Railway Station Passenger Services Company Limited	December 18, 1986	100%		RMB 1,500,000	Catering services and sales of merchandise
Guangshen Railway Station Dongqun Trade and Commerce Service Company Limited	November 23, 1992	100%		RMB 1,020,000	Sales of merchandises
Guangzhou Tielian Economy Development Company Limited	December 27, 1994	50.50%		RMB 1,000,000	Warehousing and freight transport agency services
Guangzhou Railway Huangpu Service Company Limited	March 15, 1985	100%		RMB 379,000	Cargo loading and unloading, warehousing, freight transportation

All the above subsidiaries are limited liability companies.

(ii) Subsidiaries disposed

During the year ended December 31, 2011, the Company liquidated Guangzhou Dongqun Advertising Company Limited and no gain or loss was recognised.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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11 INVESTMENTS IN ASSOCIATES

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Share of net assets	150,350	155,609
Less: provision for impairment in value (Note a)	(29,689)	(29,689)
	120,661	125,920

Note a:

The impairment provision at the Group level as at December 31, 2011 represents provision for full impairment loss in investment in Zengcheng Lihua Stock Company Limited at approximately RMB 29,689,000 (December 31, 2010: RMB 29,689,000) made in prior years (Zengcheng Lihua Provision).

The movement of investments in associates of the Group during the year is as follows:

	2010 RMB 000	2011 RMB 000
Beginning of the year	119,547	120,661
Share of results after tax	1,361	5,259
Dividends received and receivable from the associates	(247)	
End of the year	120,661	125,920

As at December 31, 2011, the Group had direct interests in the following companies which are incorporated / established and are operating in the PRC:

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-in capital	Principal activities
Shenzhen Guangshen Railway Civil Engineering Company	March 1, 1984	49%	RMB 55,000,000	Construction of railroad properties
Zengcheng Lihua	July 30, 1992	26.98%	RMB 107,054,682	Real estate construction, provision of warehousing,

				cargo uploading and unloading services
Tiecheng	May 2, 1995	49%	RMB 343,050,000	Properties leasing and trading of merchandise

All the above associates are limited liability companies and they are unlisted companies.

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11 INVESTMENTS IN ASSOCIATES (CONTINUED)

The Group s share of the results with its percentage ownership of its principal associates, and its share of the related assets and liabilities, net of applicable impairment provision are as follows:

	Assets RMB 000	Liabilities RMB 000	Revenue RMB 000	(Loss)/Profit RMB 000	% interest held
2010					
Tiecheng	193,651	109,526	12,045	(600)	49%
Other associates	207,397	210,118	302,954	1,961	27%~49%
	401,048	319,644	314,999	1,361	
2011					
Tiecheng	209,058	123,220	14,262	1,713	49%
Other associates	236,145	256,137	312,093	3,546	27%~49%
	445,203	379,357	326,355	5,259	

12 DEFERRED TAX ASSETS/(LIABILITIES)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	123,570	113,610
- Deferred tax assets to be recovered within 12 months	15,021	22,138
	138,591	135,748
Deferred tax liabilities:		
- Deferred tax liabilities to crystallise after more than 12 months	(25,695)	(27,367)
- Deferred tax liabilities to crystallise within 12 months	(275)	(302)

	(25,970)	(27,669)
Deferred tax assets (net)	112,621	108,079

The gross movement on the deferred income tax account is as follows:

	2010 RMB 000	2011 RMB 000
At January 1	97,307	112,621
Charged to the comprehensive income statement (Note 32)	15,314	(4,542)
At December 31	112,621	108,079

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12 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The movement in deferred tax assets and liabilities of the Group during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	At January 1, 2010 RMB 000	Charged/ (Credited) to the comprehensive income statement RMB 000	At December 31, 2010 RMB 000	Charged/ (Credited) to the comprehensive income statement RMB 000	At December 31, 2011 RMB 000
Deferred tax assets:					
Impairment provision for receivables	21,524	(418)	21,106	(668)	20,438
Impairment provision for fixed assets and construction-in-progress	1,964		1,964	1,075	3,039
Impairment provision for interests in associates	7,422		7,422		7,422
Impairment provision for materials and supplies				5,398	5,398
Difference in accounting base and tax base in the recognition of fixed assets	24,143	(703)	23,440	(727)	22,713
Difference in accounting base and tax base of employee benefits obligations	67,926	16,683	84,609	(10,836)	73,773
Loss on disposal of fixed assets				2,915	2,915
Other	25	25	50		50
	123,004	15,587	138,591	(2,843)	135,748

	At January 1, 2010 RMB 000	(Credited)/ Charged to the comprehensive income statement RMB 000	At December 31, 2010 RMB 000	(Credited)/ Charged to the comprehensive income statement RMB 000	At December 31, 2011 RMB 000
Deferred tax liabilities:					
Difference in accounting base and tax base of fixed assets	19,644	(409)	19,235	(4)	19,231
Others	6,053	682	6,735	1,703	8,438
	25,697	273	25,970	1,699	27,669

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

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12 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Deferred income tax assets are recognised for tax loss carry-forwards and other temporary difference to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of tax losses and other temporary difference amounting to RMB 8,499,000 (December 31, 2010: RMB 5,911,000) that can be carried forward against future taxable income as follows:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Tax losses can be carried forward (Note a)	2,271	4,728
Deductible temporary differences	3,640	3,771
	5,911	8,499

Note a:

