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GUANGSHEN RAILWAY CO LTD

Form 20-F

June 26, 2008

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 26, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

(Mark One)

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

or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

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

COMMISSION FILE NUMBER: 1-14362

(CHINESE CHARACTERS)

(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)

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.

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Class H ordinary shares, nominal value
RMB1.00 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, 2007:

Domestic shares (A shares), par value RMB1.00 per share.....
H shares, par value RMB1.00 per share

(including 234,794,700 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 ___ No X

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 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 financial statement item the registrant has
elected to follow.

Item 17 ___ Item 18 X

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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TABLE OF CONTENTS

| | Pages ----- |
|---|----------------|
| Forward-Looking Statements..... | 1 |
| Certain Terms and Conventions..... | 1 |
| PART I | |
| ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS..... | 3 |
| ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE..... | 3 |
| ITEM 3. KEY INFORMATION..... | 3 |
| Item 3A. Selected Consolidated Financial and Other Data..... | 3 |
| Item 3B. Capitalization and Indebtedness..... | 5 |
| Item 3C. Reasons for the Offer and Use of Proceeds..... | 5 |
| Item 3D. Risk Factors..... | 5 |
| ITEM 4. INFORMATION ON THE COMPANY..... | 14 |
| Item 4A. History and Development of the Company..... | 14 |
| Item 4B. Business Overview..... | 18 |
| Item 4C. Organizational Structure..... | 33 |
| Item 4D. Property, Plant and Equipment..... | 34 |
| ITEM 4A. UNRESOLVED STAFF COMMENTS..... | 35 |
| ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS..... | 36 |
| Item 5A. Results of Operations..... | 37 |
| Item 5B. Liquidity and Capital Resources..... | 48 |
| Item 5C. Research and Development, Patents and Licenses, etc..... | 51 |
| Item 5D. Trend Information..... | 51 |
| Item 5E. Off-Balance Sheet Arrangements..... | 52 |
| Item 5F. Tabular Disclosure of Contractual Obligations..... | 52 |
| Item 5G. Safe Harbor..... | 53 |
| ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES..... | 53 |
| Item 6A. Directors and Senior Management..... | 53 |
| Item 6B. Board Compensation..... | 59 |
| Item 6C. Board Practices..... | 60 |
| Item 6D. Employees..... | 63 |
| Item 6E. Share Ownership..... | 65 |
| ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS..... | 65 |
| Item 7A. Major Shareholders..... | 65 |
| Item 7B. Related Party Transactions..... | 67 |
| Item 7C. Interests of Experts and Counsel..... | 75 |
| ITEM 8. FINANCIAL INFORMATION..... | 75 |
| Item 8A. Consolidated Statements and Other Financial Information..... | 75 |
| Item 8B. Significant Changes..... | 77 |
| ITEM 9. THE OFFER AND LISTING..... | 78 |
| Item 9A. Offer and Listing Details..... | 78 |
| Item 9B. Plan of Distribution..... | 79 |
| Item 9C. Markets..... | 79 |
| Item 9D. Selling Shareholders..... | 79 |
| Item 9E. Dilution..... | 79 |
| Item 9F. Expenses of the Issue..... | 79 |
| ITEM 10. ADDITIONAL INFORMATION..... | 80 |
| Item 10A. Share Capital..... | 80 |
| Item 10B. Memorandum and Articles of Association..... | 80 |

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| | |
|---|-----|
| Item 10C. Material Contracts..... | 91 |
| Item 10D. Exchange Controls..... | 91 |
| Item 10E. Taxation..... | 92 |
| Item 10F. Dividends and Paying Agents..... | 100 |
| Item 10G. Statement by Experts..... | 100 |
| Item 10H. Documents on Display..... | 100 |
| Item 10I. Subsidiary Information..... | 101 |
| ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK..... | 102 |
| ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.... | 105 |
| PART II | |
| ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES..... | 106 |
| ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS..... | 106 |
| ITEM 15. CONTROLS AND PROCEDURES..... | 106 |
| ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT..... | 108 |
| ITEM 16B. CODE OF ETHICS..... | 108 |
| ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES..... | 108 |
| ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES..... | 108 |
| ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS..... | 109 |
| PART III | |
| ITEM 17. FINANCIAL STATEMENTS..... | 110 |
| ITEM 18. FINANCIAL STATEMENTS..... | 110 |
| ITEM 19. EXHIBITS..... | 110 |

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" or similar 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, a recurrence of the Severe Acute Respiratory Syndrome, or SARS, epidemic or other similar health epidemics or outbreaks, such as avian flu, 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 3D. 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

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translations of amounts from Renminbi into U.S. dollars and vice versa at the rate of RMB7.29 to US\$1.00, which is rounded from 7.2946, which was the noon buying rate in New York City for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2007, except where we specify that a different rate has been used. You should not construe these translations as representations that the Renminbi amounts actually represent U.S. dollar amounts or could be converted into U.S. dollars at that rate or at all. See "Item 3A. Selected Consolidated Financial and Other Data--Exchange Rate Information" for information regarding the noon buying rates for U.S. dollar/Renminbi conversions from January 1, 2003 through June 25, 2008.

We prepare and publish our consolidated financial statements in Renminbi.

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

1

between Guangzhou and Pingshi and the related assets from Yangcheng Railway Company according to the Acquisition Agreement dated November 15, 2004 between Yangcheng Railway Company and us.

- "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.
- "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.
- "Guangshen Railway", "Company", "we", "our" or "us" means Guangshen Railway Company Limited, a joint stock limited company incorporated in China with limited liability, and its subsidiaries on a consolidated basis.
- "Hong Kong" means the Hong Kong Special Administrative Region of the PRC.
- "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.
- "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.
- "tonne" means metric tonne; and one tonne is approximately 2,205

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pounds in weight.

- "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.

2

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

ITEM 3A. SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated data relating to our consolidated balance sheets as of December 31, 2006 and 2007, and our consolidated statements of income, changes in equity and cash flows for each of the years ended December 31, 2005, 2006 and 2007 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 following selected consolidated data relating to our consolidated balance sheets as of December 31, 2003, 2004 and 2005, and our consolidated statements of income, changes in equity and cash flows for each of the years ended December 31, 2003 and 2004 are derived from our previously published audited consolidated financial statements that are not included in this annual report.

The audited 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.

| | YEAR ENDED DECEMBER 31, | | | |
|--|--|-----------|-----------|-----------|
| | 2003 | 2004 | 2005 | 2006 |
| | RMB | RMB | RMB | RMB |
| | (IN THOUSANDS EXCEPT FOR PER SHARE DATA) | | | |
| INCOME STATEMENT DATA: | | | | |
| Revenues from railroad businesses | | | | |
| - Passenger (2)..... | 1,637,453 | 2,076,272 | 2,253,335 | 2,608,838 |
| - Freight (2)..... | 526,382 | 611,807 | 540,341 | 565,557 |
| - Railway network usage and service (2)..... | 152,751 | 183,399 | 305,790 | 291,489 |
| Subtotal..... | 2,316,586 | 2,871,478 | 3,099,466 | 3,465,884 |
| Revenues from other businesses..... | 151,596 | 166,671 | 177,462 | 128,590 |

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| | | | | | |
|--|-------------|-------------|-------------|-------------|-------|
| Total revenues..... | 2,468,182 | 3,038,149 | 3,276,928 | 3,594,474 | 1 |
| Railroad operating expenses..... | (1,717,307) | (2,203,273) | (2,339,384) | (2,527,907) | (|
| Other businesses operating expenses... | (149,614) | (166,155) | (190,347) | (166,011) | |
| | ----- | ----- | ----- | ----- | ----- |
| Other income..... | 47,341 | 48,193 | 51,628 | 64,648 | |
| | ----- | ----- | ----- | ----- | ----- |
| Profit from operations | 648,602 | 716,914 | 798,825 | 965,204 | |
| Profit attributable to shareholders of the Company..... | 544,528 | 600,250 | 646,960 | 771,513 | |
| Profit from operations per share..... | 0.15 | 0.17 | 0.18 | 0.22 | |
| Earnings per share for profit attributable to shareholders of the Company | | | | | |
| - Basic and diluted..... | 0.13 | 0.14 | 0.15 | 0.17 | |
| Dividends declared per share..... | 0.10 | 0.105 | 0.12 | 0.08 | |
| Earnings per ADS for profit attributable to shareholders of the Company..... | 6.28 | 6.92 | 7.46 | 8.90 | |

BALANCE SHEET DATA (AT YEAR END):

3

| | YEAR ENDED DECEMBER 31, | | | | |
|---|---------------------------------------|-------------|-------------|-------------|-------|
| | 2003 | 2004 | 2005 | 2006 | |
| | RMB | RMB | RMB | RMB | |
| | (IN THOUSANDS EXCEPT FOR PER SHARE DA | | | | |
| Working capital (3)..... | 1,898,749 | 2,051,590 | 467,124 | 4,249,117 | |
| Fixed assets..... | 5,830,125 | 5,889,074 | 6,346,822 | 6,738,477 | 1 |
| Leasehold land payments..... | 652,083 | 636,379 | 620,798 | 625,628 | |
| | ----- | ----- | ----- | ----- | ----- |
| Total assets (3) and (4)..... | 10,119,613 | 10,362,851 | 11,683,057 | 24,139,331 | 2 |
| Equity attributable to shareholders of the Company..... | 9,368,018 | 9,499,000 | 9,796,076 | 20,169,008 | 2 |
| Share capital, issued and outstanding, RMB1.00 per value, | | | | | |
| domestic shares..... | 2,904,250 | 2,904,250 | 2,904,250 | 5,652,237 | |
| H shares..... | 1,431,300 | 1,431,300 | 1,431,300 | 1,431,300 | |
| CASH FLOW STATEMENT DATA: | | | | | |
| Net cash generated from operating activities..... | 798,449 | 1,236,579 | 1,380,147 | 1,112,004 | |
| Net cash used in investing activities.. | (375,469) | (1,000,639) | (820,915) | (7,833,331) | (|
| Net cash (used in)/generated from financing activities..... | (433,666) | (469,044) | (491,733) | 11,461,030 | |
| Purchase of fixed assets and payment for construction-in-progress..... | (339,208) | (310,179) | (1,588,374) | (3,202,670) | (|
| Dividends paid to shareholders of the Company..... | (433,561) | (455,009) | (476,904) | (520,655) | |
| OTHER DATA: | | | | | |
| Railroad transportation operating income | 645,437 | 715,230 | 808,613 | 999,968 | |
| Other businesses operating income/(loss) | 3,165 | 1,684 | (9,788) | (34,764) | |

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- (1) Translation of amounts from Renminbi, or RMB, into United States dollars, or US\$, for the convenience of the reader has been made at US\$1.00 = RMB7.29, which is rounded from 7.2946, the noon buying rate in New York City on December 31, 2007. No representation is made that the RMB amounts could have been, or could be, converted into US dollars at that rate on December 31, 2007 or on any other date.
- (2) Revenue from network usage and services recorded within the "Passenger" and "Freight" category of revenue in the prior years has been separately disclosed on the income statement in order to conform to the current year presentation.
- (3) Amounts due from/to associates which were recorded within "Interest in associates" in the prior year have been reclassified to "Due from/to related parties" to conform to the presentation of the balance sheet in the current year.
- (4) Restricted cash balance, which represents funds set aside by the Company for the employee housing fund maintained in designated bank accounts of the Company held on behalf of the related employees, has been offset against the corresponding payable balance due to the employees in order to conform to the current year presentation of the balance sheet.

EXCHANGE RATE INFORMATION

We derive a majority of our revenue and incur most of our expenses in Renminbi. In addition, we maintain our books and records in Renminbi and our financial statements are prepared and expressed in Renminbi. Solely for the convenience of the reader, this annual report contains translations of certain Renminbi amounts into U.S. dollars and vice versa at RMB7.29 = US\$1.00, which is rounded from 7.2946, the noon buying rate in New York City on December 31, 2007. These translations should not be construed as representations that the Renminbi amounts could have been or could be converted into U.S. dollars at such rate or at all.

The noon buying rates for Renminbi in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB6.8653 = US\$1.00 on June 25, 2008.

The following table sets forth information concerning the 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 Renminbi, expressed in Renminbi per U.S. dollar, for the periods indicated:

| PERIOD ----- | NOON BUYING RATE | |
|-----------------|----------------------------|---------------|
| | AVERAGE (1) ----- | HIGH ----- |
| | (RENMINBI PER U.S. DOLLAR) | |
| 2003..... | 8.2772 | 8.2800 |
| 2004..... | 8.2768 | 8.2774 |
| 2005..... | 8.1826 | 8.2765 |
| 2006..... | 7.9723 | 8.0702 |
| 2007..... | 7.5806 | 7.8127 |
| 2008 | | |
| January..... | 7.2405 | 7.2946 |
| February..... | 7.1644 | 7.1973 |
| March..... | 7.0722 | 7.1110 |

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| | | |
|-----------------------------|--------|--------|
| April..... | 6.9997 | 7.0185 |
| May..... | 6,9725 | 7.0000 |
| June (through June 25)..... | 6.9057 | 6.9633 |

- (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 April 23, 2008, the directors proposed a final dividend of RMB0.08 per ordinary share for the year ended December 31, 2007, which was approved at our annual general meeting of shareholders held on June 26, 2008. This proposed dividend has not been reflected as a dividend payable in the financial statements, but instead as equity attributable to equity holders of the Company.

In accordance with our Articles of Association, dividends for our domestic shares will be paid in Renminbi while dividends for our H shares will be calculated in Renminbi and paid in Hong Kong dollars. The exchange rate was based on the average of the closing exchange rates for Renminbi to Hong Kong dollars as announced by the People's Bank of China during the calendar week preceding the date on which the dividend is to be distributed, which is July 25, 2008.

ITEM 3B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

ITEM 3C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

ITEM 3D. RISK FACTORS

RISKS RELATING TO OUR BUSINESS

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,

5

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, as the PRC government has lifted certain restrictions and control over foreign investments in China following China's entry into the World Trade Organization, or the WTO, for example, by allowing foreign participation and investment in railway freight operations, we may lose our current status of sole railway service provider we currently enjoy in our service territory. Furthermore, the completion of the Wuhan-Guangzhou and the Guangzhou-Shenzhen-

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Hong Kong express railways, which are both under construction and are expected to be completed around 2010, may further increase the competition we face. Increased competition against us may adversely affect our revenues and results of operations. See "Item 4B. Business Overview--Competition" for additional information regarding our competition.

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 REVENUES 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 a natural disaster or a recurrence of the SARS epidemic or outbreaks of avian flu or other similar health epidemics, may have a material adverse effect on our revenues and results of operations. 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.

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 economic and technological development and the restructuring of the industries' structure in our service areas, commodities, such as advanced technological products, which tend to be compact, may be chosen to be shipped by road or air. We face significant competition in the transportation of such low-volume, high-value products.

6

For example, in 2006, the aggregate weight of goods we transported decreased by 3.7% compared with those of 2005. 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 4A. 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

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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.

A CHANGE TO OUR PREFERENTIAL INCOME TAX STATUS 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 new EIT Law, which has taken effect from January 1, 2008. According to the new EIT Law, the preferential income tax rate of 15% that is currently applicable to companies incorporated in Shenzhen (like us) and other special economic zones will be gradually phased out in five years beginning from January 1, 2008, and effective from January 1, 2012, the applicable tax rate applicable to us will become 25%, i.e., the unified income tax rate applicable to all domestic companies in the PRC with some minor exceptions. According to the Notice Regarding Implementation of Preferential Enterprise Income Tax in the Transition Period issued by the State Council, companies which used to enjoy a preferential tax rate of 15% will be subject to the following tax rate for the next 5 years from 2008 through 2012:

- 18% for 2008;
- 20% for 2009;
- 22% for 2010;
- 24% for 2011; and
- 25% for 2012.

7

The increase in our effective tax rate as a result of the above 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 OF THE PRC 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 of the PRC, or 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 regulation 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 SERVICE PROVIDER MAY HAVE INTERESTS THAT CONFLICT WITH THE BEST INTERESTS OF OUR OTHER SHAREHOLDERS AND OUR COMPANY.

Before the initial public offering of our class A ordinary shares (the "A shares"), or A Share Offering, in December 2006, Guangzhou Railway (Group) Company, or GRGC, held 67% of our issued share capital and was our controlling shareholder. Upon the completion of our A Share Offering, the percentage of shares held by GRGC was reduced to approximately 41%, but GRGC remained our largest shareholder. GRGC's ownership percentage enables it to exercise substantial influence over: (1) our policies, management and affairs; (2) 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 (3) the outcome of most corporate actions. Subject to the requirements of the HKSE Listing Rules, GRGC may also cause us to effect certain corporate transactions.

GRGC's interests may sometimes conflict with the interests of some or all of our minority shareholders. We cannot assure you that GRGC, as our largest shareholder, will always vote its shares in a way that benefits our minority shareholders. In addition to its relationship with us as our 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 4B. Business Overview--Suppliers and Service Providers" and "Item 7B. Related Party Transactions" for additional information regarding the services provided to us by GRGC and its subsidiaries.

8

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. Environmental liabilities may arise from claims asserted by adjacent landowners or other third parties. We may be required to incur significant expenses to remediate any violation of applicable environmental laws and regulations. As of December 31, 2007, we had not made any provision for such liabilities.

TECHNOLOGICAL PROBLEMS ATTRIBUTABLE TO ACCIDENTS, HUMAN ERROR, SEVERE

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WEATHER OR NATURAL DISASTERS COULD AFFECT THE PERFORMANCE OR PERCEPTION OF OUR RAILWAY AND RESULT IN DECREASES IN CUSTOMERS AND REVENUES, 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 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 revenues, 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 revenues, 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. In January and February 2008, certain regions in southern China experienced extraordinary harsh winter weather, which caused equipment

9

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 revenues decreased. We cannot assure you that such events will not happen again in the future.

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 foreign 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.

THE REVENUES 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 7B Related Party Transactions" and Note 37 to our audited consolidated financial statements included elsewhere in this annual

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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 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 settled by the MOR based on its systems. Although we can, to certain extent, calculate the revenues 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 FOR COMPLIANCE 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. These requirements first applied partially to our annual report on Form 20-F for the fiscal year ended December 31, 2006 by requiring our management to provide a report regarding the assessment of the effectiveness of our internal control over financial reporting. Our management's assessment concluded that, as of December 31, 2006, we did not maintain effective internal control over financial reporting as a result of the two identified material weaknesses. See "Item 15. Controls and Procedures." Although we have successfully remediated the two identified material weaknesses identified in the year ended December 31, 2006 and have concluded that we maintained effective internal control over financial reporting for the year ended December 31, 2007, we may not be able to conclude in future years that we

10

have effective internal control over financial reporting, in accordance with the Sarbanes-Oxley Act of 2002.

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 OUR ACQUISITION

On November 15, 2004, we entered into an assets purchase agreement, or the Acquisition Agreement, with Yangcheng Railway Company to acquire the railway transportation business between Guangzhou and Pingshi and related assets, or the Acquisition. In order to finance such Acquisition, on December 13, 2006, we issued 2,747,987,000 A shares which are now listed for trading on the Shanghai Stock Exchange and raised approximately RMB10.0 billion from the A Share

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Offering. On December 28, 2006, we paid RMB5.27 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. Accordingly, the Company considers January 1, 2007 as the effective date of the Acquisition for accounting purposes. We paid the remaining balance in the amount of RMB4.87 billion on June 29, 2007.

The amount of the offering represents approximately 63.38% of our existing issued share capital and approximately 38.79% of our issued share capital as enlarged by the issuance of A shares. Upon completion of the A Share Offering, GRGC owned approximately 40.99% of our issued and outstanding common shares, all of which are A shares, while institutional and public shareholders owned approximately 59.01% of our issued and outstanding common shares, including A shares, H shares and ADSs. See "ITEM 5. Operating and Financial Review and Prospects -- Overview" for additional information.

WE CANNOT ASSURE YOU THAT THE ACQUISITION WILL BENEFIT OUR BUSINESS AND RESULTS OF OPERATIONS AS WE EXPECT.