The tax loss carry-forwards in which no deferred income tax assets were recognised amounting to RMB 18,911,000 (2010: RMB 9,872,000) will expire in the following years:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
2013	1,924	
2014	3,877	3,521
2015	4,071	4,071
2016		11,319
	9,872	18,911

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13 DEFERRED EMPLOYEE COSTS

The Group implemented a scheme for selling staff quarters to its employees in 2000. The movement of deferred employee costs is set forth as follows:

	2010 RMB 000	2011 RMB 000
At January 1		
Cost	243,380	17,043
Accumulated amortisation	(163,644)	(11,079)
Net book amount	79,736	5,964
Year ended December 31		
Opening net book amount	79,736	5,964
Additions	139	145
Write-down (Note a)	(69,828)	
Amortisation (Note 29)	(4,083)	(4,309)
Closing net book amount	5,964	1,800
At December 31		
Cost	17,043	17,188
Accumulated amortisation	(11,079)	(15,388)
Net book amount	5,964	1,800

Note a:

During the year ended December 31, 2010, the Group conducted an organizational structure reform suggested by the MOR where certain employees were transferred either to different departments of the Group or other railway companies outside the Group. As a result of the reform, the Group considers that it is no longer feasible to keep track of the service records of the employees participating in the housing benefit scheme. Therefore, the Group has decided to eliminate the service period restriction relating to the entire employee s housing benefit scheme and accordingly wrote down the remaining deferred employee costs during the year ended December 31, 2010.

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14 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables RMB 000	Available-for-sale RMB 000	Total RMB 000
Assets as per consolidated balance sheet			
As at December 31, 2010:			
Available-for-sale investments (Note 16)		53,826	53,826
Long term receivable (Note 17)	35,122		35,122
Trade and other receivables excluding prepayments (Notes 19 and 20)	662,399		662,399
Short-term deposits (Note 21)	608,500		608,500
Cash and cash equivalents (Note 21)	2,659,058		2,659,058
Total	3,965,079	53,826	4,018,905
As at December 31, 2011:			
Available-for-sale investments (Note 16)		53,826	53,826
Long-term receivable (Note 17)	34,108		34,108
Trade and other receivables excluding prepayments (Notes 19 and 20)	733,419		733,419
Short-term deposits (Note 21)	3,686,000		3,686,000
Cash and cash equivalents (Note 21)	1,366,757		1,366,757
Total	5,820,284	53,826	5,874,110

	Other financial liabilities RMB 000
Liabilities as per consolidated balance sheet	
As at December 31, 2010:	
Bonds payable (Note 25)	3,471,994
Trade and other payables excluding statutory liabilities (Notes 27 and 28)	1,570,044
Dividends payable	54
Payables for fixed assets and construction-in-progress	477,806
Total	5,519,898
As at December 31, 2011:	
Bonds payable (Note 25)	3,478,568
Trade and other payables excluding statutory liabilities (Notes 27 and 28)	1,496,980
Dividends payable	25
Payables for fixed assets and construction-in-progress	814,129

Total	5,789,702

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15 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be analysed by the nature of counterparties as follows:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Trade receivables		
Due from MOR	24,805	18,017
Due from related parties	302,810	475,643
Due from third parties	238,631	103,120
	566,246	596,780
Other receivables excluding prepayments		
Due from related parties	3,599	13,897
Due from third parties	48,987	66,801
	52,586	80,698
Long-term receivable		
Due from third parties	35,122	34,108

For trade and other receivables, management performs ongoing credit evaluations of its customers/debtors financial condition and generally does not require collateral from the customers/debtors.

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Cash at bank and short-term bank deposits		
Placed in listed banks in the PRC	3,264,849	5,052,672
Placed in unlisted banks in the PRC	2,647	35
	3,267,496	5,052,707

Cash and short term liquid investments are placed with reputable banks. There was no recent history of default of cash and cash equivalents and short-term deposits from such financial institutions.

None of the financial assets that are fully performing has been renegotiated in the last year.

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16 AVAILABLE-FOR-SALE INVESTMENTS

	2010 RMB 000	2011 RMB 000
Beginning and the end of the year	53,826	53,826

The equity interests held by the Group and Company in each of these investments are all less than 10%. The directors of the Company are of the opinion that no quoted market price in an active market was available for these investments and their fair values could not be reliably measured by alternative valuation methods. In accordance with the provisions under IFRS, the above non-current available-for-sale investments are carried at cost subject to review for impairment loss. As at December 31, 2010 and 2011, no impairment provision was considered necessary by the directors.

17 LONG-TERM RECEIVABLE

	2010 RMB 000	2011 RMB 000
Opening net book amount	44,229	35,122
Unwinding of interest accrued (Note 30)	2,893	6,986
Repayment received	(12,000)	(8,000)
Closing net book amount	35,122	34,108

The long-term receivable balance represents freight service fees receivable from a third party customer which was acquired from Yangcheng Railway Business. On the acquisition date of Yangcheng Railway Business, it was remeasured at its then fair value, which was assessed by the discounted cash flow method, by making reference to the repayment schedule agreed by both parties.

The balance is subsequently carried at amortised cost using an average effective interest rate of 6.54%.

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18 MATERIALS AND SUPPLIES

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Raw materials	147,220	167,556
Accessories	80,764	84,540
Reusable rail-line track materials	22,645	74,148
Retailing consumables	4,450	4,492
	255,079	330,736

The costs of materials and supplies consumed by the Group during the year were recognised as operating expenses in the amount of approximately RMB 1,922,332,000 (2009: RMB 1,713,456,000 and 2010: RMB 1,792,270,000).

For the year ended December 31, 2011, the Group made provision for write-down of materials and supplies to net realizable values of approximately RMB 21,590,000 (2009 and 2010: Nil). Fair value less costs to sell of these materials and supplies was RMB 1,000,000. The provision had been included in operating expenses in the consolidated comprehensive income statement.

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19 TRADE RECEIVABLES

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Trade receivables	600,070	619,243
Including: receivables from related parties	319,208	487,679
Less: Provision for impairment of receivables	(7,251)	(5,244)
	592,819	613,999

As at December 31, 2010 and 2011, the Group s trade receivables are all denominated in RMB.

The passenger railroad services are usually transacted on a cash basis. The Group does not have formal contractual credit terms agreed with its customers for freight services but the trade receivables are usually settled within a period less than one year. As a result, the Group regards any receivable balance within a one-year credit period being not overdue. As at December 31, 2010 and 2011, the aging analysis of the outstanding trade receivables is as follows:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Within 1 year	566,246	596,780
Over 1 year but within 2 years	6,417	7,245
Over 2 years but within 3 years	6,595	1,607
Over 3 years	20,812	13,611
	600,070	619,243

As at December 31, 2011, the Group s trade receivables of approximately RMB 17,219,000 (December 31, 2010: RMB 26,463,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The aging analysis of these trade receivables is as follows:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Over 1 year but within 2 years	6,270	7,245
Over 2 year but within 3 years	6,550	1,607
Over 3 years	13,643	8,367
	26,463	17,219

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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19 TRADE RECEIVABLES (CONTINUED)

As at December 31, 2011, the Group s trade receivables of approximately RMB 5,244,000 (December 31, 2010: RMB 7,361,000) had been impaired and provided for. The amount of the provision was approximately RMB 5,244,000 as at December 31, 2011 (December 31, 2010: RMB 7,251,000). The impaired receivable balances were mainly related to the provision of freight transportation services. The impaired receivable balances were mainly related to the provision of freight transportation services. The related customers were in unexpected difficult financial conditions. The aging analysis of these receivables is as follows:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Over 1 year but within 2 years	147	
Over 2 years but within 3 years	45	
Over 3 years	7,169	5,244
	7,361	5,244

Movements on the provision for impairment of trade receivables are as follows:

	2010 RMB 000	2011 RMB 000
At January 1	9,151	7,251
Provision for impairment loss	90	110
Reversal of impairment loss provision	(1,978)	
Receivables written off during the year as uncollectible	(12)	(2,117)
At December 31	7,251	5,244

The creation and release of provision for impaired receivables have been included in operating expenses in the comprehensive income statement. Amounts charged to the allowance account are generally written off against the gross accounts receivable balances when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value mentioned above. The Group does not hold any collateral as security.

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20 PREPAYMENTS AND OTHER RECEIVABLES

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Due from third parties	63,273	84,977
Due from related parties	15,291	59,459
	78,564	144,436

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Other receivables	136,798	186,634
Less: Provision for impairment loss (Note a)	(67,218)	(67,214)
Other receivables, net (Note b)	69,580	119,420
Prepayments (Note c)	8,984	25,016
	78,564	144,436

(a) Included in the amount was a provision of approximately RMB 31,365,000 set up by the Group in prior years, against the principal balance of a deposit placed with a deposit-taking agency, Zeng Cheng City Li Cheng Credit Cooperative (Li Cheng). The Group has been unable to recover the deposit from Li Cheng upon maturity and the Group has initiated several legal proceedings against Li Cheng in order to enforce recovery but without success.

(b) Other receivables mainly represent miscellaneous deposits and receivables arising during the course of the provision of non-railway transportation services by the Group.

(c) Prepayments mainly represent amounts paid in advance to the suppliers for utilities and other operating expenses of the Group.

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(All amounts expressed in Renminbi unless otherwise stated)

20 PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

Movements on the provision for impairment of other receivables are as follows:

	2010 RMB 000	2011 RMB 000
At January 1	66,991	67,218
Provision for impairment loss	234	
Reversal of impairment loss provision	(7)	(4)
At December 31	67,218	67,214

The carrying amounts of the Group s prepayment and other receivables are denominated in the following currencies:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
RMB	78,015	144,192
HKD	549	244
	78,564	144,436

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

21 CASH AND CASH EQUIVALENTS AND SHORT-TERM DEPOSITS

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Cash on hand	62	50
Cash at bank	2,658,996	1,366,707
Term deposits with initial term of over three months (Note a)	608,500	3,686,000

	3,267,558	5,052,757

Note a: The original effective interest rate of time deposits was 3.1% (2010: 1.98%).

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21 CASH AND CASH EQUIVALENTS AND SHORT-TERM DEPOSITS (CONTINUED)

The carrying amounts of the cash and cash equivalents and short-term deposits are denominated in the following currencies:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
USD	322	261
HKD	103,221	106,054
RMB	3,164,015	4,946,442
	3,267,558	5,052,757

22 SHARE CAPITAL

As at December 31, 2011, the total authorised number of ordinary shares is 7,083,537,000 shares (December 31, 2010: 7,083,537,000 shares) with a par value of RMB 1.00 per share (December 31, 2010: RMB 1.00 per share). These shares are divided into A shares and H shares. Apart from certain A shares held by state-own legal person and legal persons which have sale restrictions (see details below), they rank pari passu against each other.