We cannot assure you that the Acquisition will benefit our business and results of operations as we expect. As a result of the Acquisition, our railway has been extended from 152 kilometers to 481.2 kilometers. The Acquisition therefore results in greater administrative burdens and operating costs. We cannot assure you that we will be able to manage or integrate the acquired business successfully. The process of combining railway transportation business between Guangzhou and Pingshi into our operations may be disruptive to our business and may

11

cause an interruption of, or a loss of momentum in, our business as a result of the following factors, among others:

- loss of key employees or customers of the acquired business;
- possible inconsistencies in standards, controls, procedures and policies between us and the acquired business and the need to implement company-wide financial, accounting, information and other systems;
- failure to maintain the quality of services that we have historically provided;
- the need to coordinate geographically diverse organizations; and
- the diversion of management's attention from our day-to-day business as a result of the need to deal with any disruptions and difficulties and the need to add management resources to do so.

In addition, in order to ensure the success of the integration, we have restructured and adapted our management (including the restructuring of both management structure and managerial personnel) to reflect the expanded operations. However, we may fail to realize the cost savings, revenue enhancement and other benefits that we currently expect to result from the Acquisition and the integration and may cause material adverse short- and long-term effects on our operating results and financial conditions.

The Company has recognized, on a preliminary basis, goodwill associated with such Acquisition amounting to approximately RMB281.3 million upon the acquisition date as at January 1, 2007. According to relevant accounting rules under IFRS, such goodwill is subject to annual impairment loss assessment. In

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case any assessment in the future indicates that there is impairment, a loss will be recognized.

RISKS RELATING TO THE PEOPLE'S REPUBLIC OF 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

12

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. 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 Renminbi, which is not a freely convertible currency. All foreign exchange transactions involving Renminbi must be transacted through banks and other institutions authorized by the People's Bank of China, or PBOC. We receive substantially all of our revenues in Renminbi. We need to convert a portion of our revenues into other currencies to meet our foreign currency obligations, such as payment of dividends on our H shares and overseas equipment purchases. 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 dividends on our H shares.

FLUCTUATION OF THE RENMINBI COULD ADVERSELY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The value of the Renminbi fluctuates and is subject to changes in market conditions as well as China's political and economic conditions. Since 1994, the conversion of Renminbi 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 interbank 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 Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a

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narrow and managed band against a basket of certain foreign currencies. As of June 2008, this change in policy has resulted in a more than 18% appreciation of the Renminbi against the U.S. dollar ever since July 2005. While the international reaction to the Renminbi 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 Renminbi against the U.S. dollar. We have certain U.S. dollar-denominated and HK dollar-denominated assets and the appreciation of Renminbi 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 3A. Selected Consolidated Financial and Other 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 Renminbi 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.

13

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 securities laws are still at a relatively early stage of development and PRC laws and regulations dealing with business and economic matters are relatively new and still evolving, you may not enjoy shareholder protections to which you may be entitled in Hong Kong, the United States or other jurisdictions.

WE FACE RISKS RELATED TO HEALTH EPIDEMICS AND OTHER OUTBREAKS.

Our business could be adversely affected by the effects of avian flu, SARS or other epidemics or outbreaks. China reported a number of cases of SARS in April 2004. In 2005 and 2006, there have been reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases. Any prolonged recurrence of avian flu, SARS or other adverse public health developments in China may have a material adverse effect on our business operations, including our ability to travel or ship products in Southern China, as well as temporary closure of our business. Such closures or travel or shipment restrictions would severely disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, SARS or any other epidemic.

ITEM 4. INFORMATION ON THE COMPANY

ITEM 4A. 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. Our legal name is (CHINESE CHARACTERS), 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) 2558-7920 or 2558-8146 and our fax number is (86-755) 2559-1480.

Our H shares (share code: 0525) and American Depositary Shares, or ADSs (ticker symbol: GSH), were listed on the Stock Exchange of Hong Kong Limited, or

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the Hong Kong Exchange, and the New York Stock Exchange, Inc., or the NYSE, respectively, in May 1996. Our A shares (share code: 601333) were listed on the Shanghai Stock Exchange in December 2006. We are currently the only PRC railway enterprise with shares 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 the Northern and Southern railways of 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,

14

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, and with the completion of the Fourth Rail Line in 2007, the Guangzhou-Shenzhen Railway has become 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, 2007, we operated 195 pairs of passenger trains in accordance with our daily train schedule, including 80 pairs of inter-city high-speed passenger trains between Guangzhou and Shenzhen, 13 pairs of Hong Kong Through Trains and 102 pairs of long-distance passenger trains. With our efforts to promote the development of high-speed passenger trains, our domestically manufactured electric multiple units trains, or EMUs (also known as "Concords"), with a top speed of 200 kilometers per hour, transported most of our passengers between Guangzhou and Shenzhen beginning from 2007. One pair of EMUs between Guangzhou and Shenzhen is dispatched every 15 minutes on average during peak hours, as part of our "As-Frequent-As-Buses" Train Project, which we initially launched in 2001.

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 Administration, a predecessor to GRGC.

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

In 1984, to exploit the rapid growth in the Pearl River Delta, the

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Guangshen Railway Company, our predecessor, was formed pursuant to the approval of the State Council as a state-owned enterprise administered by the Guangzhou Railway Administration. 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 high-speed locomotives and

15

passenger coaches, which can provide passenger train services at speeds of more than 160 kilometers per hour. Our high-speed line was the first of its kind in China. Commercial operation of the high-speed 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 RMB1.00 per share, of Guangshen Railway were issued to GRGC, a state-owned enterprise controlled by the MOR of the PRC.

Since April 1, 1996, we have been able to set our own prices for our high-speed train services and charge a premium over average national prices for our other passenger and freight train services. See "Item 4B. 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 RMB1.00 per share. Our H shares are listed for trading on the Hong Kong Exchange and our American depositary shares, or ADSs, each representing 50 H shares, are listed for trading on the NYSE. Our H shares or ADSs may not be purchased or owned by domestic investors in the PRC. In December 2006, we completed the initial public offering of our A shares. Our A shares (stock code: 601333) are listed for trading on the Shanghai Stock Exchange. 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 common shares, including A shares, H shares and ADSs.

GEDC, a state-owned enterprise established in the Restructuring in connection with the initial public offering of the H shares and ADSs, assumed the operations and assets of Guangshen Railway Company that were not transferred to us in the Restructuring, such as employee housing, hospitals, schools and public security, and has been providing related services to us on a contractual basis since the Restructuring.

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 operation 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 March 2006 and July 2007, we conducted organizational reforms to streamline our organization and improve efficiency. Through these reforms, we restructured, and reallocated the responsibilities of our administrative and functional departments and made the following departments the functional departments under the supervision of our general manager: the General Administrative Department, Finance Department, Human Resources Department, Transportation Administrative Department, Security Supervisory Department, Diversified Business Management Department and Audit Department. Our frontline

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production and operational departments were generally not affected by this organizational reform. In October

16

2007, we adjusted our overall railway transportation business units into 13 units.

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 December 31, 2007, we had 49 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 passenger Through Train services in conjunction with the MTR, we also allow Hong Kong-bound freight trains to use our railroad.

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 49.12% 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

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17

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.

ITEM 4B. BUSINESS OVERVIEW

BUSINESS OPERATIONS

Our principal businesses are railroad passenger and freight transportation and railway network usage and service, which collectively generated 93.4% of our total revenues in 2007.

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. The acquired business has contributed approximately RMB 5,993.2 million to our revenues and RMB 900.3 million to our net profit for the year ended December 31, 2007.

On April 18, 2007, after the national railway system of China implemented its sixth large-scale railway speed-up project of the national railway system, 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 2007, we also put our domestically manufactured high-speed electric train sets into operation, which has been popular with our passengers. In addition, we continued to implement our "As-Frequent-As-Buses" Train Project and improved our passenger service equipment. We have also focused on improving our corporate governance and safety procedures.

In 2007, our total revenues were RMB10,508.5 million, representing an increase of 192.4% from RMB3,594.5 million in 2006. Our revenues from railroad passenger transportation service, freight transportation service, railway network usage and services and other businesses were RMB5,833.5 million, RMB1,326.5 million, RMB2,659.5 and RMB689.0 million, respectively, accounting for 55.5%, 12.6%, 25.3% and 6.6%, respectively, of our total revenues in 2007. Our profit attributable to shareholders was RMB1,431.4 million, representing an increase of 85.5% from RMB771.5 million in 2006. The revenue from our other businesses was RMB689.0 million, representing an increase of 435.8% from RMB128.6 million in 2006.

The table below summarizes our railroad transportation revenues and traffic volume in each of the five years ended December 31, 2003, 2004, 2005, 2006 and 2007.

| | YEAR ENDED DECEMBER 31, | | | |
|---|-------------------------|----------|----------|----------|
| | 2003 | 2004 | 2005 | |
| PASSENGER TRANSPORTATION | | | | |
| Total passenger revenues (RMB millions)..... | 1,637.45 | 2,076.27 | 2,253.34 | 2,600.00 |
| Total passengers (millions) (1)..... | 26.14 | 31.56 | 33.00 | 33.00 |
| Revenues per passenger (RMB) (2)..... | 62.64 | 65.79 | 68.28 | 78.79 |
| Total passenger-kilometers (millions)..... | 3,295.50 | 4,200.20 | 4,539.10 | 4,800.00 |
| Revenues per passenger-kilometer (RMB) (3)... | 0.50 | 0.49 | 0.50 | 0.50 |
| FREIGHT TRANSPORTATION | | | | |

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| | | | | |
|--|--------|--------|--------|----|
| Total freight revenues (RMB millions)..... | 526.38 | 611.81 | 540.34 | 56 |
|--|--------|--------|--------|----|

18

| | YEAR ENDED DECEMBER 31, | | | |
|--|-------------------------|----------|----------|-----|
| | 2003 | 2004 | 2005 | |
| | ---- | ---- | ---- | |
| Total freight tonnes (millions)..... | 27.58 | 34.20 | 31.89 | 3 |
| Revenues per tonne (RMB) (4)..... | 19.08 | 17.89 | 16.94 | 1 |
| Total tonne-kilometers (millions)..... | 1,978.90 | 2,489.50 | 2,294.80 | 2,2 |
| Revenues per tonne-kilometer (RMB) (5)..... | 0.27 | 0.25 | 0.24 | |
| RAILWAY NETWORK USAGE AND SERVICE (RMB millions) (6)..... | 152.75 | 183.40 | 305.79 | 29 |

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- (1) Prior to 2006, we recorded the aggregate of the passengers arriving at and departing from our railway stations as total passengers. Beginning from the year ended December 31, 2006, we began recording only those passengers departing from our railway stations as total passengers. To conform to the current year presentation, we have adjusted the numbers of total passengers for each of the years ended December 31, 2003, 2004 and 2005 to only include passengers departing from our railway stations.
 - (2) Revenues per passenger is calculated by dividing total passenger revenue by total passengers. Management believes that revenues per passenger is a useful measure for assessing the revenue levels of our passenger transportation business.
 - (3) Revenues per passenger-kilometer is calculated by dividing total passenger revenue by total passenger-kilometers. Management believes that revenues per passenger-kilometer is a useful measure for assessing the revenue levels of our passenger transportation business.
 - (4) Revenues per tonne is calculated by dividing total freight revenue by total freight tonnes. Management believes that revenues per tonne is a useful measure for assessing the revenue levels of our freight transportation business.
 - (5) Revenues per tonne-kilometer is calculated by dividing total freight revenue by total tonne-kilometers. Management believes that revenues per tonne-kilometer is a useful measure for assessing the revenue levels of our freight transportation business.
 - (6) Since our revenue from railway network usage and service was insignificant before the acquisition of the railway transportation business of Guangzhou-Pingshi Railway in 2007, we recorded such revenues into the revenues from passenger and freight transportation in previous years. Upon the acquisition of the railway transportation business of Guangzhou-Pingshi Railway, our revenues from railway network usage and service have become material. Our management decided to record the revenue from railway network usage and service separately since the year ended December 31, 2007. To conform to the current year presentation, we have adjusted the revenues of each of the years ended December 31, 2003, 2004, 2005 and 2006.

PASSENGER TRANSPORTATION

Passenger transportation is our largest business segment, and accounted for 55.5% of our total revenues, and 59.4% of our railroad transportation revenues, in 2007. Our passenger train services can be categorized as follows:

- intercity high-speed express trains between Guangzhou and Shenzhen;

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- Hong Kong Through Trains between Hong Kong and Guangzhou; and
- domestic long-distance trains.

As of December 31, 2007, we operated 195 pairs of passenger trains per day (each pair of trains meaning trains making one round-trip between two points), representing an increase of 72 pairs from 123 pairs as of December 31, 2006, of which:

- 80 pairs were high-speed express passenger trains operating between Guangzhou and Shenzhen, representing an increase of 13 pairs;

19

- 13 pairs were Hong Kong Through Trains; (including 11 pairs of Hong Kong Through Trains, one pair of through train between Zhaoqing and Kowloon, and one through train that operates on alternating days either on the Beijing-Kowloon line or the Shanghai-Kowloon line); and
- 102 pairs were domestic long-distance passenger trains (including fourteen pairs of long-distance passenger trains operated by us between Shenzhen and Yueyang, between Shenzhen and Shanghai, between Shenzhen and Shaoguan, between Guangzhou and Chongqing, between Guangzhou and Wanzhou, between Guangzhou and Liuzhou, between Guangzhou and Wuchang, between Guangzhou and Xi'an, between Guangzhou and Changsha, between Guangzhou and Lhasa, between Sanya and Beijing and between Sanya and Shanghai, two pairs of long-distance passenger trains between Shenzhen and Beijing, and 88 pairs of domestic long-distance trains, operated by other operators but originating or terminating on, or passing through, our Guangzhou-Shenzhen railroad), representing an increase of 61 pairs from 41 pairs as of December 31, 2006.

The table below sets out passenger revenues and volumes for our Hong Kong Through Trains and domestic trains in each of 2005, 2006 and 2007:

| | PASSENGER REVENUES | | | PASSENGER VOLUME | | | REVENUE |
|------------------------------------|--------------------|---------|---------|------------------|------|------|----------------|
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2005 |
| | (RMB MILLIONS) | | | (MILLIONS) | | | (RMB MILLIONS) |
| Guangzhou-Shenzhen Trains..... | 1,219.8 | 1,341.7 | 1,494.2 | 21.5 | 22.2 | 24.7 | 56.7 |
| Hong Kong Through Trains..... | 457.7 | 454.2 | 430.5 | 3.1 | 3.2 | 3.2 | 149.3 |
| Long-distance Trains | 575.8 | 812.9 | 3,908.8 | 10.0 | 10.5 | 45.1 | 34.1 |
| Combined passenger operations..... | 2,253.3 | 2,608.8 | 5,833.5 | 34.6 | 35.9 | 73.0 | 51.2 |

Guangzhou-Shenzhen Trains. In 2007, our passenger transportation services on the trains between Guangzhou and Shenzhen contributed most to our railroad passenger transportation revenues. In 2007, we did not operate any regular speed inter-city train between Guangzhou and Shenzhen. As of December 31, 2007, we operated, on average, a total of 80 pairs of EMU high-speed passenger trains between Guangzhou and Shenzhen daily. Such EMU high-speed trains are capable of running at about 200 kilometers per hour. The number of passengers traveling on our Guangzhou-Shenzhen trains increased by 11.2 % from 22.2 million in 2006 to 24.7 million in 2007. The revenues from our Guangzhou-Shenzhen trains increased by 11.4% from RMB1,341.7 million in 2006 to RMB1,494.2 million in 2007. The increase in business volume of Guangzhou-Shenzhen trains was primarily due to:

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(1) the commencement of mass operation on April 18, 2007 of EMUs in the wake of the sixth large-scale railway speed-up project of the national railway system and the completion and commencement of operation of the Fourth Rail Line, which significantly increased the frequency and transportation capacity, and improved the efficiency and comfort, of our trains; (2) the overhaul of the Xintang-Shigu section of the southbound Guangzhou-Shenzhen expressway, which diverted part of the bus passengers to our trains; (3) the strong economic growth in the Pearl River Delta, which resulted in the upward flows of business persons, tourists and workers; (4) the vigorous optimization of transportation organization, the increase

20

in the frequency of trains and the introduction of IC Card Ticketing System for the convenience of passengers; (5) the improvement of the metro systems in Guangzhou and Shenzhen, which boosted the railway passenger volume and (6) the promotion of our passenger transportation service, enhancement in service quality and the improvement of boarding environment for passengers.

Hong Kong Through Trains. We currently operate jointly with the MTR, 11 pairs of high-speed Hong Kong Through Trains between Hong Kong and Guangzhou. We provide the trains and personnel for eight pairs of these train services, while MTR provides for three pairs. The Hong Kong Through Train services beyond Guangzhou to Foshan, Zhaoqing, Beijing and Shanghai are provided by GRGC and Shanghai Railway Administration. Revenues from these Hong Kong Through Trains on the Guangzhou-Hong Kong section are shared between MTR and us, in proportion to our track mileage for the 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 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 revenues than our other passenger train services.

In 2007, the volume of passengers who traveled on the Hong Kong Through Trains decreased by 0.5% from 3.207 million in 2006 to 3.192 million in 2007. The decrease was mainly due to (1) the construction of the Fourth Rail Line between January and April 2007, which affected the operation of Hong Kong Through Trains; and (2) the improvements in the operating efficiency and service quality of other Guangzhou-Shenzhen trains, which attracted some of our Hong Kong Through Train passengers.

Domestic Long-distance Trains. As of December 31, 2007, we operated on a daily basis 102 pairs of domestic long-distance passenger trains on our rail lines to cities in Guangdong, Hunan, Hubei, Jiangxi, Anhui, Jiangsu, Liaoning, Shanxi, Fujian, Heilongjiang, Jilin, Zhejiang, Hebei, Henan, Sichuan, Yunnan, Shandong provinces, Chongqing, Shanghai, Beijing, Tianjin, Guangxi Autonomous Region and Tibet Autonomous Region. In 2007, the number of passengers traveling on our long-distance trains was 45.1 million, representing an increase of 328.8 % from 10.5 million in 2006. The increase in business volume of the long-distance trains was mainly due to: (1) the incorporation of the long-distance transportation business of the Guangzhou-Pingshi Railway; and (2) the continuing increase in the number of business travelers and workers from the mainland as a result of the continuous and rapid economic growth in the Pearl River Delta.

MAJOR STATIONS. The following are the major train stations owned and operated by us as of December 31, 2007:

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Guangzhou East Station. Our Guangzhou East Station services our train services between Guangzhou and Shenzhen and between Guangzhou and Hong Kong and provides a hub for long-distance trains to different locations within China. Our Guangzhou East Station is

21

connected to Lines 1 and 3 of the Guangzhou municipal subway. As of December 31, 2007, the Guangzhou East Station handled on a daily basis 12 pairs of Hong Kong Through Trains, 80 pairs of Guangzhou-Shenzhen trains, 15 pairs of long-distance passenger trains between the Guangzhou East Station and other locations in China, including Beijing, Shanghai, Jiujiang, Shantou, Hefei, Taiyuan, Nanchang, Yingtan, Harbin, Yichang, Hankou, Qingdao, Shenyang, Xiamen and Wuchang, and 5 pairs of passenger trains passing through the Guangzhou East Station. In 2007, the number of passengers traveling from Guangdong East Station was 15.4 million.

Dongguan Station. Our intermediate station at Dongguan is the point of connection between our line and the neighboring Dongguan-Meizhou-Shantou rail line, and is also the point where our line intersects with the Beijing-Hong Kong rail line. Dongguan Station, by connecting our rail line to the Beijing-Hong Kong line, also facilitates passenger service between Kowloon and Zhaoqing. As of December 31, 2007, this station handled on a daily basis the transfer service for seven pairs of domestic long-distance passenger trains, 44.5 pairs of Guangzhou-Shenzhen high-speed passenger trains and 10 pairs of Hong Kong Through Trains. In 2007, the number of passengers traveling from Dongguan Station was 3.0 million.