	RMB 000
As at December 31, 2010 and 2011	
Authorised, issued and fully paid:	
A shares subject to sale restrictions	
- shares held by the National Council for Social Security Fund of the PRC	274,799
Listed shares	
- H shares	1,431,300
- A shares	5,377,438
	6,808,738
Total	7,083,537

On September 22, 2009, Guangzhou Railway Group transferred 274,798,700 A shares held by it to the National Council for Social Security Fund in the PRC (NCSSF) according to regulations issued by the relevant PRC authorities. Upon this transfer, NCSSF has voluntarily agreed to extend the transfer restriction period associated with these shares for another three years. Thus, these 274,798,700 shares were still subject to sale and transfer restriction as at December 31, 2011.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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23 RESERVES

According to the provisions of the articles of association of the Company, the Company shall first set aside 10% of its profit after tax attributable to shareholders as indicated in the Company s statutory financial statements for the statutory surplus reserve (except where the reserve has reached 50% of the Company s registered share capital) in each year. The Company may also make appropriations from its profit attributable to shareholders to a discretionary surplus reserve, provided that it is approved by a resolution passed in a shareholders general meeting. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends without the prior approval obtained from the shareholders in a shareholders general meeting under specific circumstances.

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

The statutory surplus reserve, the discretionary surplus reserve and the share premium account could be converted into share capital of the Company provided it is approved by a resolution passed in a shareholders general meeting with the provision that the ending balance of the statutory surplus reserve does not fall below 25% of the registered share capital amount. The Company may either allot newly created shares to the shareholders at the same proportion of the existing number of shares held by these shareholders, or it may increase the par value of each share.

For the years ended December 31, 2010 and 2011, the directors proposed the following appropriations to reserves of the Company:

	2010		2011	
	Percentage	RMB 000	Percentage	RMB 000
Statutory surplus reserve	10%	155,826	10%	181,138

In accordance with the provisions of the articles of association of the Company, the profit after appropriation to reserves and available for distribution to shareholders shall be the lower of the retained earnings determined under (a) PRC GAAP or (b) IFRS. Due to the fact that the statutory financial statements of the Company have been prepared in accordance with PRC GAAP, the retained earnings so reported may be different from those reported in the statement of changes in shareholders equity prepared under IFRS contained in these financial statements. As a result, the appropriations to reserves were made based on the retained earnings determined under IFRS in 2010 and 2011, as the amount of retained earnings under IFRS was lower. The main difference between the retained earnings of the Company determined under PRC GAAP and those determined under IFRS was relating to accounting policies in respect of investment in associate adopted under PRC GAAP and IFRS.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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(All amounts expressed in Renminbi unless otherwise stated)

24 DEFERRED INCOME RELATED TO GOVERNMENT GRANTS

	2010 RMB 000	2011 RMB 000
At January 1	97,120	95,093
Additions	1,361	4,100
Amortisation	(3,388)	(3,171)
At December 31	95,093	96,022

25 BONDS PAYABLE

	At January 1, 2011 RMB 000	Addition RMB 000	Amortisation RMB 000	At December 31, 2011 RMB 000
09 Guangshen Tie MTN1	3,471,994		6,574	3,478,568

The Company issued 3,500,000,000 bonds of medium terms at a nominal value of RMB 3,500,000,000 on December 17, 2009. The bonds will be matured in five years from the issue date at their nominal value of RMB 3,500,000,000 and bear a coupon interest rate with 4.79% per annum.

On the issue date, the bonds were recognised based on the residual amounts of the principal after deduction of issuance costs of approximately RMB 34,524,000. The bonds are subsequently carried at amortised cost using an average effective interest rate of 5.018% per annum.

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(All amounts expressed in Renminbi unless otherwise stated)

26 EMPLOYEE BENEFITS OBLIGATIONS

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Employee benefits obligations	269,180	237,613
Less: current portion included in accruals and other payables (Note 28)	(71,794)	(69,337)
	197,386	168,276

Pursuant to a redundancy plan implemented by the Group in 2006, selected employees who had met certain specified criteria and accepted voluntary redundancy were provided with an offer of early retirement benefits, up to their official age of retirement. Such arrangements required specific approval granted by management of the Group.

With the acquisition of the Yangcheng Railway Business in 2007, the Group has also assumed certain retirement and termination benefits obligations associated with the operations of Yangcheng Railway Business. These obligations mainly include the redundancy termination benefits similar to those mentioned above, as well as the obligation for funding post-retirement medical insurance premiums of retired employees before the acquisition.

The employee benefits obligations have been provided for by the Group at amounts equal to the total expected benefit payments. Where the obligation does not fall due within twelve months, the obligation payable has been discounted using a pre-tax rate that reflects management s current market assessment of the time value of money and risk specific to the obligation (the discount rate was determined with reference to market yields at the balance sheet date on high quality investments in the PRC).

The movement in the employee benefits obligation over the year is as follows:

	2010 RMB 000	2011 RMB 000
At January 1	231,939	269,180
Additions (Note 29)	100,989	3,464
Unwinding of interest (Note 31)	7,609	12,066
Payment	(71,357)	(47,097)
At December 31	269,180	237,613

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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(All amounts expressed in Renminbi unless otherwise stated)

27 TRADE PAYABLES

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Payables to third parties	1,028,951	864,413
Payables to related parties	145,693	200,328
	1,174,644	1,064,741

The aging analysis of trade payables was as follows:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Within 1 year	1,164,732	979,116
Over 1 year but within 2 years	8,343	83,080
Over 2 years but within 3 years	554	1,093
Over 3 years	1,015	1,452
	1,174,644	1,064,741

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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28 ACCRUALS AND OTHER PAYABLES

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Due to third parties	745,256	851,099
Due to related parties	38,228	30,348
	783,484	881,447

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Deposits received for construction projects	153,634	124,258
Other taxes payable	162,072	166,930
Salary and welfare payables	86,130	104,612
Other deposits received	96,848	126,549
Advances received from customers	68,085	108,329
Deposits received from ticketing agencies	23,338	30,006
Employee benefits obligations (Note 26)	71,794	69,337
Housing maintenance fund	15,927	16,089
Other payables	105,656	135,337
	783,484	881,447

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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(All amounts expressed in Renminbi unless otherwise stated)

29 LABOUR AND BENEFITS

	2009 RMB 000	2010 RMB 000	2011 RMB 000
Wages and salaries	1,835,560	2,004,467	2,399,028
Provision for medical and other employee benefits	326,018	365,689	447,283
Contributions to a defined contribution pension scheme (a)	316,640	342,002	373,200
Contributions to the housing scheme (b)	125,325	148,661	160,571
Write-down and amortisation of deferred employee costs (Note 13)	20,156	73,911	4,309
Employee benefits obligations (Note 26)	1,200	100,989	3,464
	2,624,899	3,035,719	3,387,855

(a) Pension scheme

All the full-time employees of the Group are entitled to join a statutory pension scheme. The employees would receive pension payments equal to their basic salaries payable upon their retirement up to their death. Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group s local staff are to be made monthly to a government agency based on 26% of the standard salary set by the provincial government, of which 18% is borne by the Company or its subsidiaries and the remainder 8% is borne by the employees. The government agency is responsible for the pension liabilities due to the employees upon their retirement. The Group accounts for these contributions on an accrual basis and charges the related contributions to expense in the year to which the contributions relate.

(b) Housing scheme

In accordance with the PRC housing reform regulations, the Group is required to make contributions to a state-sponsored housing fund at 9% or 13% of the salaries of the employees. At the same time, the employees are also required to make a contribution at 9% or 13% of the salaries out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Group has no further legal or constructive obligation for housing benefits of these employees beyond the above contributions made.

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30 OTHER EXPENSES, NET

	2009 RMB 000	2010 RMB 000	2011 RMB 000
Loss on disposal of fixed assets and construction-in-progress	42,053	95,849	129,153
Interest income from banks	(24,440)	(41,510)	(95,612)
Dividend income on available-for-sale investments	(3,000)	(3,853)	(4,263)
Amortisation of government grants	(3,375)	(3,388)	(3,171)
Unwinding of interest accrued on long-term receivable (Note 17)	(4,093)	(2,893)	(6,986)
Write-back of long outstanding payables	(1,932)	(537)	(66)
Others	11,595	3,392	6,731
	16,808	47,060	25,786

31 FINANCE COSTS

	2009 RMB 000	2010 RMB 000	2011 RMB 000
Interest expenses	227,178	167,650	167,650
Unwinding of interest for employee benefit obligations (Note 26)	6,510	7,609	12,066
Amortisation of bonds payable (Note 25)	325	6,193	6,574
Bank charges	2,227	2,325	1,901
Net foreign exchange losses	47	2,395	2,779
	236,287	186,172	190,970

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32 INCOME TAX EXPENSE

Before 2008, enterprises established in the Shenzhen Special Economic Zone of the PRC were subject to income tax at a reduced preferential rate of 15% as compared with the standard income tax rate for PRC companies of 33%. The Company and the subsidiaries located in Shenzhen were subject to income tax rate of 15%, while those subsidiaries located outside Shenzhen were subject to income tax rate of 33%.

On March 16, 2007, the National People s Congress approved the Corporate Income Tax Law of the People s Republic of China (the new CIT Law), which became effective on January 1, 2009. Under the new CIT Law, the enterprise income tax rate was changed from 33% to 25% from January 1, 2009 onwards. While the enterprise income tax rate applicable to the Company and the subsidiaries located in Shenzhen would increase gradually to 25% within 5 years from 2009 to 2012. In 2009, 2010 and 2011, the applicable income tax rate was 20%, 22% and 24% respectively.

An analysis of the current year taxation charges is as follows:

	2009 RMB 000	2010 RMB 000	2011 RMB 000
Current income tax	337,613	455,703	571,423
Deferred income tax (Note 12)	5,790	(15,314)	4,542
	343,403	440,389	575,965

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32 INCOME TAX EXPENSE (CONTINUED)

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

	2009 RMB 000	2010 RMB 000	2011 RMB 000
Profit before tax	1,684,790	1,925,307	2,378,337
Tax calculated at the statutory rate of 24% (2009 and 2010: 20% and 22%)	336,958	423,567	570,801
Effect of tax rates differentials	(996)	118	42
Effect of income not subject to tax	(745)	(1,147)	(2,285)
Effect of expenses not deductible for tax purposes	7,411	16,955	5,237
Tax losses for which no deferred tax asset was recognised	775	896	2,717
Utilisation of previously unrecognised tax losses			(547)
Income tax expense	343,403	440,389	575,965

The effective tax rate was 24.2% (2009 and 2010: 20.4% and 22.9%). The increase was mainly caused by the increase in statutory tax rate as explained above.