Shenzhen Station. Our Shenzhen Station is located in the Shenzhen Special Economic Zone, close to the Luohu Station on the Guangzhou-Kowloon rail line and connected to Line 1 of Shenzhen's subway system. In 2002, we introduced China's first computerized ticket hall in our Shenzhen Station. As of December 31, 2007, our Shenzhen Station handled on a daily basis 80 pairs of Guangzhou-Shenzhen passenger trains (including seven backup pairs) and 20 pairs of domestic long-distance passenger trains between Shenzhen and other locations in China, including Beijing, Changsha, Shaoguan, Wuchang, Meizhou, Shantou, Maoming East, Zhengzhou, Fuzhou, Hankou, Shenyang, Huaihua, Jiujiang, Yueyang, Guilin, Ji'an, Shanghai and Taizhou. In 2007, the number of passengers traveling from Shenzhen Station was 16 million.

Shaoguan Station. Our Shaoguan Station is an important transportation hub in the north part of Guangdong Province, which handles both passengers and freight transportation. In the year ended December 31, 2007, our Shaoguan Station handled on a daily basis 63 pairs of passenger trains, including three pairs which originally depart from and ultimately arrive at our Shaoguan Station. In 2007, the number of passengers traveling from Shaoguan Station was 3.4 million.

Guangzhou Station. Guangzhou Station is the largest passenger station in South China and is connected with the Beijing-Guangzhou Railway, Guangzhou-Maoming Railway, Guangzhou-Shenzhen Railway and Guangmeishan Railway. Our Guangzhou Station is also indirectly connected with the Beijing-Kowloon Railway via the Guangzhou-Shenzhen Railway. In the year ended December 31, 2007, our Guangzhou Station handled on a daily basis 108 pairs of passenger trains and 177.5 pairs during the Chinese New Year holiday period. In 2007, the number of passengers traveling from Guangzhou Station was 28.7 million. During the Chinese New Year holiday period, the number of daily passengers traveling from our Guangzhou Station exceeded 190,000.

22

FREIGHT TRANSPORTATION

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Revenue from our freight transportation accounted for 12.6% of our total revenues and 13.5% of our railroad transportation revenues in 2007. Our principal market for freight is domestic 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. Only a small percentage of the freight we transport both originates and terminates in the Guangzhou-Pingshi-Shenzhen 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 2007 was 71.0 million tonnes, representing an increase of 131.2% from 30.7 million tonnes in 2006. Revenues from freight transportation business in 2007 were RMB1,326.5 million, representing an increase of 134.5% from RMB565.6 million in 2006. This increase is primarily due to the consolidation of the business of the Guangzhou-Pingshi Railway. Our outbound freight revenues increased by 7.9 % in 2007 and our inbound and pass-through freight revenues increased by 223.2% in 2007.

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.

Freight Composition. We transport a broad range of goods, which can generally be classified as follows: construction materials, energy products, food products, chemicals, manufactured goods, containers 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.

The following table shows the composition of our freight volume by percentage for the three years ended December 31, 2005, 2006 and 2007 (based on tonnes transported):

23

| OUTBOUND FREIGHT | | | INBOUND (AND PASS-T | |
|-----------------------------------|------|------|---------------------|------|
| 2005 | 2006 | 2007 | 2005 | 2006 |
| ---- | ---- | ---- | ---- | ---- |
| AS A PERCENTAGE OF TOTAL OUTBOUND | | | AS A PERCENTAGE OF | |

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| | | FREIGHT | | | (AND PASS-THROU | |
|-----------------------------|-------|---------|-------|-------|-----------------|--|
| Construction materials..... | 24.4% | 21.8% | 44.9% | 37.8% | 42.8% | |
| Energy products..... | 50.6% | 53.2% | 27.3% | 10.9% | 8.4% | |
| Food products..... | 3.0% | 2.8% | 2.8% | 19.9% | 18.7% | |
| Chemicals..... | 3.5% | 4.2% | 3.2% | 9.9% | 12.4% | |
| Manufactured goods..... | 1.5% | 1.2% | 2.1% | 3.1% | 2.8% | |
| Containers..... | 11.4% | 11.9% | 13.2% | 10.1% | 11.1% | |
| Other goods..... | 5.6% | 4.9% | 6.5% | 8.3% | 3.8% | |
| | ---- | ---- | ---- | ---- | ---- | |
| Total..... | 100% | 100% | 100% | 100% | 100% | |
| | ==== | ==== | ==== | ==== | ==== | |

RAILWAY NETWORK USAGE AND SERVICE BUSINESS

Revenue from our railway network usage and service accounted for 25.3% of our total revenues and 27.1% of our railroad transportation revenues in 2007. Railway network usage and services mainly include the locomotive traction, track usage, electric catenaries (overhead wires used to transmit electrical energy to trains), vehicle coupling and other services. In 2007, our revenue from railway network usage and services was RMB2,659.5 million, representing an increase of 812.4% from RMB291.5 million in 2006. The rapid increase was mainly due to the acquisition of the railway transportation business of Guangzhou-Pingshi Railway at the beginning of 2007.

The following table shows the composition of our revenues from railway network usage and services for the three years ended December 31, 2005, 2006 and 2007:

| | 2005 | 2006 | 2007 |
|--------------------------|----------------|-------|---------|
| | ---- | ---- | ---- |
| | (RMB MILLIONS) | | |
| Locomotive traction..... | 8.0 | 4.0 | 1,155.3 |
| Track usage | 150.4 | 154.8 | 919.7 |
| Electric catenary..... | 16.3 | 24.0 | 211.2 |
| Vehicle coupling | 52.2 | 46.5 | 216.6 |
| Other services..... | 79.0 | 62.2 | 156.7 |
| | ---- | ---- | ----- |
| Total..... | 305.8 | 291.5 | 2,659.5 |
| | ===== | ===== | ===== |

OTHER BUSINESSES

We engage in other businesses principally related to our railroad transportation business. Revenue from our other businesses accounted for 6.6% of our total revenues in 2007. Our other businesses include:

- repair and maintenance services (mainly for repair of locomotives), which we began to provide as a result of the acquisition of the railway transportation business of the Guangzhou-Pingshi Railway;
- sales of food, beverages, newspapers, magazines and other merchandise aboard our trains and in our stations;

- services in our stations, including operating restaurants, operating a

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travel agency and a hotel in our Shenzhen Station and leasing space to independent retailers; and

- other businesses, including the services relating to warehousing, loading and discharging, providing advertising boards in our stations for commercial advertising and railroad-related construction.

Revenues from our other businesses in 2007 were RMB689.0 million, representing an increase of 435.8% from RMB128.6 million in 2006. The substantial increase in revenues from other businesses was due to the acquisition of the railway transportation business of Guangzhou-Pingshi Railway.

The table below sets out the revenues for our other businesses, by categories of activity, in each of 2005, 2006 and 2007:

| | REVENUES | | | AS A PERCENTAGE |
|-------------------------------------|----------------|-------|-------|-----------------|
| | 2005 | 2006 | 2007 | FROM OTHER |
| | ----- | ----- | ----- | ----- |
| | (RMB MILLIONS) | | | |
| Repair and maintenance service..... | -- | -- | 255.2 | -- |
| On-board and station sales..... | 29.2 | 33.8 | 65.0 | 16.5% |
| Station services..... | 39.4 | 29.8 | 5.3 | 22.1% |
| Other businesses..... | 108.9 | 64.9 | 363.5 | 61.4% |
| | ----- | ----- | | ----- |
| Total..... | 177.5 | 128.6 | 689.0 | 100% |
| | ===== | ===== | ===== | ===== |

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 revenues, mainly because it coincides with the Spring Festival holidays (Chinese New Year holidays) when Chinese people customarily travel from all over the country back to their hometowns. In addition, the New Year holidays, the Labor Day 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 located in our train stations. 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. Substantially all of our tickets are sold in cash.

Hong Kong Through Train tickets are sold in Guangdong Province through our own ticket outlets, as well as through various hotels and travel agents. In Hong Kong, these tickets

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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 2003, we established an online ticket sales system with MTR for the Hong Kong Through Trains.

In 2005, we initiated passenger flows connection between long-distance trains in the Guangzhou area and Guangzhou-Shenzhen trains and in 2006, we succeeded in introducing the IC Card Ticketing System.

The current settlement method stipulated by the MOR for passenger transportation provides that all revenues from passenger train services (including revenues generated from luggage and parcel services) are considered passenger transportation revenues and belong to the railway administration that operates that train. The railway administration in turn pays other railway administrations 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 administrations operating the long-distance train services are required to pay us the following fees: (1) the portion of the revenues from the sale of tickets that are higher than the PRC national railway standards due to our special pricing standards; and (2) 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 revenues 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 4B. Business Overview -- Regulatory Overview -- Pricing"

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. Substantially all payments for inbound and outbound freight are settled in cash.

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 a shorter notice.

In January 2005, the MOR modified the settlement method on the income from railway freight transportation. Pursuant to the new settlement methods, starting 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 administration and companies, including us. Prior to

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January 1, 2005, we charged freight transportation fees for these post parcels and luggage based on the categories of goods and distance of transportation; while after January 1, 2005, we collect railway usage fees from the Professional Transportation Companies. 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 revenues generated from freight dispatch, as well as freight reception and transit, based on the freight dispatched or received and transited. The modifications in the settlement method have not had a material effect on our revenues from freight transportation.

COMPETITION

We are the sole railway service provider on the Shenzhen-Guangzhou-Pingshi corridor; therefore, we do not face any direct competition from other railway service providers within our service territory. However, in areas where our railroad connects with lines of other railway companies, such as in the Guangzhou area, where our railroad connects with the Beijing-Guangzhou 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 and between Guangzhou and Shenzhen. Bus fares are lower than the fares for our high-speed 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" Train Project in October 2001, our high-speed train services and 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, we offer 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

27

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, 2007, we owned 30 high-speed diesel locomotives, 56 regular-speed passenger diesel locomotives, 55 freight diesel locomotives, 50 shunting locomotives, 113 high-speed electric passenger train, one X-2000 high-speed EMU, 449 high-speed passenger coaches, 953 regular-speed passenger

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coaches and seven trial locomotives. In addition, we currently own 13 high-speed Bombardier EMUs (also known as "Concords").

The freight cars we use are all leased from the MOR, to which we pay uniform rental fees and depreciation 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 2005, 2006 and 2007 were approximately RMB50.8 million, RMB40.8 million and RMB156.6 million, respectively.

From September 2000, we began to lease eight "Blue Arrow" high-speed electric train-sets from Guangzhou Zhongche to facilitate the development of our "As-Frequent-As-Buses" Train Project. We paid the lessor RMB99.6 million, RMB106.6 million and RMB53.3 million, in 2005, 2006 and 2007, respectively, under the lease. Given that it was anticipated that the EMUs would be delivered to us at later times in 2007, we renewed the lease agreement for another year with Guangzhou Zhongche on June 22, 2006. The term of renewal is 12 months and the rent is settled monthly. All of these lease agreements have expired between June 2007 and December 2007 and we did not extend the term of these lease agreements.

From April 2007, we started the operation of the EMUs. Each EMU has the top speed of 200 kilometers per hour and we believe that the introduction of EMUs 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 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 administrations or plants. The repair and maintenance services for the EMUs are provided by our Guangzhou East Concord operation department.

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 nine years, and are maintained and upgraded on an ongoing basis as required. In 2005, we replaced 23,203 pieces of various types of ties, 2.45 kilometers of high-speed wire rod rail, 566 pieces of mainline rails and receiving and dispatching rail, 344 sets of receiving and dispatching center switches and 1.56 kilometers of signal cable. In addition, we also screened certain ballast beds. In 2006 and early 2007, as part of our Fourth Rail Line construction, we made improvements to 24.6 kilometers of railroad.

28

On January 1, 2007, the railway transportation business of the Guangzhou-Pingshi Railway came under our control. As a result of this Acquisition, our operation has expanded from a regional railway to a national trunk line network. Our operating railway distance has been extended from 152 kilometers to 481.2 kilometers, running vertically through the entire Guangdong Province. In addition, the expansion of our operation scale and scope of passenger and freight services as described above will allow us to benefit from greater economics of scale in our operations.

In 2007, we completed the construction of the Fourth Rail Line. The Fourth Rail Line allows high-speed passenger trains and other passenger and freight trains to run on separate lines, thus improving the transportation capacity of high-speed passenger trains, domestic long-distance trains and freight trains.

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SUPPLIERS AND SERVICE PROVIDERS

We purchase our locomotives and coaches, as well as most other railway equipment and materials, directly from China Northern Locomotive & Rolling Stock Industry (Group) Corporation, China Southern Locomotive & Rolling Stock Industry (Group) Corporation and China Railway Materials and Supplies Corporation, all of which are state-owned enterprises. In addition, we purchased the EMUs from Bombardier Sifang Power (Qingdao) Transportation Ltd., a sino-foreign equity joint venture, and Bombardier Sweden Transportation Ltd. We also purchase equipment from foreign vendors or other domestic suppliers. We are not materially dependent upon any overseas suppliers.

We lease a portion of the locomotives and rolling stock that are used in our transportation operations from GRGC and its subsidiaries, which also provide services for these locomotives and rolling stock under contracts which stipulate fees based on a cost plus profit formula. The profit portion is fixed for a 10-year term of the relevant contract at 8% of costs. Costs include all actual costs related to providing and servicing the locomotives and rolling stock. Because such costs are affected by inflation, we are subject to inflationary risks in connection with our payment obligations under these contracts. GRGC and some of its subsidiaries, such as Guangmeishan Railway Company, have similar agreements with us to provide services and assistance with respect to our railroad operations. In addition, GRGC was the project manager of the construction of the Fourth Rail Line. GEDC provides public security and housing for our employees and their families under a contract and in exchange for fee payments. In the second half of 2004, all of the hospitals and schools originally vested in GEDC were transferred to the local government pursuant to applicable PRC policies. As a result, GEDC no longer provides any education and hospital services to us as contemplated under the contractual arrangements made upon our Restructuring.

Under the Rules Governing the Listing of Securities on the Hong Kong Exchange, or the HKSE Listing Rules, transactions between us and our connected persons constitute connected transactions and such transactions are normally subject to reporting, announcement and/or shareholders' approval unless otherwise waived by the Hong Kong Exchange. Our independent non-executive directors review and certify annually that these contracts are entered into on normal commercial terms that are fair and reasonable to us. The above transactions are exempted from the strict compliance of the requirements under the HKSE Listing Rules in

29

relation to connected transactions, subject to certain conditions set forth in the waiver letter issued by the Hong Kong Exchange. On January 13, 2006, we entered into a provisional comprehensive services agreement with GRGC, or the GRGC Provisional comprehensive services agreement, and a comprehensive services agreement with GEDC, or the GEDC comprehensive services agreement, both of which became effective on March 3, 2006 after being approved at our shareholders' general meeting. On April 19, 2007, we and GEDC entered into a supplemental agreement to the GEDC comprehensive services agreement that shortened the term of the GEDC comprehensive services agreement to December 31, 2007 and increased the annual cap on related party transactions from RMB76.4 million to RMB139.7 million. On December 27, 2007, the annual cap for the services provided by Yangcheng Railway Company in the year ended December 31, 2007 was approved by our independent shareholders at the second extraordinary shareholders' general meeting to be increased from RMB260 million to RMB389 million. Meanwhile, the second extraordinary shareholders' general meeting also approved the new comprehensive service agreements that we entered with GRGC, GEDC and Yangcheng Railway Company on November 5, 2007 and the annual caps for the related-party transactions between us and each of GRGC, GEDC and Yangcheng Railway Company

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for the years ended December 31, 2008, 2009 and 2010.

In 2007, the total amount of the payments we made to GRGC and its subsidiaries accounted for 12.2% of our railroad business operating costs for the year. In addition, project management fee of RMB9.3 million was paid to GRGC for managing the construction of the Fourth Rail Line. See "Item 7B. Related Party Transactions."

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 2006 and 2007, we paid approximately RMB130.7 million and RMB402.6 million, respectively, in electricity charges.

In 2007, the PRC National Audit Office, or the NAO, conducted an audit of the railway bureaus and railway companies under the control of the MOR, including GRGC, our largest shareholder, and certain railway construction projects, including our construction of the Fourth Rail Line. In addition, as part of its audit of GRGC, the NAO also conducted an audit of our Company, which mainly focuses on our business transactions with GRGC. The NAO has completed the audit of GRGC and our construction of the Fourth Rail Line. Such audit did not result in material adverse effect on the business of our Company.

Our five largest customers accounted for less than 30% of our revenue and our five largest suppliers of raw materials accounted for less than 30% of our purchases in 2007.

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 and are managed directly by the MOR. The state-owned railway system comprises over 70% of all rail lines, including all trunk lines. 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. The state-owned railway system operates as a

30

nationwide integrated system under the supervision and management of the MOR. 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.

Prior to March 18, 2005, the MOR divided the national railway system into 15 regions, each overseen and operated by a separate railway administration, or

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group companies. Ten of these 15 administrations were further subdivided on a geographical basis into 41 railway sub-administrations, or general companies. On March 18, 2005, the MOR issued a notice, pursuant to which all general companies were dissolved and three new group companies were established. As a result, the number of group companies increased to 18. Group companies are directly responsible for passenger and freight transportation as well as the coordination and supervision of operations carried out by train stations.

TRANSPORT OPERATIONS

The transport operations of the PRC national railway system are organized under the centralized control and management of the MOR. In order to promote efficient utilization of the railroad network nationwide, the MOR directly manages 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 allocates to the 18 group companies authority to make routings on trunk lines, allocates numbers and types of freight cars to the group companies and specifies requirements to dispatch empty freight cars to designated locations in order to facilitate freight car circulation within the national railway system. Within the allocations set by the MOR, each group company and administration manages and coordinates traffic within its own jurisdiction.

Our passenger and freight operations that involve long-distance routing beyond our own lines, such as the routing of freight trains to Shanghai, 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 ourselves; 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" Train Project, which provides intercity express train services. As of December 31, 2007, the total number of intercity express trains running daily between Guangzhou and Shenzhen was 80 pairs. We currently have 102 pairs of long-distance trains and 13 pairs of Hong Kong Through Trains.

31

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. Revenues from military and diplomatic transport generally account for less than 1% of our total transportation revenues. Emergency aid transport is required only during periods of rare natural disasters declared by the PRC government, and is provided free of charge.

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 own 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 six 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 2007, our environmental protection-related expenses were approximately RMB3.6 million as compared to RMB1.1 million in 2006.

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 RMB150,000/person and RMB2,000 for lost baggage and/or 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

32

baggage and/or parcels may nevertheless recover up to RMB15 for each kilogram of damaged or lost baggage and/or parcels. Similarly, freight transport customers who elect not to purchase insurance may recover up to RMB100 for each tonne of damaged or lost freight if insured by weight or RMB 2,000 for each package if insured by package.

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 3D. Risk Factor -- Risks Relating to Our Business -- We have very limited insurance coverage".

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All the full-time employees are entitled to pension payments from a statutory pension scheme equal to their basic salaries payable upon their retirement until their death. Pursuant to the applicable PRC laws and regulations, contributions to the basic life insurance for our local employees 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 paid by us and the remainder 8% is paid by the employee. The government agency is responsible for the pension liabilities due to such employee upon their retirement. In addition, we have taken out work-related personal injury insurance policies and child-bearing insurance for our employees.

ITEM 4C. ORGANIZATIONAL STRUCTURE

The following table lists the significant subsidiaries of Guangshen Railway Company Limited as of December 31, 2007:

| NAME | COUNTRY OF INCORPORATION | PERCENTAGE OF HELD BY GUANGS |
|---|-----------------------------|---------------------------------|
| DIRECTLY HELD BY THE COMPANY | | |
| Guangzhou East Station Dongqun Trade and Commerce Service Company | PRC | 100% |
| Shenzhen Fu Yuan Enterprise Development Company | PRC | 100% |
| Shenzhen Guangshen Railway Travel Service Ltd. | PRC | 100% |
| Shenzhen Jing Ming Industrial & Commercial Company Limited | PRC | 100% |
| Shenzhen Longgang Pinghu Qun Yi Railway Store Loading and Unloading Company | PRC | 55% |
| Dongguan Changsheng Enterprise Company | PRC | 51% |
| Shenzhen Railway Station Passenger Services Company Limited | PRC | 100% |
| Guangzhou Tielian Economy Development Company Limited | PRC | 50.50% |
| INDIRECTLY HELD BY THE COMPANY(1) | | |
| Shenzhen Nantie Construction Supervision Company | PRC | 100% |
| Shenzhen Guangshen Railway Economic and Trade Enterprise Company | PRC | 100% |
| Shenzhen Railway Property Management Company Limited | PRC | 100% |

(1) In 2007, we liquidated Shenzhen Yuezheng Enterprise Company Limited and Shenzhen Road Multi-modal Transportation Company Limited, which used to be our indirect wholly owned subsidiaries, and we recorded a disposal loss of RMB 897,000 and RMB 166,000, respectively.