33 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to equity holders of approximately RMB 1,804,107,000 (2009 and 2010: RMB 1,342,450,000 and RMB 1,486,062,000), divided by the weighted average number of ordinary shares outstanding during the year of 7,083,537,000 shares (2009 and 2010: 7,083,537,000 shares). There were no dilutive potential ordinary shares during both years.

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34 DIVIDENDS

The dividends paid to the ordinary shareholders of the Group in 2009, 2010 and 2011 were, RMB 566,683,000 (RMB 0.08 per share), RMB 566,683,000 (RMB 0.08 per share) and RMB 637,518,000 (RMB 0.09 per share) respectively.

	2009 RMB 000	2010 RMB 000	2011 RMB 000
Final, proposed, of RMB 0.10 (2009: RMB 0.08 2010: RMB 0.09) per ordinary share	566,683	637,518	708,354

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 subject to the approval by the shareholders in general meeting. This proposed dividend has not been reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending December 31, 2012.

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35 CASH FLOW GENERATED FROM OPERATIONS

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

	2009 RMB 000	2010 RMB 000	2011 RMB 000
Profit before income tax:	1,684,790	1,925,307	2,378,337
Adjustments for:			
Depreciation of fixed assets (Note 6)	1,292,690	1,349,210	1,369,961
Impairment of fixed assets	448		4,709
Impairment of materials and supplies			21,590
Amortisation of leasehold land payments (Note 8)	15,989	15,988	15,988
Loss on disposal of fixed assets and construction-in-progress (Note 30)	42,053	95,849	129,153
Write-down and amortisation of deferred employee costs (Note 13)	20,156	73,911	4,309
Recognition of employee benefits obligations (Note 26)	1,200	100,989	3,464
Unwinding of interest for employee benefit obligations (Note 26)	6,510	7,609	12,066
Share of results of associates (Note 11)	(773)	(1,361)	(5,259)
Dividend income on available-for-sale investments (Note 30)	(3,000)	(3,853)	(4,263)
Provision (reversal of provision) for doubtful accounts	414	(1,661)	106
Write-back of long outstanding of payables (Note 30)	(1,932)	(537)	(66)
Amortisation of bonds payable (Note 25)	325	(6,193)	6,574
Amortisation of government grants (Note 24)	(3,375)	(3,388)	(3,171)
Interest expenses	227,178	167,650	167,650
Interest income	(28,533)	(44,403)	(67,955)
Operating profit before working capital changes	3,254,140	3,675,117	4,033,193
Increase in trade receivables	(211,176)	(107,701)	(9,599)
Increase in materials and supplies	(29,187)	(23,969)	(28,976)
Decrease/(increase) in prepayments and other receivables	24,117	(6,448)	(24)
Decrease in long-term receivable	8,000	12,000	8,000
Increase/(decrease) in trade payables	150,499	383,289	(113,660)
Decrease in employee benefits obligations	(64,312)	(71,357)	(44,785)
(Decrease)/increase in accrued expenses and other payables	(23,706)	28,451	88,934
Cash generated from operations	3,108,375	3,889,382	3,933,083

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35 CASH FLOW GENERATED FROM OPERATIONS (CONTINUED)

(b) In the cash flow statement, proceeds from disposal of fixed assets and construction-in-progress comprise:

	2009 RMB 000	2010 RMB 000	2011 RMB 000
Net book amount (Note 6 and Note 7)	70,402	127,005	226,821
Receivable arising from disposal of fixed assets			(28,913)
Transfer to inventories			(68,198)
Loss on disposal of fixed assets and construction-in-progress	(42,053)	(95,849)	(129,153)
Proceeds from disposal of fixed assets and construction-in-progress	28,349	31,156	557

(c) Analysis of the balance of cash and cash equivalents:

	As at December 31, 2009 RMB 000	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Cash at bank and in hand	432,651	729,058	1,076,757
Short-term deposits with original maturities no more than three months	683,000	1,930,000	290,000
	1,115,651	2,659,058	1,366,757

36 CONTINGENCY

There were no significant contingent liabilities as at the date of approval of these financial statements.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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37 COMMITMENTS

(a) Capital commitments

As at December 31, 2010 and 2011, the Group had the following capital commitments which are authorized but not contracted for, and contracted but not provided for:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Authorised but not contracted for	1,744,503	1,717,800
Contracted but not provided for	99,313	283,880

A substantial amount of these commitments is related to the reform of stations or facilities relating to the existing railway line of the Company. The related financing would be from self generated operating cash flow.

(b) Operating lease commitments

In connection with the acquisition of Yangcheng Railway Business, the Company signed an agreement on November 15, 2004 with Guangzhou Railway Group for leasing the land use rights associated with the land on which the acquired assets of Yangcheng Railway Business are located. The agreement became effective upon the completion of the acquisition on January 1, 2007 and the remaining lease term is 20 years, renewable at the discretion of the Company. According to the terms of the agreement, the rental for such lease would be agreed by both parties every year with a maximum amount not exceeding RMB 74,000,000 per year. During the year ended December 31, 2011, the related lease rental paid and payable was RMB 53,600,000 (2009 and 2010: RMB 51,200,000 and RMB 52,400,000).

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38 RELATED PARTY TRANSACTIONS

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

(a) Related parties that control the Company or are controlled by the Company:

See Note 10 for the subsidiaries.

None of the shareholders is the controlling entity of the Company.

(b) Nature of the principal related parties that do not control/are not controlled by the Company:

Name of related parties	Relationship with the Group
Single largest shareholder and its subsidiaries	
Guangzhou Railway Group	Single largest shareholder
Guangmeishan Railway Company Limited	Subsidiary of the single largest shareholder
Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company (GEDC)	Subsidiary of the single largest shareholder
Guangzhou Railway Group YangCheng Railway Enterprise Development Company	Subsidiary of the single largest shareholder
Guangzhou Railway Material Supply Company	Subsidiary of the single largest shareholder
Guangzhou Railway Engineer Construction Enterprise Development Company	Subsidiary of the single largest shareholder
Yangcheng Construction Company of YangCheng Railway Enterprise Development Company	Subsidiary of the single largest shareholder
Guangzhou Railway Real Estate Construction Company	Subsidiary of the single largest shareholder
Yuehai Railway Company Limited	Subsidiary of the single largest shareholder
Shichang Railway Company Limited	Subsidiary of the single largest shareholder
Guangzhou Railway Station Service Centre	Subsidiary of the single largest shareholder
Changsha Railway Construction Company Limited	Subsidiary of the single largest shareholder
Guangdong Sanmao Railway Company Limited	Subsidiary of the single largest shareholder
Guangzhou Qingda Transportation Company Limited	Subsidiary of the single largest shareholder
Guangzhou Yuetie Operational Development Company	Subsidiary of the single largest shareholder
Guangzhou Railway Rolling Stock Works	Subsidiary of the single largest shareholder
Foreign Economic & Trade Development Corporation of Guangzhou Railway group	Subsidiary of the single largest shareholder
Shenzhen Guangshen Railway Living Service Centre	Subsidiary of the single largest shareholder
Guangzhou Yangcheng Living Service Centre	Subsidiary of the single largest shareholder
Pajiangkou Stone Pit	Subsidiary of the single largest shareholder

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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38 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Nature of the principal related parties that do not control/are not controlled by the Company (continued):

Name of related parties	Relationship with the Group
Guangdong Tieqing International Travel Agency Company Limited	Subsidiary of the single largest shareholder
Guangdong Sanmao Enterprise Development Company Limited	Subsidiary of the single largest shareholder
Guangdong Guangzhu Intercity Rail Transportation Company Limited	Subsidiary of the single largest shareholder
Guangshengang Passenger Special Line Company Limited	Subsidiary of the single largest shareholder
Associates of the Group	
Zengcheng Lihua Stock Company Limited	Associate of the Group
Guangzhou Tiecheng Enterprise Company Limited	Associate of the Group
Shenzhen Guangshen Railway Civil Engineering Company	Associate of the Group
Other related party	
Guangzhu Railway Company Limited	Entity supervised by the chairman of the Company

(c) Save as disclosed in other notes to the Financial Statements, during the year, the Group had the following material transactions undertaken with related parties:

	2009 RMB 000	2010 RMB 000	2011 RMB 000
Provide Services			
Revenue collected by MOR for services provided to Guangzhou Railway Group and its subsidiaries (i) (Note 39)	1,069,053	1,115,028	1,155,391
Revenue collected through Guangzhou Railway Group for provision of repairing services for cargo trucks ((ii) and (vii))	220,000	191,369	
- For Guangzhou Railway Group and its subsidiaries	17,984	6,173	
- For other companies	202,016	185,196	
Provision of train transportation services to Guangzhou Railway Group and its subsidiaries (ii)	208,860	347,849	407,220
Revenue from railway operation service provided to Guangzhou Railway Group s subsidiaries (iv)			273,460
Receive Services			
Cost settled by MOR for services provided by Guangzhou Railway Group and its subsidiaries (i) (Note 39)	1,530,479	1,367,444	1,488,224
Provision of train transportation services by Guangzhou Railway Group and its subsidiaries (iii)	347,969	428,288	637,099
Provision of repair and maintenance services by Guangzhou Railway Group and its subsidiaries (ii)	115,455	171,154	260,118

Social services (employee housing and public security services and other ancillary services) provided by GEDC and Yangcheng Railway (iv)	369,257	144,750	115,190
Provision of construction services by Guangzhou Railway Group and its subsidiaries (ii)	241,753	115,075	224,892
Purchase			
Purchase of materials and supplies from Guangzhou Railway Group and its subsidiaries (vi)	631,149	431,988	709,014
Sales			
Sales of materials and supplies to Guangzhou Railway Group and its subsidiaries (v)	2,520	17,827	23,696
Others			
Operating lease rental paid to Guangzhou Railway Group for the leasing of land use rights (Note 37(b))	51,200	52,400	53,600
Compensation of loss on construction-in-progress from Guangzhu Railway Company Limited			17,039

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(All amounts expressed in Renminbi unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Save as disclosed in other notes to the Financial Statements, during the year, the Group had the following material transactions undertaken with related parties (continued):

(i) Such revenues/charges are determined by the MOR based on its standard charges applied on a nationwide basis.

(ii) The service charges are determined based on a pricing scheme set by the MOR or based on negotiation between the contracting parties with reference to full cost principle.

(iii) The service charges are determined based on negotiation between the contracting parties with reference to full cost principle.

(iv) The service charges are levied based on contract prices determined based on cost plus a profit margin and explicitly agreed between both contract parties.