ITEM 4D. PROPERTY, PLANT AND EQUIPMENT

We occupy a total area of approximately 39.8 million square meters, among which, we own the land use right of approximately 11.8 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.

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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.

As of December 31, 2007, land use right certificates, or Land Certificates, of certain parcels of land of the Company with an aggregate area of approximately 1,540,424 square meters had not been obtained. After consultation made with the Company's legal counsel, the directors consider that there is no legal obstacle for the Company to apply for and obtain the Land Certificates and it should not lead to any material adverse impact on the operations of the Company. The Company is in the process of applying for these certificates. Accordingly, no provision for impairment was considered necessary.

In addition, as of December 31, 2007, ownership certificates of certain buildings, or Building Ownership Certificates, of the Company with an aggregate area of approximately 305,364 square meters had not been obtained by the Company. After consultation with the Company's legal counsel, the directors of the Company consider that there is no legal obstacle for the Company to apply for and obtain the Building Ownership Certificates and it should not lead to any material adverse impact on the operations of the Company. The Company is in the process of applying for these certificates. Accordingly, no provision for fixed assets impairment was considered 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 December 31, 2007, we had 49 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, plant and equipment, see "Item 4B. Business Overview -- Equipment, Tracks and Maintenance" and Notes 6 and 8 to our audited consolidated financial statements included elsewhere in this annual report.

34

ITEM 4A. UNRESOLVED STAFF COMMENTS

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

35

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

This discussion and analysis should be read in conjunction with our consolidated financial statements contained elsewhere in this annual report. Our audited

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consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by IASB.

OVERVIEW

Our principal businesses are railroad passenger and freight transportation as well as railway network usage and service 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. 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, 2007, our total revenues were RMB10,508.5 million, profit attributable to shareholders was RMB1,431.4 million, and earnings per share were RMB 0.20. Railroad business revenues accounted for 94.6%, 96.4% and 93.4% of our total revenues in 2005, 2006 and 2007, respectively.

In 2007, we acquired the railway transportation business of Guangzhou-Pingshi Railway, which was financed with the proceeds from the A Share Offering. We also commenced operation of our Fourth Rail Line between Guangzhou and Shenzhen, put into operation our domestically manufactured high-speed electric train sets and continued to implement our "As-Frequent-As-Buses" Train Project. In addition, we made improvements to our corporate governance and safety procedures.

Passenger transportation is our principal business.

In 2007, the total number of passengers was 73.1 million, representing an increase of 103.1% from 2006; passenger transportation revenues were RMB5,833.5 million, representing an increase of 123.6% from 2006.

We transported a total of 71.0 million tonnes of freight in 2007, representing an increase of 131.2% from 2006. Freight transportation revenues in 2007 were RMB1,326.5 million, representing an increase of 134.5% compared to 2006.

Revenues from our other businesses were RMB689.0 million in 2007, representing an increase of 435.8% from 2006.

On January 1, 2007, the railway transportation business of the Guangzhou-Pingshi Railway became under the control of the Company. Accordingly, the Company considers January 1, 2007 as the effective date of acquisition for accounting purposes.

Prior to the A Share Offering, Yangcheng Railway Company and the Company were both controlled by the MOR, as the MOR indirectly held controlling interests in both companies. Subsequent to the A Share Offering in December 2006, the equity interest of the MOR in the Company reduced to approximately 41%. On January 1, 2007, Yangcheng Railway Company and the Company were no longer under common control. As a result, such transaction does not constitute a business combination under common control, because the Company and Yangcheng Railway Company are not ultimately controlled by the same party, i.e., the MOR, both before and after the business combination. Accordingly, the transaction has been accounted for using the purchase method of accounting with the acquired

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identifiable assets, liabilities and contingent liabilities stated at their respective fair values as at the date of acquisition.

We have engaged qualified accountants to conduct an audit of the acquired assets to determine the final consideration for the purpose of determining the remaining amount to be paid to Yangcheng Railway Company. In addition, we have also engaged an appraisal company to assess the respective fair values of the identifiable assets and liabilities acquired as at January 1, 2007. We paid RMB10.14 billion to Yangcheng Railway Company for the Acquisition, of which RMB5.27 billion was paid on December 28, 2006 and RMB4.87 billion was paid on June 29, 2007. We believe that the completion of the Acquisition will have a material impact on the operating scale, financial position and operating results of our Company. Details of the Acquisition and its impact on the Company are set out in Notes 36(b) and 38 to our audited consolidated financial statements included elsewhere in this annual report.

ITEM 5A. RESULTS OF OPERATIONS

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economic Development in the Pearl River Delta Region and the PRC. We are mainly engaged in railway passenger transportation services on the trains between Guangzhou and Shenzhen, 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 mainland China, affects the number of business people 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.

Acquisition of the Guangzhou Pingshi Railway. In 2007, we acquired the railway transportation business of Guangzhou-Pingshi Railway, which is the southernmost section of the Beijing-Guangzhou line. As a result, our operations have expanded from a regional railway to a national trunk line network. Our revenues have increased significantly as a result of such Acquisition.

37

Competitive Pressure from other Means of Transportation. Sales for our passenger transportation services are also affected by the competitive pressure from other means of transportation, such as the automobile, bus, ferry and airplane services. For example, 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.

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REVENUES

In 2007, our total revenues were RMB10,508.5 million, representing an increase of 192.4% from RMB3,594.5 million in 2006. Our revenues from railroad passenger transportation service, freight transportation service, railway network usage and services and other businesses were RMB5,833.5 million, RMB1,326.5 million, RMB2,659.5 and RMB689.0 million, respectively, accounting for approximately 55.5%, 12.6%, 25.3% and 6.6%, respectively, of our total revenues in 2007.

Passenger transportation service. Passenger transportation remains our most important business. As of December 31, 2007, we operated 195 pairs of passenger trains daily, representing an increase of 72 pairs from the number in operation as of December 31, 2006. There were 80 pairs of high-speed passenger trains between Guangzhou and Shenzhen, 13 pairs of Hong Kong Through Trains and 102 pairs of long-distance passenger trains, an increase of 61 pairs compared to 2006.

In 2007, our total number of passengers was 73.1 million, representing an increase of 103.1% from 36.0 million in 2006. Our revenue from passenger transportation was RMB5,833.5 million in 2007, representing an increase of 123.6% from RMB 2,608.8 million in 2006.

The following table sets forth our revenues from passenger transportation and the number of passengers for the three years ended December 31, 2007:

| | YEAR ENDED DECEMBER 31, | | | CHANGE |
|---|-------------------------|----------|----------|--------|
| | 2005 | 2006 | 2007 | |
| Revenue from passenger transportation (RMB millions) | 2,253.34 | 2,608.84 | 5,833.54 | 1 |
| Total passengers (thousands)..... | 33.00 | 35,98 | 73,05 | 1 |
| Revenue per passenger (RMB)..... | 68.28 | 72.51 | 79.86 | |
| Total passenger-kilometers (millions)..... | 4,539.10 | 4,842.7 | 26,278.2 | 4 |
| Revenue per passenger-kilometer (RMB)..... | 0.50 | 0.54 | 0.22 | (|

38

Effective from April 18, 2007, we have also implemented a fare increase for our soft-seat train fares on our Guangzhou-Pingshi Railway.

Freight transportation. Freight transportation is another important business segment for us. The total tonnage of freight we transported in 2007 was 71.0 million tonnes, representing an increase of 131.2% from 30.7 million tonnes in 2006. Revenues from freight transportation business in 2007 were RMB1,326.5 million, representing an increase of 134.5% from RMB565.6 million in 2006. This increase is primarily due to the acquisition of the railway transportation business of the Guangzhou-Pingshi Railway.

- In 2007, our outbound freight tonnage was 19.1 million tonnes, representing an increase of 151.3% from 7.6 million tonnes in 2006. Our outbound freight revenues were RMB156.3 million, representing an increase of 7.9% from RMB144.8 million in 2006.
- In 2007, our inbound and pass-through freight tonnages were 51.955

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million tonnes, representing a decrease of 124.7% from 23.125 million tonnes in 2006. Our inbound and pass-through freight revenues were RMB1,071.2 million in 2007, representing an increase of 223.2% from RMB331.4 million in 2006.

The following table sets forth our revenues from freight transportation and the volumes of commodities we shipped for the three years ended December 31, 2007:

| | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|---------|-----------|
| | 2005 | 2006 | 2007 |
| Revenue from freight transportation (RMB thousands)..... | 540,341 | 565,557 | 1,326,450 |
| - Revenues from outbound freight transportation | 139,340 | 144,848 | 156,348 |
| - Revenues from inbound and pass-through transportation..... | 307,962 | 331,477 | 1,071,205 |
| Total freight tonnes (thousands of tonnes).... | 31,893 | 30,708 | 71,010 |
| - Outbound freight tonnage..... | 8,460 | 7,582 | 19,056 |
| - Inbound and pass-through freight tonnage.... | 23,433 | 23,125 | 51,955 |
| Revenue per tonne (RMB)..... | 16.94 | 18.42 | 18.68 |
| Total tonne-kilometers (millions)..... | 2,294.8 | 2,276.3 | 15,306.9 |
| Revenue per tonne-kilometer (RMB)..... | 0.24 | 0.25 | 0.09 |

In 2007, we made the following adjustments to the prices of our freight transportation services: (i) in accordance with the increase in the national price levels for railway freight transportation initiated by the MOR, we increased the prices of our freight transportation services accordingly; and (ii) effective from January 10, 2007, our railway freight price applicable to Guangzhou-Pingshi Railway became RMB0.087 per tonne-kilometer.

Railway Network Usage and Service Business. Revenue from our railway network usage and service accounted for 25.3% of our total revenues and 27.1% of our railroad transportation revenues in 2007. Railway network usage and services mainly include the locomotive traction, track usage, electric catenaries, vehicle coupling and other services. Revenue from network usage and services recorded within the "Passenger" and "Freight" category of revenue in the prior years has been separately disclosed on the income statement in order to conform to the current year presentation. In 2007, our revenue from railway network usage and services was

39

RMB2,659.5 million, representing an increase of 812.4% from RMB291.5 million in 2006. The rapid increase was mainly due to the acquisition of the railway transportation business of Guangzhou-Pingshi Railway at the beginning of 2007.

Other Businesses. Our other businesses mainly consist of repair and maintenance services (mainly for repair of locomotives), sales of goods and food on board and in stations, operation of restaurants and hotels, operation of warehouses, loading and discharging, providing advertising boards in our stations and railway-related construction. Revenues from other businesses in 2007 were RMB689.0 million, representing an increase of 435.8% from RMB128.6 million in 2006. The substantial increase in revenues from other businesses was mainly due to the incorporation of the business of Guangzhou-Pingshi Railway.

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The table below sets forth a breakdown of our revenues from the different categories of other businesses for the three years ended December 31, 2007:

| | YEAR ENDED DECEMBER 31, | | |
|--|-------------------------|-------|-------|
| | 2005 | 2006 | 2007 |
| | (RMB MILLIONS) | | |
| Repair and maintenance service(1)..... | -- | -- | 255.2 |
| On-board and station sales..... | 29.2 | 33.8 | 65.0 |
| Station services..... | 39.4 | 29.8 | 5.3 |
| Other businesses..... | 108.9 | 64.9 | 363.5 |
| | ----- | ----- | ----- |
| Total..... | 177.5 | 128.6 | 689.0 |
| | ===== | ===== | ===== |

 (1) We began to provide such services as a result of our acquisition of the railway transportation business of Guangzhou-Pingshi Railway.

OPERATING EXPENSES

In 2007, our total operating expenses were RMB8,793.1 million, representing an increase of 226.4% from RMB2,693.9 million in 2006. The following table sets forth, as a percentage of our railroad revenues, the principal operating expenses associated with our railroad businesses for 2005, 2006 and 2007:

| | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|---------|---------|
| | 2005 | 2006 | 2007 |
| Railroad businesses revenues (RMB millions) | 3,099.5 | 3,465.9 | 9,819.5 |
| Labor and benefits | 19% | 21% | 20% |
| Equipment leases and services | 16% | 18% | 26% |
| Materials and supplies | 9% | 8% | 13% |
| Repair costs, excluding materials and supplies | 8% | 6% | 5% |
| Depreciation (and amortization of leasehold land payments) | 9% | 9% | 10% |
| Utility and office expenses | 4% | 3% | 1% |
| Fee for social services | 3% | 2% | 4% |
| Others | 4% | 2% | 3% |
| Operating expenses ratio(1) | 77% | 73% | 85% |
| Railroad businesses operating margin | 23% | 27% | 15% |

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

Railway Operating Expenses. Our total railway operating expenses increased by 229.6% from RMB2,527.9 million in 2006 to RMB8,334.3 million in 2007. The

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following sets forth a breakdown of major changes by line item:

40

- Business tax. Our business tax in 2007 was RMB221.8 million, representing an increase of 125% from RMB98.6 million in 2006. The increase was mainly due to the incorporation of the business of Guangzhou-Pingshi Railway.
- Labor and benefits. In 2007, our labor and benefits expenses amounted to RMB1,928.2 million, representing an increase of 168.5% from RMB718.0 million in 2006. The increase was mainly due to (i) the incorporation of the business of Guangzhou-Pingshi Railway; (ii) the implementation of the performance based salary policy and the steady improvement of operating results in 2007 which resulted in an overall increase in employees' salaries and benefits; (iii) the increase in the number of related operation staff and workload as a result of the increase in the number of long-distance trains in operation during the year; and (iv) pursuant to an early retirement scheme we implemented in 2006, certain employees who meet certain criteria were provided with an offer to retire early and enjoy certain early retirement benefits, such as payments of basic salary and other fringe benefits until they reach the statutory retirement age. Under the terms of that 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. We recorded such expenses in the amount of RMB63.3 million in the year ended December 31, 2007.
- Materials and supplies. Our materials and supplies expenses consist mainly of materials, fuel, water and electricity expenses. In 2007, our materials and supplies expenses were RMB1,240.8 million, representing an increase of 362.5% from RMB268.3 million in 2006. The increase was mainly due to the incorporation of the business of Guangzhou-Pingshi Railway.
- Depreciation. Our depreciation expenses of fixed assets increased by 217.2% from RMB317.4 million in 2006 to RMB1,006.7 million in 2007, mainly due to the increase in the fixed assets during the year as a result of the Acquisition.
- Repair (excluding materials and supplies). Our repair expenses increased by 116.6% from RMB212.4 million in 2006 to RMB460.1 million in 2007, primarily due to the acquisition of the railway transportation business of Guangzhou-Pingshi Railway.
- Equipment leases and services. Our expenses on equipment leases and services mainly consist of railway line usage fees, train hauling fees and train leasing fees paid to other railway administrations. In 2007, our expenses relating to equipment leases and services amounted to RMB2,595.2 million, representing an increase of 310.0% from RMB633.0 million in 2006. This was mainly due to (i) the incorporation of the business of Guangzhou-Pingshi Railway; (ii) the increase in operation of long-distance passenger trains, which led to the corresponding increase in railway usage fees; and (iii) the increase in the number of temporary passenger trains operated during the Spring Festival season in 2007, which led to the increase of related equipment leases and services fees.
- Social services. Our social services fees in 2007 were RMB396.8 million, representing an increase of 432.5% from RMB74.5 million in 2006. The increase

was primarily due to the incorporation of the business of Guangzhou-Pingshi Railway.

- Utility and office expense. Our utility and office expense increased by 6.6% from RMB102.9 million in 2006 to RMB109.8 million in 2007. This was mainly due to the incorporation of the business of Guangzhou-Pingshi Railway.

PROFIT FROM OPERATIONS

Our profit from operations increased by 82.9% from RMB965.2 million in 2006 to RMB1,765.2 million in 2007 due to the increase in our total revenues without a proportional increase in our related expenses.

TAXATION

As we are registered and established in the Shenzhen Special Economic Zone, before January 1, 2008, we were subject to income tax at a rate of 15%. According to relevant tax regulations, our subsidiaries were subject to income tax at the rate of either 15% or 33%, depending on the location of incorporation. Our income tax expense was RMB232.3 million in 2007, representing an effective tax rate of 13.9% and an increase of RMB83.1 million compared to RMB149.2 million in 2006.

On March 16, 2007, the National People's Congress of the PRC promulgated the PRC Enterprise Income Tax Law, or the new EIT Law, which has taken effect from January 1, 2008. According to the new EIT Law, the preferential income tax rate of 15% that was applicable to companies incorporated in Shenzhen (like us) and other special economic zones will be gradually phased out in five years beginning from January 1, 2008. During the five years, 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).

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Our consolidated net profit increased by 85.5% from RMB771.5 million in 2006 to RMB1,431.4 million in 2007.

YEAR ENDED DECEMBER 31, 2006 COMPARED WITH YEAR ENDED DECEMBER 31, 2005

REVENUES

In 2006, our total revenues were RMB3,594.5 million, representing an increase of 9.7% from RMB3,276.9 million in 2005. Revenues from our passenger transportation service, our freight transportation service, railway network usage and service and our other businesses accounted for 68.8%, 16.5%, 9.3% and 5.4%, respectively, of our total revenues in 2006. Revenues from our passenger transportation service, freight transportation service and our railway network usage and service accounted for 72.7%, 16.5% and 10.8%, respectively, of our revenues from our railroad transportation businesses in 2006.

Since our revenues from railway network usage and service were insignificant before the acquisition of the railway transportation business of Guangzhou-Pingshi Railway, we recorded such revenues within the "Passenger" and "Freight" category of revenue in the years prior to the year ended December 31,

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2007. Upon the acquisition of the railway transportation business of Guangzhou-Pingshi Railway, our revenues from railway network usage and service have become material. Our management decided to record the revenue from railway network usage and service separately since the year ended December 31, 2007. In order to conform to the current year presentation, we have adjusted the revenues in the year ended December 31, 2005 and 2006 accordingly.

Passenger transportation service. In 2006, our total number of passengers was 35.9 million, representing an increase of 8.8% from 33.0 million in 2005. Our revenue from passenger transportation was RMB2,608.8 million, representing an increase of 15.8% from RMB2,253.3 million in 2005.

Freight transportation. The total tonnage of freight transported by us in 2006 was 30.7 million tonnes, representing a decrease of 3.7% from 31.9 million tonnes in 2005. In 2006, our revenues from freight transportation business were RMB565.6 million, representing an increase of 4.7% from RMB540.3 million in 2005.

- In 2006, our outbound freight tonnage was 7.6 million tonnes, representing a decrease of 10.4% from 8.5 million tonnes in 2005. Our outbound freight revenues were RMB144.8 million, representing an increase of 3.9% from RMB139.3 million in 2005.
- In 2006, our inbound and pass-through freight tonnages were 23.125 million tonnes, representing a decrease of 1.3% from 23.433 million tonnes in 2005. Our inbound and pass-through freight revenues were RMB331.5 million in 2006, representing an increase of 7.6% from RMB308.0 million in 2005.
- In 2006, our revenues from storage, loading and unloading and other miscellaneous items were RMB89.2 million, representing an increase of 4.1% from RMB93.0 million in 2005.

Railway Network Usage and Service. Our Revenues from railway network usage and service in 2006 were RMB291.5 million, representing a decrease of 4.7% from RMB 305.8 in 2005.