(v) The prices are determined based on mutual negotiation between the contracting parties with reference to full cost principle.

(vi) The prices are determined based on mutual negotiation between the contracting parties with reference to purchase price plus a management fee.

(vii) Such revenue collected through Guangzhou Railway Group for provision of repairing services for cargo trucks was collected through MOR from 2011.

(d) On December 31, 2011, the Company acquired certain assets and liabilities from Guangzhou Railway Group and three subsidiaries of it (namely Yangcheng Railway Enterprise Development Company, Shenzhen Guangshen Railway Living Service Centre and Guangzhou Yangcheng Living Service Centre) with a total consideration of RMB 14,920,000.

(e) Key management compensation

Key management includes directors (executive and non-executive), general manager and vice general managers, assistant of general manager, chief financial officer and the company Secretary. During the year ended December 31, 2009, 2010 and 2011, the compensation paid or payable to key management for employee services is RMB 3,562,597, RMB 4,093,000 and RMB 4,140,000 respectively.

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38 RELATED PARTY TRANSACTIONS (CONTINUED)

(f) As at December 31, 2010 and 2011, the Group had the following material balances maintained with related parties:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Due from Guangzhou Railway Group	299,400	309,159
- Trade receivables (i)	292,504	296,449
- Prepayments and other receivables	6,896	12,710
Due to Guangzhou Railway Group	18,408	37,374
- Trade payables (i)	9,694	36,105
- Other payables	8,714	1,269
Due from subsidiaries of Guangzhou Railway Group	33,629	219,188
- Trade receivables	26,682	191,230
Less: impairment provision	(19)	(19)
- Prepayments and other receivables	6,966	27,977
Due to subsidiaries of Guangzhou Railway Group	158,522	187,499
- Trade payables (ii)	135,999	164,221
- Other payables (iii)	22,523	23,278
Due from an associate	1,451	1,733
- Trade receivables	22	
- Prepayments and other receivables	13,741	14,045
Less: impairment provision (v)	(12,312)	(12,312)
Due to an associate	6,991	5,803
- Trade payables		2
- Other payables (iv)	6,991	5,801

Due from Guangzhu Railway Company Limited		17,039
- Prepayments and other receivables		17,039
Payables for fixed assets and construction-in-progress	96,328	145,416
- Guangzhou Railway Group and its subsidiaries	77,423	123,107
- Associates	18,905	22,309

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38 RELATED PARTY TRANSACTIONS (CONTINUED)

(f) As at December 31, 2010 and 2011, the Group had the following material balances maintained with related parties (continued):

(i) The trade balances due from/to Guangzhou Railway Group, subsidiaries of Guangzhou Railway Group 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 as described in 38(c)(i).

(ii) The trade balances due to subsidiaries of Guangzhou Railway Group mainly represent payables arising from unsettled fees for purchase of materials and provision of other services according to various service agreements entered into between the Group and the related parties (see Note 38(c) above).

(iii) The non-trade balances due to subsidiaries of Guangzhou Railway Group mainly represent the deposits of related parties maintained in the deposit-taking centre of the Company.

(iv) 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.

(v) Impairment loss provision set up against a receivable balance due from Zengcheng Lihua, which was brought forward from prior years.

As at December 31, 2010 and 2011, all the balances maintained with related parties are unsecured, non-interest bearing and are repayable on demand.

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39 TRANSACTIONS WITH MOR

MOR is the controlling entity of the Company s single shareholder (i.e. Guangzhou Railway Group). In addition, it is the government authority which governs and monitors the railway business centrally within the PRC. The Company works 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 revenues generated from these long-distance passenger and freight transportation businesses are 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 instructed by the MOR and settled by the MOR based on its systems.

(a) Save as disclosed in other notes to the Financial Statements, during the year, the Group had the following material transactions undertaken with MOR:

	2009 RMB 000	2010 RMB 000	2011 RMB 000
Recurring Transactions:			
Income			
Revenue collected from the MOR			
- 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(i)			221,386
Charges and Payments			
Services charges allocated from the MOR for equipment lease and services	2,404,966	2,487,995	2,721,039
Operating lease rentals paid/payable to the MOR	162,651	178,917	200,693

(i) Such revenue was collected through Guangzhou Railway Group before 2011. Starting 2011, such revenue was collected through 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.

(b) As at December 31, 2010 and 2011, the Group had the following material balances maintained with MOR:

	As at December 31, 2010 RMB 000	As at December 31, 2011 RMB 000
Due from MOR		

- Trade receivables	24,805	18,017
Due to MOR		
- Trade payables	166,271	193,856

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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(All amounts expressed in Renminbi unless otherwise stated)

40 SUBSEQUENT EVENTS

Save as already disclosed in the notes to the financial statements, the Group had no other significant subsequent event.

41 COMPARATIVE FIGURES

With the change of industry practice due to the revised guidance issued by MOR, management revisited 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 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 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 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 activities resulted from the above re-classifications.

The effect of the change is tabulated below:

	2009 RMB 000	2010 RMB 000	2011 RMB 000
Decrease in passenger revenue	354,058	726,981	955,563
Decrease in freight revenue	45,267	45,475	45,921
Increase in railway network usage and other transportation related services revenue	(399,325)	(772,456)	(1,001,484)

Management considered that the above reclassifications would enhance the comparability of the 2009 and 2010 financial statements with that of the current year. As the reclassifications have no effect on the earliest balance sheets, management considered that it would be sufficient for the Group merely to disclose the fact.