Other Businesses. Our other businesses mainly consist of sales of goods and food, advertising and tourism services on board and in stations. Revenues from other businesses in 2006 were RMB128.6 million, representing a decrease of 27.5% from RMB177.5 million in 2005. The substantial decrease in revenues from other businesses was due to our disposal of some of our other businesses in 2006.

OPERATING EXPENSES

In 2006, our total operating expenses were RMB2,693.9 million, representing an increase of 6.5% from RMB2,529.7 million in 2005.

43

Railway Operating Expenses. Our total railway operating expenses increased by 8.1% from RMB2,529.7 million in 2005 to RMB2,693.9 million in 2006. The following sets forth a breakdown of major changes by line item:

- **Business tax.** Our business tax in 2006 was RMB98.6 million, representing an increase of 13.9% from RMB86.6 million in 2005. The increase was mainly due to the increase in revenues of the Company.
- **Labor and benefits.** In 2006, our labor and benefits expenses amounted to RMB718 million, representing an increase of 20.2% from RMB597.3 million in 2005. The increase was mainly due to (i) the implementation of the performance based salary policy and the steady improvement of

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operating results in 2006 resulting in an overall increase in employees' salaries and benefits; (ii) the increase in the number of related operation staff and workload as a result of the increase in the number of long-distance trains in operation during the year; (iii) pursuant to an early retirement scheme we implemented in 2006, certain employees who meet certain criteria were provided with an offer to retire early and enjoy certain early retirement benefits, such as payments of the basic salary and other fringe benefits, offered by the Company until they reach the statutory retirement age. Under the terms of that 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. We recorded such expenses in the amount of RMB22.4 million in the year ended December 31, 2006.

- Materials and supplies. Our materials and supplies expenses consist mainly of materials, fuel, water and electricity expenses. In 2006, our materials and supplies expenses were RMB268.3 million, representing a decrease of 5.5% from RMB283.9 million in 2005. The decrease was mainly due to the reduction of materials used in repairs.
- Depreciation. Our depreciation expenses of fixed assets increased by 9.8% from RMB289.2 million in 2005 to RMB317.4 million in 2006, mainly due to the increase in the fixed assets during the year.
- Repair (excluding materials and supplies). Our repair expenses decreased by 19.2% from RMB263.0 million in 2005 to RMB212.4 million in 2006, primarily due to the decrease in railway repair workload we outsourced to other companies during the year.
- Equipment leases and services. Our expenses on equipment leases and services mainly consist of railway line usage fees, train hauling fees and train leasing fees paid to other railway administrations. In 2006, our expenses relating to equipment leases and services amounted to RMB633 million, representing an increase of 24.7% from RMB507.6 million in 2005. This was mainly due to (i) the increase in operation of long-distance passenger trains, which led to the corresponding increase in railway usage fees; and (ii) the increase in the number of temporary

44

passenger trains operated during the Spring Festival season in 2006, which led to the increase of related equipment leases and services fees.

- Social services. Our social services fees in 2006 were RMB74.5 million, representing a decrease of 4.7% from RMB78.2 million in 2005. The decrease was primarily due to the fact that we made a one-time payment of medical insurance expenses to our retired employees in 2005, while we did not make such payment in 2006.
- Utility and office expense. Our utility and office expense decreased by 6.2% from RMB109.7 million in 2005 to RMB102.9 million in 2006. This was mainly due to the decrease in the provision for impairment in 2006.

PROFIT FROM OPERATIONS

Our profit from operations increased by 20.8% from RMB798.8 million in 2005 to RMB965.2 million in 2006 due to the increase in our total revenues without a proportional increase in our related expenses.

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TAXATION

Our income tax expense was RMB149.2 million in 2006, representing an effective tax rate of 16.2% and an increase of RMB39.0 million compared to RMB110.2 million in 2005.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Our consolidated net profit increased by 19.3% from RMB647.0 million in 2005 to RMB771.5 million in 2006.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our audited 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. IFRS also requires us to exercise our judgment in the process of applying the Company's 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.

FIXED ASSETS

The railway industry is capital intensive. Under IFRS, fixed assets are initially recorded at cost less accumulated depreciation and impairment loss. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use. Subsequent 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

45

replaced part is derecognized. All other repairs and maintenance are charged to the 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 | 25 to 40 years |
| Leasehold improvements | over the lease terms |
| Track, bridges and service roads (Note a) | 55 to 100 years |
| Locomotives and rolling stock | 20 years |
| Communications and signaling systems | 8 to 20 years |
| Other machinery and equipment | 7 to 25 years |

Note a: The estimated useful lives of tracks, bridges and service roads exceed the initial lease period of the respective land use right lease grants (the "Lease Term") and land use right operating lease (the "Operating Lease Term") 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 up for a period equivalent to the initial Lease Term. This right can be

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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 lease agreement entered into with our substantial shareholder, we can renew the lease at the discretion of that shareholder 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.

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 gain or loss in the income statement.

RECEIVABLES

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement as

46

"operating expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognized goodwill is tested annually for 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 that are expected to benefit from the business combination in which the goodwill arose.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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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.

ACCOUNTING TREATMENT REGARDING THE DIFFERENCES BETWEEN THE SELLING PRICES AND COSTS OF EMPLOYEES' HOUSING (DEFERRED STAFF COSTS)

We implemented a scheme, or the Scheme, for selling staff quarters to its employees in 2000. Under the Scheme, we sell certain staff quarters to our employees at preferential prices in the form of housing benefits provided to these employees. The total housing benefits, or the Benefits, which represented the difference between the net book value of the staff quarters to be sold and the proceeds collected from the employees, are expected to benefit us over 15 years, which is equal to the estimated remaining average service period of the employees participating in the Scheme. Upon the implementation of the Scheme in 2000, the Benefits were recorded as deferred staff costs and the balance is amortized over the estimated remaining service period of the employees participating in the Scheme.

At each balance sheet date, we assess whether there is any indication of impairment, considering the remaining service period of the employees and other qualitative factors. If such indications exist, a detailed analysis will be performed in order to assess whether the carrying

47

amount of the deferred staff costs can be recoverable in full. A write-down is made if the carrying amount exceeds the recoverable amount.

As of December 31, 2007, unamortized deferred losses, which were recorded as deferred staff costs on our balance sheet, were RMB105.4 million.

CURRENT AND DEFERRED 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 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 in full, 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 to the extent that it is probable

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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.

ITEM 5B. 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 RMB1,957.6 million of net cash flow from operating activities in 2007. Substantially all of our revenues were 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 revenues generated from our other businesses were also received in cash. We also have accounts payable associated with the purchase of materials and supplies in our other businesses.

48

In 2007, other than operating expenses, our cash outflow mainly related to the following:

- capital expenditures of approximately RMB1,107.3 million, representing a decrease of 65.4% from RMB3,202.7 million in 2006;
- purchasing the railway transportation business of the Guangzhou-Pingshi Railway in the amount of approximately RMB4.87 billion; and
- payment of dividends of approximately RMB566.7 million.

Our capital expenditures for 2007 consisted primarily of the following projects:

- construction of the Fourth Railway Line and the auxiliary projects;
- purchasing additional locomotives;
- purchasing EMUs; and
- upgrading the facilities of the Guangzhou-Pingshi railway

Funds not required for immediate use are kept in short and medium-term investments and bank deposits. We had short term deposits of approximately RMB2,352.0 million cash and cash equivalents as of December 31, 2007.

As of December 31, 2007, the Company had an overdue time deposit in the amount of approximately RMB31.4 million placed with Zengcheng Licheng Urban Credit Cooperative. The Company had initiated legal proceedings and obtained a judgment against the debtor in our favor regarding the repayment. However, as the judgment debtor was undergoing restructuring, the court ordered a stay of execution of the judgment obtained by the Company. The said overdue time deposit

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accounts for approximately 0.2% of the net assets and 1.1% of the total current assets of the Company and has no material impact on the capital usage and operations of the Company. The Company had presented the gross outstanding balance in other receivables and full provision had been made for impairment in prior years. Except for such overdue time deposit, we have no other overdue time deposit that has not been repaid. We have not encountered any difficulty in withdrawing deposits. We have placed most of our deposits with other state-owned commercial banks in the PRC.

As of December 31, 2007, we did not have any trust deposits placed with any financial institutions in the PRC and we did not engage in any trust business.

As of December 31, 2007, we had unsecured borrowings of RMB 2,850 million, representing an increase of RMB 990 million from RMB1,860 million in 2006. The maturity dates of these borrowings are from 2011 to 2012. The effective interest rates of the bank borrowings were 6.07% as of December 31, 2007. As of December 31, 2007, we had RMB5,450 million unutilized banking facilities. In 2007, we entered into three major loan agreements with Shenzhen Commercial Bank, China Construction Bank Shenzhen Branch and China CITIC Bank Guangzhou Branch, respectively, for loans of RMB 300 million from each bank or RMB 900

49

million in total. Each loan agreement has a term of five years and the interest rates are approximately 10% lower than the applicable bench mark interest rates as published by the People Bank of China from time to time. We will use the proceeds for the construction of the Fourth Rail Line and the technical transformation and capacity expansion project relating to the Guangzhou-Shenzhen line.

CASH FLOW

Our cash and cash equivalents in 2007 decreased by approximately RMB8,239.2 million over 2006. The table below sets forth certain items in our consolidated cash flow statements for 2006 and 2007, and the percentage change in these items from 2006 to 2007.

| | YEAR ENDED DECEMBER 31, | | CHANGE FROM 2007 |
|--|-------------------------|-------------|---------------------|
| | 2006 | 2007 | |
| | (RMB thousands) | | |
| Net cash generated from operating activities | 1,112,004 | 1,957,645 | 76% |
| Net cash used in investing activities | (7,833,331) | (5,585,414) | (28.7%) |
| Net cash generated from financing activities | 11,461,030 | 128,289 | (98.9%) |
| Net increase/(decrease) of cash and cash equivalents | 4,739,703 | (3,499,480) | (173.8%) |

Our principal source of capital was revenues generated from operating activities and cash flow from financing activities. In 2007, the net cash inflow from our operations was RMB1,957.6 million, representing an increase of RMB845.6 million from RMB1,112.0 million in 2006. The increase in net cash inflow from our operating activities was mainly due to the increase of our operating revenues.

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Our net cash used in investing activities decreased by RMB2,247.9 million in 2007 to RMB5,585.4 million from RMB7,833.3 million in 2006. The decrease was primarily due to the decrease in investment in the Fourth Rail Line in 2007 compared to 2006.

Our net cash from financing activities in 2007 was RMB128.3 million, while our net cash used in financing activities in 2006 was RMB11,461.0 million. The decrease in net cash inflow from our financing activities was primarily due to our A Share Offering, during which we raised proceeds of approximately RMB10.0 billion and funds borrowed from various PRC domestic banks under our credit facilities in 2006, in the amount of RMB1.86 billion compared to 2007, during which we did not participate in any share offerings and decreased our borrowings from commercial banks.

Our working capital was mainly used for capital expenditures, operating expenses and payment of taxes and dividends and temporary cash investments. For the acquisition of the railway transportation business of Guangzhou-Pingshi Railway, we paid RMB5,265.3 million in 2006 and RMB4,873.3 million in 2007. In 2007, our expenses for the purchase of fixed assets and payments for construction-in-progress totalled RMB1,107.3 million. In addition, we paid RMB299.5 million for income taxes and approximately RMB566.7 million for dividends.

We have sufficient working capital and have RMB5.45 billion unutilized banking facilities which we believe to be sufficient to meet our operational and development requirements in 2008.

50

ITEM 5C. 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. More recently, 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.

ITEM 5D. 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.

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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 the growth of the PRC economy may have an impact on our business and results of operations in 2008. In addition, the continuous increase of interest rates by the PRC government and the implementation of other applicable policies may have an impact on our business and results of operations in 2008.

We believe that 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 railway freight business. In addition, as the PRC government lifts control over foreign investments, including allowing foreign participation in railway construction, our railway monopoly position in our service region may be challenged by foreign strategic investment. We believe that we are

51

prepared for the challenges as well as the opportunities that have arisen or will arise with China's accession to the WTO.

In 2008, China's economy is expected to experience continuous and steady growth. The reform and development of the national railway system will be accelerated. With the strengthening economic cooperation in the Pan Pearl River Delta, the further implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement, or CEPA, and Hong Kong to be hosting part of the Olympic Games, it is expected that there will be a continuing increase of demand in the passenger and freight transportation markets in our service territory and we will embrace favorable business environment and development opportunities. We believe that the overall transportation business will maintain a positive growth trend in 2008.

ITEM 5E. 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, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

ITEM 5F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations, capital commitments and operating lease commitments as of December 31, 2007 for the periods indicated.

CONTRACTUAL OBLIGATIONS PAYMENTS DUE BY PERIOD

| CONTRACTUAL OBLIGATIONS | PAYMENT DUE BY PERIOD (RMB IN THOUSANDS) | | | | |
|--------------------------------|---|---------------------|----------|-----------|--------------|
| | TOTAL | LESS THAN 1 YEAR | 1~3 YEAR | 3~5 YEAR | MORE 5 YE |
| Long-Term Debt Obligations (1) | 3,622,732 | 199,704 | 221,288 | 3,201,740 | |

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| | | | | | |
|---|-----------|---------|-----------|-----------|-----|
| Capital Expenditure Obligation | 2,132,634 | 218,261 | 1,914,373 | - | |
| Capital (Finance) Lease Obligations | - | - | - | - | |
| Operating Lease Obligations(2) | (2) | (2) | (2) | (2) | |
| Other Long-Term Liabilities Reflected on the Company's Balance Sheet under IFRS | 377,409 | 76,708 | 124,421 | 100,215 | 76, |
| Total | 6,132,775 | 494,673 | 2,260,082 | 3,301,955 | 76, |

 (1) The interest to be paid for the bank borrowings of RMB2,850 million reflected on the Company's balance sheet under IFRS is calculated using floating rates.

(2) In connection with the Acquisition, we signed an agreement on November 15, 2004 with Guangzhou Railway (Group) Company for leasing the land use rights associated with the land on which the acquired assets are located. The agreement became effective upon the completion of the Acquisition on January 1, 2007 and the lease term is 20 years, renewable at our discretion. According to the terms of the agreement, the rental for such lease will be agreed by both parties every year with a maximum amount not exceeding RMB74,000,000. During the year ended December 31, 2007, the related rental cost paid and payable was RMB50,000,000.

52

Based on the current progress of our new projects, we estimate that our capital expenditures for 2008 will amount to approximately RMB5,800 million, which consists primarily of the following projects:

- continuing to construct the auxiliary projects of the Fourth Railway Line;
- purchasing locomotives;
- purchasing the EMUs; and
- upgrading and expanding the transportation equipment for the Shenzhen-Guangzhou-Pingshi section.

ITEM 5G. SAFE HARBOR

SAFE HARBOR

See "Forward-Looking Statements."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

ITEM 6A. DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our board of directors is composed of six non-independent directors and three independent directors. All of our current directors were elected or re-elected at our shareholders' general meeting held on June 26, 2008 by cumulative voting. 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 June 26, 2008:

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| NAME | AGE | POSITION | DATE FIRST ELECTED OR APPOINTED |
|-------------------------|-----|------------------------------------|---------------------------------|
| ---- | --- | ----- | ----- |
| He Yuhua | 55 | Chairman of the Board of Directors | 2007 |
| Yang Yiping | 58 | Director and General Manager | 2006 |
| Cao Jianguo | 50 | Director | 2006 |
| Wu Houhui | 59 | Director | 1999 |
| Yu Zhiming | 49 | Director | 2008 |
| Liu Hai | 54 | Director | 2008 |
| Dr. Wilton Chau Chi Wai | 46 | Independent Director | 2004 |
| Dai Qilin | 40 | Independent Director | 2008 |
| Li Yuhui | 53 | Independent Director | 2008 |

He Yuhua, age 55, joined the Company in June 2007 and is the Chairman of the Board of Directors of the Company. Mr. He holds a bachelor's degree and is a senior economist. Mr. He started working in the railway industry in 1969 and has more than 30 years of experience in transportation management. He has served various senior management positions with Tianjin

53

Railway Sub-bureau, Beijing Railway Bureau and GRGC before joining our Company. He is currently the chairman of GRGC. Mr. He has not previously held any position with our Company.

Yang Yiping, age 58, joined the Company in April 2006 and is a Director and the General Manager of the Company. Mr. Yang graduated with a research degree in economics and management. He joined the railway department of the PRC in December 1970. He has more than 30 years of experience in the operation and management of railway transportation companies. Mr. Yang has served in various senior managerial positions in GRGC, the Company's largest shareholder, and its subsidiaries.

Cao Jianguo, age 50, joined the Company in June 2006 and is a Director of the Company. Mr. Cao is a college graduate majoring in railway transportation. Mr. Cao has been working for many years in the operation and organization of railway transportation. He once held various managerial positions such as the deputy general manager of Changsha Railway Company and chief of the transportation department of GRGC. Mr. Cao is currently the deputy general manager of the Company.

Wu Houhui, age 59, joined the Company in March 1999 and is a Director of the Company. He graduated from Dalian Railway College and is a senior economist. Mr. Wu served in various managerial positions in GRGC from 1984 to 2003. He is currently chief economist of GRGC.

Yu Zhiming, age 49, joined the Company in June 2008 and is a Director of the 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 a deputy head of the finance sub-division of Wuhan Railway Sub-bureau of Zhengzhou Railway Bureau. From 2005 to 2006, he was the head of finance division and director of the funds clearing centre of Wuhan Railway Bureau. He was a deputy chief of the funds clearing centre of the MOR from September 2006 to April 2008. Mr. Yu has been the chief accountant of GRGC since April 2008.

Liu Hai, age 54, joined the Company in July 2007 and is a Director of the Company. He graduated from South China Normal University majoring in administration. He is also an economist. Mr. Liu has over 30 years of experience

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in transportation management and he had been the director of the Office of Guangzhou Railway Sub-bureau, and deputy chief economist and deputy general manager of Yangcheng Railway Company. Mr. Liu has been the chairman of the labor union of the Company since July 2007.

Dr. Wilton Chau Chi Wai, age 46, joined the Company in June 2004 and is an independent non-executive Director of the Company. Dr. Chau obtained a bachelor's degree in applied mathematics from the University of Hong Kong, a Bachelor of Laws degree from the University of Wolverhampton, a Master of Business Administration degree from the University of Wales and a Doctor of Business Administration degree from the University of Newcastle in Australia. Dr. Chau is a fellow member of the Association of Chartered Certified Accountants and a member of Singapore Institute of Arbitrators. Since 1987, Dr. Chau has served in senior positions in various financial institutes overseeing investment and development in railway, road and airport infrastructure projects. Dr. Chau is currently chairman of QLeap Venture Limited

54

and managing partner of QLeap Asia Limited. Dr. Chau also serves several companies as board advisor or director.

Dai Qilin, age 40, joined the Company in June 2008 and is an independent non-executive Director of the Company. Mr. Dai holds a master's degree majoring in accounting. Mr. Dai is a senior PRC certified public accountant and a PRC certified public appraiser. Mr. Dai has served in various professional positions in the finance department of the MOR from 1986 to 1997. Mr. Dai is currently the chief accountant of Beijing Zhonghua Certified Public Accountants Limited. Prior to his joining Beijing Zhonghua Certified Public Accountants in April 2001, he was an accountant, senior accountant and deputy head of Beijing Huafeng Certified Public Accountants Limited from 1997 to 2001.

Li Yuhui, age 53, joined the Company in June 2008 and is an independent non-executive Director of the Company. Mr. Li is a postgraduate of the Department of Finance and Trading of the Chinese Academy of Social Sciences. Mr. Li is a senior accountant. Mr. Li is currently the deputy general manager of Beijing Jingtie Beifang Investment Corp. and chief accountant of China Railway United Logistics Co., Ltd.

SUPERVISORS

The table below sets forth the information relating to our supervisors as of June 26, 2008:

| NAME | AGE | POSITION | DATE FIRST ELECTED OR APPOINTED |
|---------------|-----|---------------------------------------|------------------------------------|
| ---- | --- | ----- | ----- |
| Yao Muming | 54 | Chairman of the Supervisory Committee | 1999 |
| Wang Jianping | 51 | Supervisor | 2008 |
| Li Zhiming | 47 | Supervisor | 2005 |
| Chen Shaohong | 41 | Supervisor | 2008 |
| Huang Lika | 51 | Supervisor | 2008 |
| Liu Xilin | 52 | Supervisor | 2008 |

Yao Muming, age 54, joined the Company in April 1997 and is the Chairman of the Supervisory Committee of the Company. Mr. Yao graduated from South China Normal University and was deputy director of the Guangzhou and Zhuhai Animal and Plant Quarantine Bureau. From 1997 to 2003, he was a member of the senior

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management of the Company. Since July 2003, Mr. Yao has been a member of the senior management of GRGC.

Li Zhiming, age 47, joined the Company in May 2005 and is a Supervisor of the Company. Mr. Li graduated from the Party School of CPC, majoring in Economics and Management and is an accountant. Since 1981, Mr. Li had served in various managerial positions in Hengyang Railway Sub-administration and Changsha Railway Company. Since April 2005, Mr. Li has been the chief of the audit department of GRGC.

Wang Jianping, age 51, joined the Company in June 2008 and is a Supervisor of the Company. Mr. Wang graduated from the Party School of CPC, majoring in Economics and Management. In 1974, Mr. Wang joined the railway departments and served in various managerial positions in GRGC since then. Since June 2007, Mr. Wang has been the director of the human resources department of GRGC.

55

Chen Shaohong, age 41, joined the Company in June 2008 and is a Supervisor of the Company. Mr. Chen graduated from South China Normal University and he is an economist. From 2001, he was a deputy chief and also chief of the structural reform division of the corporate management office, and also deputy head of the corporate management office and deputy chief of the corporate and legal affairs division of GRGC. Since April 2006, he has served as the chief of the corporate and legal affairs division of GRGC.

Huang Lika, age 51, joined the Company in April 2008 and is a Supervisor of the Company. Mr. Huang graduated from the Party School of the CPC with a concentration in Economics and Management. Mr. Huang is also an engineer. Mr. Huang has over 30 years experience in the railway transportation business. Since April 2008, Mr. Huang was the deputy secretary of the Party and Labor Committee and the secretary of the Discipline Working Commission of our Company, as well as a Supervisor from employee representatives of our Company.

Liu Xilin, age 52, joined the Company in January 2007 and is a Supervisor of the Company. Mr. Liu graduated from the Party School of the CPC and majored in Economics and Management. He has served as the deputy station master of Dalang, director of Enterprise Management Office of Yangcheng Railway Company, and section chief of Guangzhou North Rolling Stock Section. Mr. Liu has served as the section chief of Guangzhou Rolling Stock Section since January 2007 and has been elected as a Supervisor by the employee representatives of our Company since April 2008.

SENIOR MANAGEMENT

The table below sets forth information relating to our senior management as of June 26, 2008:

| NAME | AGE | POSITION | DATE FIRST ELECTED OR APPOINTED |
|---------------|-----|---------------------------|---------------------------------|
| Yang Yiping | 58 | General Manager | 2006 |
| Wu Weimin | 50 | Deputy General Manager | 2004 |
| Wang Jianping | 44 | Deputy General Manager | 2003 |
| Yao Xiaocong | 54 | Chief Accountant | 1997 |
| Guo Xiangdong | 42 | Company Secretary | 2004 |
| Luo Jiancheng | 35 | General Manager Assistant | 2006 |

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Yang Yiping is our Director and General Manager.

Wu Weimin, age 50, joined the Company in January 2004 and is a Deputy General Manager of the Company. Mr. Wu graduated from the Guangdong Radio & TV University and is an engineer. Since 1984, he had served in various managerial positions in the material and equipment department, the planning and statistic department and the labor and wage department of Yangcheng Railway Company. He also served as an engineer of the material and equipment section and director of the planning and statistic sub-department of Yangcheng Railway Company. Mr. Wu was the director of the labor and wage sub-department and director of the social insurance centre of Yangcheng Railway Company before joining the Company.

56

Wang Jianping, age 44, joined the Company in July 2003 and is a Deputy General Manager of the Company. Mr. Wang graduated from the Party School of CPC, majoring in Economics and Management. In 1983, Mr. Wang joined the railway departments and had served in various managerial positions in Guangzhou Railway Administration and GRGC since then. Before joining the Company, Mr. Wang was in the senior management team of Guangzhou Railway Foreign Trade and Economic Development Company. Mr. Wang has served in several managerial positions in the Company since he joined, and has been our Deputy General Manager since April 2008.

Yao Xiaocong, age 54, is Chief Accountant of the Company. Mr. Yao graduated from the Party School of the CPC, majoring in economics and management. Since 1975, Mr. Yao has served in the financial accounting department in the railway departments and has more than 30 years of experience in financial accounting. Mr. Yao was a member of the senior management of the Company from June 1997 to January 2004. Mr. Yao was the Director of the accounting department of GRGC before becoming the Chief Accountant of the Company in August 2004.

Guo Xiangdong, age 42, is 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 joined the Company in 1991 and had served as Deputy Section Chief, Deputy Director and Director of Secretariat of the Board. Mr. Guo has been Company Secretary of the Company since January 2004.

Luo Jiancheng, age 35, joined the Company in January 2006 and is the General Manager Assistant. Mr. Luo graduated from Changsha Railway Institute, majoring in transportation management. From 1996 he had served in various managerial positions in the technical and transportation departments of Yangcheng Railway Company, GRGC and Sanmao Railway Company Ltd. Before joining the Company, Mr. Luo served as deputy director of the transportation department of GRGC.

ADDITIONAL INFORMATION

Members of our board of directors and senior management also hold the following directorships and senior management positions in other companies as follows:

| Name | Position |
|----------|--|
| He Yuhua | Chairman of the Board of Directors of: - GRGC - Guangmeishan Railway Company |

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- Sanmao Railway Company
- Yuehai Railway Company

Cao Jianguo Chairman of the Board of Directors of:
- Shenzhen Pingnan Railway Company

Director of:
- Sanmao Railway Company
- Guangdong Tieqing International Travel Agency Company

57

Wu Houhui Chairman of the Board of Directors of:
- Sanmao Railway Enterprise Development Company
- Guangdong Tiecheng Company

Director of:
- Guangmeishan Railway Company, Sanmao Railway Company
- Shichang Railway Company and Guangdong Tieqing International Travel Agency Company

Yu Zhiming Chairman of the Supervisory committee of:
- Yuehai Railway Company

director of:
- Guangmeishan Railway Company and Hainan Donghuan Railway Company.

Yao Muming Chairman of the Supervisory committee of:
- Guangmeishan Railway Company
- Sanmao Railway Company
- Shichang Railway Company

Li Zhiming Supervisor of:
- Sanmao Railway Company
- Yuehai Railway Company
- Shichang Railway Company
- Sanmao Railway Enterprise Development Company
- Guangdong Tiecheng Company

Chen Shaohong Director of:
- Yuehai Railway Company
- Guangdong Tieqing International Travel Agency

Supervisor of:
- Guangmeishan Railway Company,
- Sanmao Railway Enterprise Development Company
- Shichang Railway Company
- Hainan Donghuan Railway Company

In addition, the lines operated by Guangmeishan Railway Company, Sanmao Railway Company, Shichang Railway Company, Yuehai Railway Company, and Shenzhen Pingnan Railway Company are all local railroads. Sanmao Railway Enterprise Development Company and Guangdong Tieqing International Travel Agency Company are subsidiaries of GRGC. Guangzhou Tiecheng Industrial Company is our joint venture partner. We are currently involved in certain litigation proceedings relating to this joint venture. See "Item 8A.7 Legal Proceedings" for additional information. We have business relationships relating to railroad transportation

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with Guangmeishan Railway Company and Sanmao Railway Company.

58

ITEM 6B. BOARD COMPENSATION

DIRECTORS AND SENIOR MANAGEMENT

Total remuneration of our directors, supervisors and senior officers during 2007 included wages, bonuses, other schemes and allowances. Directors or supervisors who are also officers and employees of Guangshen Railway receive certain other benefits in kind from GRGC, GEDC or us, such as subsidized or medical insurance, housing and transportation, as customarily provided by companies in the PRC to their employees.

The aggregate amount of cash remuneration paid by Guangshen Railway in 2007 to all individuals who are our directors, supervisors and senior officers was approximately RMB 2.8 million, of which approximately RMB1.1 million was paid to our non-independent directors and supervisors and approximately HK\$0.5 million was paid to the three independent non-executive directors.

The aggregate amount of cash remuneration we paid during the year ended December 31, 2007 for pension and retirement benefits to all individuals who are currently our directors, supervisors and senior officers was approximately RMB100,807.

INTERESTS OF OUR DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT IN OUR SHARE CAPITAL

As of December 31, 2007, 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 any interests or short positions from any of our directors or supervisors required to be made to us and the Hong Kong Stock Exchange 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, 2007 or at December 31, 2007 to which we or any of our subsidiaries was a party.

59

REMUNERATION OF OUR DIRECTORS AND SUPERVISORS

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The level of remuneration of our directors and supervisors was determined by reference to various factors, including the going 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 the Company. No Director or Supervisor is involved in determining his own remuneration.

ITEM 6C. BOARD PRACTICES

BOARD OF DIRECTORS

In accordance with our currently valid 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 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: Yao Muming, Li Zhiming, Wang Jianping, Chen Shaohong, Huang Lika and Liu Xilin. All of the current members of our Supervisory Committee, who are representatives of the shareholders were elected or re-elected at the annual shareholders' general meeting held on June 26, 2008. The term of these supervisors will be 3 years. Our supervisory committee held three meetings during the year ended December 31, 2007, at which resolutions concerning identified key issues were passed and notified to our board of directors. Our supervisors attended all meetings of our board of directors and other important meetings concerning our operation during the year ended December 31, 2007. Our supervisory committee had carefully reviewed the report of our directors, the financial report and proposed profit distribution presented by our board of directors at the annual general meeting of shareholders held on June 26, 2008.

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:

60

- 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

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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: Dr. Wilton Chau Chi Wai, Mr. Dai Qilin and Mr. Li Yuhui. Dr. Chau, Mr. Dai and Mr. Li 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 20-F;
- reviewing the financial reports and the reports of the Company prepared by the independent auditor and its supporting documents, including the review of the

61

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

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risk management, as well as any material deficiencies and weakness existing in the internal controls;

- 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. He Yuhua (Chairman), Mr. Yang Yiping, Dr. Wilton Chau Chi Wai, Mr. Dai Qilin and Mr. Li Yuhui. 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 the Company. The remuneration policy of the Company seeks to provide, in the context of the Company's business strategy, reasonable remuneration to attract and retain high calibre 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 the Company when determining the Directors' and the Supervisors' emoluments.

HOME COUNTRY PRACTICES

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:

62

- 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;
- we do not have a nominating committee or a corporate governance committee similar to that required for U.S. domestic companies;
- 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 (1) director qualification standards and responsibilities; (2) key board committee responsibilities; (3) director access to management and, as necessary and appropriate, independent advisors; (4) director compensation; (5)

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management succession; and (6) director orientation and continuing education;

- as a company listed on the Hong Kong Exchange, 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 6D. EMPLOYEES

As of December 31, 2005, 2006 and 2007, we had approximately 8,882, 9,411 and 33,000 employees, respectively. The following chart sets forth the number of our employees by function as of December 31, 2007:

| FUNCTION | EMPLOYEES |
|---|-----------|
| Passenger transportation personnel (1)..... | 6,839 |
| Coordination personnel (2)..... | 2,357 |
| Freight transportation personnel (3)..... | 4,200 |
| Mechanical personnel (4)..... | 4,882 |
| Power and water supply personnel (5)..... | 1,694 |
| Vehicle personnel (6)..... | 3,405 |

63

| | |
|---|--------|
| Maintenance personnel (7)..... | 4,313 |
| Power service personnel (8)..... | 1,370 |
| Transportation supporting personnel (9)..... | 531 |
| Diversified businesses and other supporting personnel (10)..... | 891 |
| Technical and administrative personnel (11).... | 338 |
| Other personnel (12)..... | 2,180 |
| Total..... | 33,000 |

-
- (1) Passenger transportation personnel mean those people that provide station boarding and train services.
 - (2) Coordination personnel mean those people responsible for train coordination.
 - (3) Freight transportation personnel mean those people responsible for organization of freight transportation.
 - (4) Mechanical personnel mean those people responsible for train operation and overhaul.
 - (5) Power and water supply personnel mean those people responsible for contact

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network operation and overhaul as well as power and water consumption maintenance.

- (6) Vehicle personnel mean those people responsible for vehicle operation and overhaul.
- (7) Maintenance personnel mean those people responsible for station track and railroad switch maintenance.
- (8) Power service personnel mean those people responsible for signal equipment maintenance.
- (9) Transportation supporting personnel means the supporting personnel of trains, machinery, works, power and vehicle organizations.
- (10) Diversified businesses and other supporting personnel mean all personnel involved in diversified businesses.
- (11) Technical and administrative personnel mean all managerial personnel other than the personnel of diversified businesses.
- (12) 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. The number of our employees increased by 23,589 in 2007, which is mainly due to the acquisition of the railway transportation business of Guangzhou-Pingshi Railway.

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 operation results and is based on their performance records and reviews. We paid approximately RMB2,100.1 million in salaries and benefits to our employees in 2007.

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 as set forth in the following table:

| EMPLOYEE BENEFITS | AS A PERCENTAGE OF THE AGGREGATE SALARIES OF O EMPLOYEES RESIDING ALONG THE GUANGZHOU- PINGSHI LINE | EMPLOYEES RESIDING I GUANGZHOU AREA OR ALONG GUANGZHOU-SHENZHEN LI |
|--|---|--|
| Housing Fund..... | 6% | 7% |
| Retirement Insurance | 18% | 18% |
| Supplemental Retirement Insurance..... | 5% | 5% |
| Basic Medical Insurance..... | 8% | 8% |
| Supplemental Medical Insurance..... | 1% | 1% |

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| | | |
|--------------------------------------|------|------|
| Child-bearing Medical Insurance..... | 0.4% | 0.4% |
| Other Welfare Contributions..... | 6% | 6% |

Besides, pursuant to an early retirement scheme implemented by the Company, certain employees who meet certain specified criteria were provided with an offer to early retire and enjoy certain early retirement benefits, such as payments of the basic salary and other fringe benefits, offered by the Company, until they reach the statutory retirement age. Under the terms of the scheme, all applications are subject to the approval of the Company. Expenses incurred on such employee early retirement benefits have been recognized in the income statement when the Company approved such application 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 24 and 27 to our audited consolidated financial statements included elsewhere in this annual report.

ITEM 6E. SHARE OWNERSHIP

As of June 25, 2008, none of our directors, supervisors or senior management owns any interest in any shares or options to purchase our shares.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

ITEM 7A. 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 common shares. GRGC was the sole shareholder of all of our domestic shares in the form of state legal person shares and was entitled to exercise all rights as our controlling shareholder according to the relevant laws, rules and regulations. GRGC had substantial influence over our operations, not only in its capacity as controlling shareholder, but also because of its role 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. After the completion of our initial public offering of A shares in December 2006, the equity interests held by GRGC reduced to approximately 41% but remained as the largest shareholder of our Company, GRGC can still exercise substantial influence over our Company.

65

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the current shareholding structure of the Company:

| 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 | 2,904,250,000 | 41.0 |
| Public Shareholders of A shares | A shares | 2,747,987,000 | 38.8 |

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Total 7,083,537,000 100.0

The following table sets forth information regarding ownership of our issued and outstanding capital stock as of June 25, 2008. Note that it includes 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 (THOUSAND SHARES) | PERCENTAGE OF CLASS OF SHARES |
|------------------------------|-----------------------------|-----------------------------------|-------------------------------------|
| Common Shares (A shares) (1) | GRGC | 2,904,250 | 51.38 |

(1) A shares held by GRGC are restricted from sales and redemption within 36 months starting from December 22, 2006.

The following table sets forth all persons who are known by us to beneficially own five percent or more of our issued and outstanding H shares as of June 18, 2008.

| TITLE OF CLASS | IDENTITY OF PERSON OR GROUP | AMOUNT OWNED (THOUSAND SHARES) | PERCENTAGE OF CLASS OF SHARES |
|--------------------------|---|-----------------------------------|----------------------------------|
| Common Shares (H shares) | T. Rowe Price Associates, Inc. and Its Affiliates | 203,672 | 14.23% |
| Common Shares (H shares) | Northern Trust Fiduciary Services (Ireland) Limited | 117,042 | 8.18% |
| Common Shares (H shares) | Baring Asset Management Limited | 115,244 | 8.05% |
| Common Shares (H shares) | UBS AG | 104,139 | 7.28% |
| Common Shares (H shares) | Sumitomo Life Insurance Company (2) | 88,311 | 6.17% |
| Common Shares (H shares) | Sumitomo Mitsui Asset Management Company, Limited | 85,852 | 6.00% |
| Common Shares (H shares) | Barclays Global Investors UK Holdings Limited | 84,051 (L) | 5.87% (L) (1) |
| Common Shares (H shares) | Barclays PLC(3) | 93,750 (S) | 6.55% (S) (1) |
| | | 84,051 (L) | 5.87% (L) (1) |
| | | 93,750 (S) | 6.55% (S) (1) |

(1) The letter "L" denotes a long position and the letter "S" denotes a short position.

(2) As at June 18, 2008, 2008, Sumitomo Life Insurance Company was deemed to be interested in 85,852,000 H shares

66

(representing approximately 6.00% of the total H shares of the Company or 1.21% of the total share capital of the Company) held by Sumitomo Mitsui Asset Management Company Limited, a controlled corporation of Sumitomo Life Insurance Company.

(3) As at June 18, 2008, Barclays PLC owned 92.3% shares of Barclays Global Investors UK Holdings Limited. According to the Securities and Futures

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Ordinance, Barclays PLC is deemed to hold the share interests of Barclays Global Investors UK Holdings Limited.

As of the date of this 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 the restrictions noted in the first sentence of this paragraph, 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.

ITEM 7B. 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.

Prior to the A Share Offering in December 2006, we were controlled by GRGC, which is a subsidiary of the MOR and is ultimately controlled by the PRC government. The PRC government also controls a significant portion of the productive assets and entities in the PRC. Consequently, in accordance with the requirements of IAS 24, Related Party Disclosures, subsidiaries and associates of the MOR and GRGC and all other state controlled enterprises and their subsidiaries, were also related parties of us. As a result of the A Share Offering on December 22, 2006, we are no longer controlled by GRGC, although it still exercises significant influence over us by virtue of being our single largest shareholder. Consequently, under IAS 24, Stated-owned companies other than GRGC and its subsidiaries were no longer considered as related parties of the Company. Therefore, as of December 31, 2007, the Company had the following material related parties:

| Name of related parties | Relationship with the Company |
|--|-------------------------------|
| PARENT OF MAJOR SHAREHOLDERS, MAJOR SHAREHOLDER AND FELLOW SUBSIDIARIES | |
| Ministry of Railways, or MOR | Parent of GRGC |
| MOR's Railroad Deposit-taking Center | Branch of the parent of GRGC |
| Guangzhou Railway (Group) Company, or GRGC | Major shareholder |
| Guangzhou Railway Group Yang Cheng Railway Enterprise Development Company, or Yangcheng Railway Company | Subsidiary of GRGC |
| Guangmeishan Railway Company Limited, or Guangmeishan | Subsidiary of GRGC |
| Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company (the Predecessor as defined in Note 1 to our audited consolidated financial statements, or GEDC | Subsidiary of GRGC |
| Guangzhou Railway Material Supply Company | Subsidiary of GRGC |
| Guangzhou Railway Engineer Construction Enterprise Development Company, or Engineer Construction Enterprise | Subsidiary of GRGC |

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| | |
|---|--------------------------|
| Yuehai Railway company Limited | Subsidiary of GRGC |
| Sichuan Railway Company Limited | Subsidiary of GRGC |
| CYTS Guangdong Railway Shenzhen Co., Ltd | Subsidiary of GRGC |
| Changsha Railway Construction Company Limited | Subsidiary of GRGC |
| Guangdong Pearl River Delta Inter-city Railway Traffic Co., Ltd | Subsidiary of GRGC |
| Guangdong Sanmao Enterprise Development Company Limited | Subsidiary of GRGC |
| Guangzhou Qingda Transportation Company Limited | Subsidiary of GRGC |
| Shichang Railway Company Limited | Subsidiary of GRGC |
| ASSOCIATES OF THE COMPANY | |
| Guangzhou Tiecheng Enterprise Company Limited | Associate of the Company |
| Zengcheng Lihua Stock Company Limited | Associate of the Company |
| Shenzhen Guangshen Railway Civil Engineering Company | Associate of the Company |

As part of the Restructuring carried out in 1996 in preparation for our initial public offering, we assumed from Guangshen Railway Company, our predecessor and GRGC, our largest shareholder, assets and liabilities that relate to the businesses now conducted by us, including the high-speed passenger train project and equity interests in subsidiaries and joint ventures engaged in the operation of warehouses or freight yards. We also assumed from Yangcheng Railway Company certain assets, including 14 shunting locomotives and passenger coaches that Yangcheng Railway Company had previously leased to us. Our predecessor company retained the assets, liabilities and businesses not assumed by us, including units providing staff quarters and social services such as health care, educational and public security services and other ancillary services, as well as subsidiaries or joint ventures whose businesses do not relate to railroad operations and do not compete with our businesses. As part of our Restructuring, our predecessor was renamed Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company, or GEDC.

We have agreed with GRGC and GEDC as to certain mutual indemnities arising from or in respect of the various assets and liabilities transferred to or retained by the parties. The purpose of the indemnities is to ensure that none of Guangshen Railway, GRGC or GEDC will bear liabilities that it has not agreed to assume, even in cases where third parties have not consented to the division of liabilities among them and continue to make claims against an entity that has not assumed the relevant liability. GRGC and GEDC have agreed to indemnify Guangshen Railway against any claims arising from facts or events prior to the Restructuring as well as any claims against Guangshen Railway in respect of assets and liabilities retained by them in the Restructuring.

After the Restructuring, GEDC, Yangcheng Railway Company and GRGC (together with some of its subsidiaries) continued to provide social services to Guangshen Railway on a contractual basis. These services included medical care for our employees and their family members, kindergarten, elementary and secondary school education for the children of employees, room and board for our employees traveling on business, employee housing management and maintenance and public security in our stations and on-board our trains. GEDC provided most of these services through its facilities in Shenzhen. GRGC and Yangcheng Railway Company provide to Guangshen Railway in Guangzhou other services, including health care, employee training and childcare. For the services rendered, Guangshen Railway paid GRGC, Yangcheng Railway Company or GEDC, as the case may be, reasonable, arm's-length fees. In the second half of 2004, all of the hospitals and schools originally vested in GEDC were transferred to the local government pursuant to applicable PRC policies. As a result, GEDC no

68

longer provides any education and hospital services to us under such contractual arrangements.

In addition, certain transactions between Guangshen Railway and GRGC and

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its subsidiaries have continued after the Restructuring, in the form of a cross-provision of goods and services. The principal goods and services provided by GRGC and some of its subsidiaries, including Yangcheng Railway Company and GEDC, to Guangshen Railway include the following:

- locomotives, railcars and operating personnel;
- leasing of passenger coaches;
- maintenance services for locomotives and passenger coaches;
- railroad transportation related services;
- fuel for the operation of locomotives;
- railway related materials;
- overhaul and emergency repair of our track and bridges;
- public security; and
- employee housing.

The principal goods and services provided by us to GRGC and its subsidiaries include railroad transportation related services, sale of duty free goods on-board of our Hong Kong Through Trains and at Guangzhou station and advertising space at our Shenzhen station.

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

- prices for railroad transportation-related services are determined in accordance with the actual costs incurred in providing these services plus a profit margin of 8% of aggregate chargeable costs (fuel expenses, asset depreciation and water utility fees are not counted as chargeable costs for purposes of this calculation), which amount, Guangshen Railway believes, is consistent with that which would be charged in an arm's-length transaction;
 - the rental amounts for the high-speed passenger coaches leased to Guangshen Railway by GRGC equal approximately 6% of GRGC's purchase price for the coaches, approximating GRGC's depreciation expenses for the coaches; Guangshen Railway also bears all costs of maintenance and overhaul of these coaches;
 - the prices for social and related services provided by Yangcheng Railway Company (i.e., educational) and GEDC (i.e., security and housing) are determined based on the actual cost of providing these services;
 - the prices for social and related services provided by GRGC are determined on the following basis:
 - child care services: in accordance with the actual cost incurred for providing such services;
- 69
- newspaper supply services: at an agreed cost of approximately RMB25 per year per copy of newspaper supplied, which cost may change based on cost changes to GRGC;
 - the prices for the supply of railroad transportation related materials are determined in accordance with the relevant regulations issued by GRGC (which regulations are applicable to other railroads under the jurisdiction of GRGC);
 - the prices for the provision of overhaul and large scale maintenance services for our track and bridges are based on the relevant approved

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estimates plus a profit margin of 8%, and the prices for other maintenance services are to be agreed by the parties on a case-by-case basis; and

- Guangshen Railway is entitled to 45% of the profits derived from the advertising businesses at its Shenzhen station.

In connection with the acquisition of the railway transportation business of Guangzhou-Pingshi Railway from Yangcheng Railway Company, which would affect the scope of the above services, the Company, in November 2004, entered into, inter alia, two conditional comprehensive services agreements with GRGC and Yangcheng Railway Company in relation to certain continuing connected transactions. Such agreements could only become effective upon the completion of the Acquisition. As it was anticipated that the Acquisition would not be completed before March 2006, the Company, on January 13, 2006, entered into the GRGC Provisional comprehensive services agreement to govern certain continuing connected transactions between GRGC and its associates during the period between March 2006 and completion of the Acquisition. In addition, the Company entered into the GEDC comprehensive services agreement in January 2006. These two agreements have been entered into on a continuing and regular basis, in the ordinary and usual course of business of the Company and its subsidiaries, and on arm's length basis between the relevant parties. The GEDC comprehensive services agreement and the GRGC Provisional comprehensive services agreement replace and supersede all the existing agreements or arrangements that have been entered into between the Company and GRGC, its subsidiaries and controlled entities, including Yangcheng Railway Company, to the extent that they covered the same services including the master agreements entered into by the Company when the Company was listed on the HKSE in 1996. Each of the GRGC Provisional comprehensive services agreement and the GEDC comprehensive services agreement became effective from March 3, 2006 after being approved by our shareholders' general meeting.

After the completion of the Acquisition in January 2007, the GRGC Provisional comprehensive services agreement has ceased to have any effect, and the conditional GRGC comprehensive services agreement and the Yangcheng comprehensive services agreement originally entered into in November 2004 have become effective and unconditional.

The GEDC comprehensive services agreement has a term of three years ending on December 31, 2008. According to this agreement, the aggregate annual service fees payable by the Company to GEDC shall not exceed RMB74.91 million, RMB76.41 million and RMB77.94

70

million for the three years ending December 31, 2006, 2007 and 2008, respectively. In anticipation of the completion of the construction of the Fourth Rail Line and the increase of new EMUs, the Company expects that more complementary services from GEDC will be required and the annual cap for the continuing connected transactions under the GEDC comprehensive services agreement for the financial year ending December 31, 2007 was required to be increased. Accordingly, the Company and GEDC entered into a supplemental agreement on April 19, 2007 to adjust the annual cap for the continuing connected transactions for the financial year ending December 31, 2007 to RMB139.70 million. In addition, under this supplemental agreement, the term of the GEDC comprehensive services agreement was shortened to two years ending on December 31, 2007. Except for the above, all the other terms of the original GEDC comprehensive services agreement remained unchanged. On June 28, 2007, the Supplemental Agreement and the adjustment of the annual cap were approved by the independent shareholders through affirmative votes at the shareholders' general meeting of the Company, at which GRGC and its subsidiaries abstained from voting as related parties. Also, due to expansion of our business activities, the

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amount of services actually provided by Yangcheng Railway Company under the Yangcheng comprehensive services agreement has exceeded the annual maximum under the Yangcheng comprehensive services agreement. Consequently, the annual maximum for services provided by Yangcheng Railway Company in the year ended December 31, 2007 was increased from RMB260 million to RMB389 million, which increase was approved by our independent shareholders at the second extraordinary shareholders' general meeting held on December 27, 2007.

As the GRGC comprehensive services agreement, the Yangcheng comprehensive services agreement and the GEDC comprehensive services agreement have all expired on December 31, 2007, the Company entered into new comprehensive services agreements on November 5, 2007 with each of GRGC, GEDC and Yangcheng Railway Company in relation to the continuing connected transactions and the new agreements were approved by the independent shareholders at the second extraordinary shareholders' general meeting held on December 27, 2007. Each of these new master agreements contain arm's length terms and have a term of three years, beginning on January 1, 2008 and ending on December 31, 2010. The services provided and the pricing arrangements between the parties under the new master agreements are largely the same as those under the old master agreements. Under the new comprehensive service agreements, for the three years ending December 31, 2008, 2009 and 2010, respectively, the proposed aggregate annual service fees payable by the Company to GRGC shall not exceed RMB3,943.7 million, RMB4,339.7 million, and RMB4,779.7 million, respectively; the fees payable to Yangcheng Railway Company shall not exceed RMB 447.3 million, RMB 514.3 million, RMB591.5 million, respectively; and the fees payable to GEDC shall not exceed RMB197.6 million, RMB227.3 million, RMB261.4 million, respectively.

In addition, the Company entered into three demolition compensation agreements with GEDC on June 20, 2007 with total consideration of RMB61.1 million. The Company also entered into four demolition compensation agreements with several enterprises controlled by GEDC for 12 months ending June 20, 2007. The total consideration under these agreements is RMB4.1 million.

The chart below sets forth the material transactions the Company undertook with related parties in 2005, 2006 and 2007:

71

RECURRING TRANSACTIONS:

TRANSACTIONS WITH MOR AND ITS RELATED ENTITIES

I. INCOME

| | |
|---|-------|
| Provision of train transportation and related services to other railway companies controlled by MOR (1) | (304, |
| Revenue received, processed and allocated by MOR ((1) and (5)) | |
| - long distance passenger transportation | (575, |
| - cargo forwarding railway usage fees | (123, |
| Provision of repairing service for cargo truck of GRGC and MOR | 28, |
| Provision of train transportation service to GRGC and its subsidiaries (1) | |

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| | |
|---|-------|
| Interest income received/receivable from MOR Deposit-taking Centre | (5, |
| II. CHARGES AND PAYMENTS | |
| Services charges allocated from MOR for train transportation and related services offered by other railway companies controlled by MOR ((1) and (5)) | 290, |
| Operating lease rentals paid/payable to MOR (1) | 50, |
| Provision of train transportation service provided by GRGC and its subsidiaries (1) | 8, |
| Social services (employee housing, health care, educational and public security services and other ancillary services) provided by the GEDC under a service agreement (2) | 78, |
| Operating lease rental paid to GRGC for the land use right | |
| Purchase of materials and supplies from Guangzhou Railway Material Supply Company (3) | 73, |
| Provision of repair and maintenance services provided by GRGC and its subsidiaries(1) | |
| Interest expenses paid/payable to GRGC, net (4) | ----- |
| NON-RECURRING TRANSACTIONS: | |
| ----- | |
| I. TRANSACTIONS WITH MOR AND GRGC AND ITS SUBSIDIARIES | |
| Disposal of an available-for-sale investment | (121, |
| Partial disposal of part of equity interests in a subsidiary | |
| Provision of repair and maintenance services by GRGC and its subsidiaries(1) | 73, |
| Provision of construction management services by GRGC in connection with the construction of fixed assets of the Company (4) | 6, |
| 72 | |
| Provision of supplies and materials by subsidiaries of GRGC (3) | 5, |
| Provision of construction projects(2) | |
| Payment of a deposit for the acquisition of net assets of Yangcheng Railway Company (7) | |
| Other service provided with subsidiaries of GRGC (3) | |
| II. TRANSACTIONS WITH OTHER STATE-OWNED COMPANIES | |

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| | |
|---|--------|
| Provision of construction project and related service (3) | 1,148, |
| Provision of repair and maintenance services (3) | 75, |
| Provision of supplies and materials (3) | 5, |
| Purchase of fixed assets (3) | 55, |
| | ----- |

-
- (1) The service charges are determined based on a pricing scheme set by MOR or made reference to current market prices with guidance provided by MOR.
 - (2) The service charges are levied based on contracted prices determined based on cost plus a profit margin.
 - (3) The prices are based on mutual negotiation between the contract parties with reference to guidance provided by MOR.
 - (4) Pursuant to the provisions of a construction management agreement and several supplemental agreements, we entered into with GRGC in 2005 and 2006, GRGC has undertaken to provide project management services to the Company for monitoring the construction services provided/to be provided by certain contractors and sub-contractors, which are mostly other State-owned companies, employed for the construction of certain railway and railway stations of the Company, including the Fourth Rail-Line. The management service fees are determined based on the pricing scheme set by MOR.
 - (5) Due to the fact that the railway business is centrally managed by the MOR within the PRC, the Company works in cooperation with MOR and other railway companies owned and controlled by MOR in order to operate certain long distance passenger train transportation and cargo forwarding services within the PRC. The related revenues are collected by other railway companies and centrally collected and processed by MOR. Certain portion of the revenues so collected are allocated to the Company for the use of its rail-lines or for services rendered by the Company in connection with the provision of these services. On the other hand, the Company is also allocated by MOR certain charges for the use of the rail lines and services provided by other railway companies. Such allocations are determined by MOR based on its standard charges applied on a nationwide basis. The Company is unable to independently validate these revenues and charges allocated by MOR based on any self generated source data or information. In addition, there is no established formal channel for the Company to lodge any query or objection to the amounts allocated.

73

As of December 31, 2006 and 2007, we had the following material balances with our related parties:

| | 2006 | 2007 |
|---|---------|---------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| | ----- | ----- |
| Cash and cash equivalents maintained in MOR Deposit-taking Centre (See Note 34(b) to our audited consolidated financial statements) | 25,786 | - |

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| | | |
|--|-----------|-----------|
| Short-term time deposits in MOR Deposit-taking Centre (see Note 20 to our audited consolidated financial statements) | 169,739 | - |
| Due from/(to) GRGC | 31,584 | (78,262) |
| - Trade balance (6) | 28,234 | (96,995) |
| - Non-trade balance | 3,350 | 18,733 |
| Deposit for acquisition of Yangcheng Railway Company(7) | 5,265,250 | - |
| Due from subsidiaries of GRGC | 173 | 82,100 |
| - Trade balance | 61 | 17,843 |
| - Non-trade balance | 112 | 64,257 |
| Due to subsidiaries of GRGC | (220,915) | (940,928) |
| - Trade balance (8) | (39,813) | (157,001) |
| - Non-trade balance (9) | (181,102) | (783,927) |
| Due from an associate | - | 1,825 |
| - Trade balance | 12,312 | 14,137 |
| Less: impairment provision (11) | (12,312) | (12,312) |
| Due to an associate | (29,686) | (2,935) |
| - Non-trade balance (10) | (29,686) | (2,935) |

- (6) The trade balances due from/to GRGC, subsidiaries of GRGC and MOR 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 note (4) above.
- (7) As of December 31, 2006, the balance represents 51% of the agreed-upon consideration paid to GRGC for the acquisition of the net assets of Yangcheng Railway Company as a deposit (see Note 38 to our audited consolidated financial statements).
- (8) The trade balances due to related parties mainly represented payables arising from unsettled fees for purchase of materials and provision of other services according to various service agreements entered into between the Company together with its subsidiaries and the parties.
- (9) The non-trade balance due to related parties mainly represents the deposits received from those related parties.
- (10) The non-trade balance due to other state-owned companies as of December 31, 2007 mainly represents the payable balances arising from unsettled fees for construction projects undertaken for the Company.
- (11) Full impairment loss provision set up against a receivable balance due from Zengcheng Lihua, which was brought forward from prior years.

As of December 31, 2007, 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 usual terms according to the conditions and waiver granted by Hong Kong Exchange and the contracts entered into between

our related parties and us. Except for the transactions discussed in this section, no other material related party transactions were entered into in 2007. Our independent non-executive directors confirmed that, these transactions (which are "connected transactions" as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) entered into

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by us in 2007 were entered into in the ordinary and usual course of our business on normal commercial terms or on terms that were fair and reasonable so far as our shareholders were concerned, or in accordance with the terms of an agreement governing such transactions or, where there was no such agreement, on terms no less favourable than those offered to (or from) independent third parties.

ITEM 7C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable

ITEM 8. FINANCIAL INFORMATION

ITEM 8A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

ITEM 8A.1 -- ITEM 8.A.6:

See pages F-1 to F-58 following ITEM 19.

ITEM 8A.7 LEGAL PROCEEDINGS

As of December 31, 2007, the Company's investment interest in an associated company, Guangzhou Tiecheng Enterprise Company Limited, or Tiecheng, amounted to approximately RMB87.8 million at carrying value.

In 1996, Tiecheng and a Hong Kong incorporated company jointly established Guangzhou Guantian Real Estate Company Limited, or Guangzhou Guantian, a Sino-foreign cooperative joint venture, to develop certain properties near a railway station operated by the Company.

On October 27, 2000, Guangzhou Guantian together with Guangzhou Guanhua Real Estate Company Limited, or Guangzhou Guanhua, and Guangzhou Guanyi Real Estate Company Limited, or Guangzhou Guanyi, agreed to act as joint guarantors of certain debts of Guangzhou Guancheng Real Estate Company Limited, or Guangzhou Guancheng, to an independent third party. Guangzhou Guantian, Guangzhou Guanhua, Guangzhou Guanyi and Guangzhou Guancheng were related companies with a common chairman. As Guangzhou Guancheng failed to repay the debts, according to a court judgment on November 4, 2001, Guangzhou Guantian, Guangzhou Guanhua and Guangzhou Guanyi were liable to the independent third party for an amount of approximately RMB257 million together with any accrued interest. As such, if Guangzhou Guantian was held responsible for the guarantee, the Company may need to make a provision for impairment on its interest in Tiecheng.

On December 15, 2003, the Higher People's Court of Guangdong Province, or the Court, accepted Guangzhou Guantian's re-trial application for discharging the aforesaid guarantee. In December 2003, the Court delivered a civil case judgment in which it was ruled that proceedings

75

regarding this case shall be terminated. As a necessary procedure for the Court to decide whether to grant a re-trial, a hearing was held on March 18, 2004. In this respect, Guangzhou Guantian appointed an independent representing lawyer to attend the hearing. In December 2005, the Court commenced procedures for re-trial. The court reheard the case on November 14, 2006 and December 25, 2006, respectively. Up to the date of this report, the Court has not yet delivered any judgment as the necessary procedures have not been completed. However, having consulted an independent lawyer, the Directors are of the opinion that the guarantee arrangement should be invalid according to the relevant PRC rules and regulations. Accordingly, the Directors consider that as of the date of this report, the likelihood of Guangzhou Guantian, a subsidiary of Tiecheng, having to settle the above claim is remote and no impairment provision for the interest

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in Tiecheng was made in the accounts. To avoid the possible loss resulting from the litigation, the Company has obtained a letter of undertaking issued by GRGC. The GRGC undertook to resolve the issue or to take up the liabilities so that the investment interest of the Company in Tiecheng will not be affected by the litigation.

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.

ITEM 8A.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 10E. Taxation" for a discussion of the tax consequences related to the receipt of dividends.

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 Renminbi and paid in Hong Kong dollars at the average of the People's Bank of China rate for

76

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 interbank system or by other permitted means. Hong Kong dollar dividend payments will be converted by the depositary and distributed to holders of ADSs in U.S. dollars.

On April 23, 2008, our Board of Directors proposed a final dividend distribution of RMB0.08 per share to our shareholders for the year ended December 31, 2007. The final dividend payment was approved by the shareholders at our 2007 annual general meeting held on June 26, 2008.

ITEM 8B. SIGNIFICANT CHANGES

Other than events already mentioned in this annual report, there have been no significant changes since December 31, 2007.

ITEM 9. THE OFFER AND LISTING

ITEM 9A. OFFER AND LISTING DETAILS

PRICE RANGE OF OUR H SHARES AND ADSS

As of December 31, 2007 and June 18, 2008, there were 1,431.3 million H shares issued and outstanding. As of December 31, 2007 and June 18, 2008, there were, respectively, 4,695,894 and 5,096,104 ADSs outstanding held by 177 and 176 registered holders. The depositary for the ADSs is JPMorgan Chase Bank. On April 25, 2008, JPMorgan Chase Bank 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.

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

| CALENDAR PERIOD | NEW YORK STOCK EXCHANGE | | HONG KONG EXCHANGE | |
|------------------------------|-------------------------|-------|--------------------|-------|
| | HIGH | LOW | HIGH | LOW |
| | (US\$ PER ADS) | | (HK\$ PER H SHARE) | |
| 2003 | 15.10 | 8.10 | 2.25 | 1.26 |
| 2004 | 20.74 | 11.50 | 3.35 | 1.76 |
| 2005 | 20.50 | 13.07 | 3.225 | 2.00 |
| 2006 | | | | |
| January to March | 21.25 | 15.45 | 3.275 | 2.30 |
| April to June | 22.72 | 14.70 | 3.525 | 2.275 |
| July to September | 22.79 | 17.80 | 3.55 | 2.75 |
| October to December | 35.24 | 19.90 | 5.41 | 3.08 |
| 2007 | | | | |
| January to March | 36.84 | 26.80 | 5.48 | 4.30 |
| April to June | 44.13 | 31.57 | 7.24 | 4.90 |
| July to September | 44.50 | 28.82 | 6.74 | 6.68 |
| October to December | 45.59 | 32.81 | 6.93 | 5.15 |
| 2008 | | | | |
| January | 37.02 | 30.79 | 5.83 | 4.80 |
| February | 34.21 | 30.73 | 5.34 | 4.83 |
| March | 33.00 | 24.25 | 5.10 | 3.70 |
| April | 30.01 | 25.08 | 4.65 | 3.91 |
| May | 29.65 | 24.71 | 4.59 | 3.84 |
| June (through June 18) | 25.75 | 22.42 | 4.09 | 3.50 |

During the year ended December 31, 2007, 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 on December 22, 2006.

ITEM 9B. PLAN OF DISTRIBUTION

Not applicable.

ITEM 9C. MARKETS

Our H shares are listed on the Stock Exchange of Hong Kong under the stock code "0525" 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".

ITEM 9D. SELLING SHAREHOLDERS

Not applicable.

ITEM 9E. DILUTION

Not applicable.

ITEM 9F. 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 (CHINESE CHARACTERS), and its English translation is Guangshen Railway Company Limited.

ITEM 10A. 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 RMB10.0 billion. Each A share has a par value of RMB1.00 and have been listed for trading on the Shanghai Stock Exchange.

The total number of shares of the Company after the A Share Offering is RMB7,083,537,000.

As of December 31, 2007, our issued share capital consisted of:

| TYPE OF SHARE CAPITAL ----- | NUMBER OF SHARES ('000) ----- | PERCENTAGE OF SHARE (%) ----- |
|---|---|--|
| Domestic tradable shares with restriction on sales (A shares) | 2,904,250 | 41.0 |
| Domestic tradable shares without restriction on sales (A shares) | 2,747,987 | 38.8 |
| H shares | 1,431,300 | 20.2 |
| Total | 7,083,537 | 100.00 |

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As at June 18, 2008, 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.

ITEM 10B. 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. A copy of our complete Articles of Association that took effect on June 26, 2008 and is attached hereto as Exhibit 1.1.

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

80

laws and regulations of the PRC. Guangshen Railway 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.

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 Renminbi. 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 Taiwan, Hong Kong, Macau or any country other than the PRC, 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, and must be subscribed for and traded in Renminbi. Transfers of A shares are subject to restrictions set forth under PRC rules and regulations, which are not applicable to H shares, and also to restrictions on transfers of shares owned by the PRC government, and by our directors or employees. 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

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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

81

owners does not exceed four; and

- we do not have any lien on the relevant shares.

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.

The Articles of Association allow for distributions of cash dividends or shares. 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 receiving agents 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

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require that cash dividends in respect of H shares be declared in Renminbi 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.

82

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.

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 Guangshen Railway 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 written notice 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.

83

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:

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- be in writing;
- specify the place, date and the time of the meeting;
- state the motions to be discussed at the meeting;
- 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 amalgamate Guangshen Railway with another entity, to repurchase the shares of Guangshen Railway, to reorganize its share capital or to restructure Guangshen Railway 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 within the interval between forty-five (45) days and fifty (50) 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. 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.

84

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

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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;

85

- 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.

86

LIQUIDATION RIGHTS

In the event of the termination or liquidation of Guangshen Railway, shareholders of Guangshen Railway shall have the right to participate in the distribution of surplus assets of Guangshen Railway 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 Guangshen Railway.

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, Guangshen Railway issues 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.

REDUCTION OF SHARE CAPITAL AND PURCHASE BY US OF OUR SHARES

We may, following the procedures provided in the Articles of Association

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and subject to the approval of the relevant governing authority of the State, repurchase any of our issued shares under the following circumstances:

- (1) cancellation of shares for capital reduction;
- (2) merging with another company that holds our shares;
- (3) paying shares to our employees as bonus; or
- (4) 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.

87

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

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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

88

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;
- 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

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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

89

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 Guangshen Railway 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.

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RECENT AMENDMENTS TO OUR ARTICLES OF ASSOCIATION

In May 2005 and May 2006, in anticipation of A Share Offering, we made conditional amendments to our draft Articles of Association to meet applicable PRC regulatory requirements, in particular, the Mandatory Provisions for the Articles of Association of

90

Companies to be Listed Outside China and the new Company Law effective from January 1, 2006. The proposed amendment to our draft Articles of Association was furnished to the SEC as Exhibit 99.1--Appendix I to the Form 6-K filed on April 18, 2006 (the conditional Articles of Association, as amended, will be referred to hereinafter as the "Conditional AOA"). In addition, our annual general meeting of shareholders approved further amendments to our then effective Articles of Association on May 11, 2006, pursuant to the new Company Law effective from January 1, 2006. After the completion of the A Share Offering in December 2006, the Conditional AOA did not take effect until March 2007 after we made further amendments to it and completed the required filings and registrations with the relevant government authorities. Upon the completion of our A Share Offering, Guidelines for the Articles of Associations of Listed Companies, as amended, in March 2006 issued by the China Securities Regulatory Commission, or the CSRC Guidelines, became applicable to us. In accordance with this CSRC Guidelines, we proposed further amendments to our Articles of Association for consideration of our shareholders' general meeting of 2006. On June 28, 2007, the amendment was approved at our shareholders' general meeting of 2006. In 2008, we made some minor amendments to our Articles of Association, which amendments were approved by shareholders at our annual shareholders' general meeting held on June 26, 2008. The amendment will not come into effect until after the completion of required filing and registration with relevant governmental authorities.

ITEM 10C. MATERIAL CONTRACTS

Except for the loan agreements, Acquisition Agreement and the connected transaction agreements we entered into with various banks, Yangcheng Railway Company, GRGC and other related parties as discussed in "Item 5B. 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 2006 and 2007 were made in the ordinary course of business.

ITEM 10D. EXCHANGE CONTROLS

The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. 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 Renminbi 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 interbank 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 Renminbi to the U.S. dollar. As of June 2008, this change in policy has resulted in a more than 18% appreciation of the Renminbi against the U.S. dollar ever since July 2005. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies.

Any future fluctuation of the Renminbi against the U.S. dollar (whether due

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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

91

income and increase the effective cost of foreign equipment and the amount of foreign currency expenses and liabilities. In 2007, due to the continuous appreciation of RMB against U.S. dollar and Hong Kong dollar, we incurred a foreign exchange loss of approximately RMB2.5 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, or, therefore, that our Hong Kong dollar revenues will insulate us from changes in the Renminbi-U.S. dollar and Renminbi-HK dollar exchange rates. 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.

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, 2007, we maintained the equivalent of approximately RMB12.8 million in U.S. dollar or 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 3.1 (a) of 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.

ITEM 10E. 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, including state owned enterprises and joint stock companies, has been governed by the PRC Enterprise Income Tax Provisional Regulations and its implementation measures, or EIT regulations, which provide for an income tax rate of 33%, unless a lower rate was provided by law, administrative regulations or State Council regulations. Guangshen Railway 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, Guangshen Railway 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 Guangshen Railway engages in other businesses through subsidiaries, those other companies were subject to corporate income tax rates of either 15% or 33% (applicable to places other than Shenzhen), depending mainly on their places of incorporation.

On March 16, 2007, the National People's Congress of the PRC promulgated the PRC

Enterprise Income Tax Law, or the new EIT Law, which has taken effect from January 1, 2008. According to the new EIT Law, the preferential income tax rate of 15% that was applicable to companies incorporated in Shenzhen and other special economic zones will be phased out in five-years beginning on January 1, 2008, and after such five-year period, the applicable tax rate will become 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% will become 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 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 of either 6% or 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 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% on the transport of passengers and goods in or out of the PRC.

TAX ON DIVIDENDS

For an Individual Investor. According to the Provisional Regulations of the PRC Concerning Questions of Taxation on Enterprises Experimenting with the Share System promulgated on June 12, 1992, referred to herein as the provisional regulations, an income tax of 20% shall be withheld in accordance with the Individual Income Tax Law of the PRC on dividend payments from such enterprises to an individual. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to this 20% PRC withholding tax unless reduced by an applicable double-taxation treaty. However, on July 21, 1993, the PRC State Tax Bureau issued a Notice Concerning the Taxation of Gains on Transfers and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals, referred to herein as the Tax Notice, which stipulates that dividends from a PRC company on shares listed on an overseas stock exchange, or overseas shares, such as H shares (including H shares represented by ADSs), would not for the time being be subject to PRC withholding tax. The relevant tax authority has thus far not collected any withholding tax on dividend payments on overseas shares.

For an Enterprise. When a foreign enterprise with no establishment or office in the PRC receives dividends from a company in the PRC, the foreign enterprise is normally subject to PRC withholding tax of 20% under the new EIT Law. However, according to the Tax Notice, a foreign enterprise without an establishment in the PRC receiving a dividend payment on overseas shares, such as H shares or ADSs, will not be subject to withholding tax on the dividend

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payment.

CAPITAL GAINS TAX

For An Individual Investor. The Tax Notice provides that gains realized by holders (both individuals and enterprises) of H shares or ADSs will not be subject to income tax.

For An Enterprise. Pursuant to the Tax Notice, a foreign enterprise with no establishment or office in the PRC is currently exempted from taxes on the capital gains from the sale of H shares issued by domestic companies.

TAX TREATIES

Foreign enterprises with no establishment in the PRC and individuals not resident in the PRC and who are resident in countries that have entered into double taxation treaties with the PRC may be entitled to a reduction of any withholding tax imposed on the payment of dividends 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 Guangshen Railway to a United States 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;
- 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;

94

- 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

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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.

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.

95

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 (as determined for United States federal income tax purposes) 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, 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:

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- 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 we are considered eligible for the benefits of the Agreement between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, or the Treaty. Our status as a qualified foreign corporation, however, may change.

Distributions that exceed our current and accumulated earnings and profits will be treated as a return of capital to you to the extent of your basis in the H shares or ADSs and thereafter as capital gain. 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 HK 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 depository, regardless of whether you or the depository 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 depository 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.

96

Subject to various limitations, any PRC tax withheld from distributions in accordance with PRC law, as limited by the 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 a maximum rate of 15% where the H shares or ADSs have been held more than one

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year. Your ability to deduct capital losses is subject to limitations.

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 will not meet either of the PFIC tests in the current or subsequent taxable years and therefore will not be treated as a PFIC for such periods. 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.

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

97

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

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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, you must file Internal Revenue Service, or IRS, Form 8621. 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.

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, including corporations. 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

98

- are a corporation or 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.

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

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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 17.5% on corporations and at a maximum rate of 16% on individuals. 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.

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 HK\$5 is currently payable on an instrument of transfer of H shares.

99

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 depository or for the account of the depository 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

Estate duty is 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. The estate duty chargeable in respect of estates of persons dying on or after July 15, 2005 and before February 11, 2006 with the principal value exceeding HK \$7.5 million is reduced to a nominal duty of HK \$100.

ITEM 10F. DIVIDENDS AND PAYING AGENTS

Not applicable.

ITEM 10G. STATEMENT BY EXPERTS

Not applicable.

ITEM 10H. 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 of American depository shares in May 1996. The registration statement contains exhibits and schedules. For further information with respect to our Company and our American depository shares,

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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, 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 submit 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.

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.

100

ITEM 10I. SUBSIDIARY INFORMATION

Not applicable.

101

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, 2006 and 2007.

CURRENCY RISKS

The Company mainly operates in the PRC with most of the transactions settled in RMB. 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. In addition, the Company is required to pay dividends in HKD and USD in the future when dividends are declared.

The monetary assets held by the Company that are denominated in USD and HKD as of December 31, 2006 and 2007 are set forth below.

| MONETARY ASSETS | CURRENCY DENOMINATION | AS OF DECEMBER 31 | |
|--------------------------|--------------------------|-------------------|-------------------|
| | | 2006 (RMB'000) | 2007 (RMB'000) |
| Current assets | | | |
| Cash and cash equivalent | USD | 23,701 | 3,505 |
| Cash and cash equivalent | HKD | 51,988 | 9,312 |
| Other receivables | HKD | 603 | 562 |
| Trade payables | USD | -- | (1,005) |

The Company may experience a loss as a result of any foreign currency

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exchange rate fluctuations in connection with our deposits. The Company has not used any means to hedge the exposure to foreign exchange risk.

On July 21, 2005, the PRC government announced that the RMB is to be floated in line with a basket of certain selected currencies and not to be pegged with the USD on or after that day. As a result, RMB appreciated by approximately 2% as compared to USD based on the exchange rate announced on that day and subsequently continued to appreciate throughout the remainder of 2005 through June 2008. As of June 2008, this change in policy has resulted in a more than 18% appreciation of the Renminbi against the U.S. dollar ever since July 2005. The Company suffered foreign exchange losses of approximately RMB 2,468,000 in the year ended December 31, 2007. The losses were recorded as finance costs in the income statement for the year ended December 31, 2007. As of December 31, 2007, our balances denominated in Hong Kong dollars and U.S. dollars were translated into Renminbi at the applicable market exchange rates as of that date and amounted to approximately RMB12.4 million. If the applicable market exchange rates were to change by 10%, this would result in a change in fair value of approximately RMB1.2 million in these balances. For the year ended December 31, 2007, the interest income derived from our cash balances at banks and temporary cash investments amounted to approximately RMB57.2 million. A 10% change in interest rates would have resulted in a change in interest income of approximately RMB5.7 million.

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 Renminbi 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

102

hedging products that serve as protection against a possible Renminbi devaluation or appreciation.

INTEREST RATE RISKS

As of December 31, 2007, funds that we do not need in the short term are generally kept as temporary cash deposits in state-owned commercial banks in the form of demand deposits. We do not hold any market risk-sensitive instruments for trading purposes. As of December 31, 2007, we had RMB2.85 billion in loans outstanding.

As the Company has no significant interest-bearing assets (except for deposits placed with banks), the Company's income and operating cash flows are not materially affected by the changes of market interest rates. The Company's interest rate risk arises mainly from long-term borrowings. Borrowings issued at floating rates expose the Company to cash flow interest rate risk.

As of December 31, 2007, if interest rates on bank borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately RMB2.3 million lower/higher, mainly as a result of higher/lower interest expense.

CREDIT RISKS

The carrying amount of cash and cash equivalents, trade and other receivables (excluding prepayments), short-term deposit, and due from related

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parties represent the Company's maximum exposure to credit risk in relation to financial assets.

Cash and short term liquid investments are placed with reputable banks. See Notes 34(b) of our audited consolidated financial statements, included elsewhere in this annual report. No significant credit risk is expected.

The majority of the Company's accounts receivable balance relate to the rendering of services or sales of products to third party customers. The Company's other receivable balances mainly arise from services other than the main railway transportation services. The Company performs ongoing credit evaluations of its 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, the Company maintains 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.

103

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, the Company's treasury function allows flexibility in funding by maintaining committed credit lines.

We monitor rolling forecasts of our liquidity reserves (comprises undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flows). See Note 3.1 (d) to our audited consolidated financial statements, which is included elsewhere in this annual report, analyzing the Company's financial liabilities into relevant maturity groupings based on the remaining period at the date of the balance sheet to the contractual maturity date. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Except as described above and in Note 3 to our audited consolidated financial statements herein, our management believes that as of the end of December 31, 2007, at present and in our normal course of business, we are not subject to any other market-related risks.

104

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

105

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

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None.

ITEM 15. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Our Chairman of the Board, General Manager, and Chief Accountant, after evaluating the effectiveness of our disclosure controls and procedures (as defined in the U.S. Securities Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded that, as of the end of the period covered by this Form 20-F, our disclosure controls and procedures were effective to ensure that material 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.

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 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. 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, 2007, under the supervision, and with the participation, of our Chairman of the Board, General Manager, and Chief Accountant, we conducted an assessment of the effectiveness of our internal control over financial reporting based on criteria established in the framework in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our company's management has concluded that its internal control over financial reporting was effective as of December 31, 2007. Such assessment does not include the assessment of the internal control over financial reporting relating to the railway transportation business of Yangcheng Railway Company, which we acquired in January 2007. The total assets and revenue of Yangcheng Railway Company accounted for approximately 36.9% and 57.0%, respectively, of the related consolidated financial statements amounts as of and for the year ended December 31, 2007.

106

The effectiveness of our company's internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers (Certified Public Accountants, Hong Kong), our company's independent registered public accountants, as stated in its report included elsewhere in this annual report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

We identified the following material weaknesses in our internal control over financial reporting for the year ended December 31, 2006:

- we did not maintain sufficient numbers of financial and accounting staff who are knowledgeable of IFRS and U.S. GAAP accounting rules to

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support the size and complexity of our Company's current organizational structure and financial reporting requirements. And

- we did not establish adequate policies and procedures to evaluate the status of our construction-in-progress on a regular basis.

In 2007, we have implemented the following remediation measures to cure the weaknesses described above:

- we have engaged an independent registered public accounting firm and professionals with international auditor's qualification other than our auditor that are familiar with IFRS to assist our accounting team in the preparation of our financial statements under IFRS. Starting from the year ended December 31, 2007, we are only required to include our financial statements prepared under IFRS in such annual report on Form 20-F to be filed with the SEC;
- we have engaged external consultants to provide trainings to our accounting team regarding the IFRS and the relevant requirements under the Sarbanes-Oxley Act;
- we have enhanced our accounting policies and procedures to provide additional guidelines and criteria for the evaluation of the status of our construction-in-progress in order to ensure that such information is communicated on a regular basis from the relevant departments of the Company to our accounting team, so that we can accurately reflect the construction-in-progress and fixed assets balances in our financial statements. We have also designated experienced personnel to handle such processes; and
- we performed an examination of the status of each of our construction projects, on an individual basis, as of December 31, 2007. Construction that has been completed and ready for its intended use has been recorded as fixed assets in our financial statements and we have commenced depreciation of these assets accordingly, while for construction that has not yet been completed, we evaluated their respective status and applied appropriate accounting treatment in our financial statements.

107

As of December 31, 2007, our management determined that applicable controls were effectively designed and operating so as to enable our management to conclude that the above described material weaknesses have been remediated.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Dr. Wilton Chau Chi Wai is an "audit committee financial expert" as defined in Item 16A of Form 20-F. Mr. Chau 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 General Manager, Chief Accountant, and other senior officers on April 20, 2004. On April 23, 2008, we amended our code of ethics pursuant to Section 404 of the Sarbanes-Oxley Act. A copy of this amended code of ethics is filed as Exhibit 11.1 hereto.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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Resolutions to appoint PricewaterhouseCoopers (certified public accountants in Hong Kong), or PwC, as our auditor for 2008 have been approved at the annual general meeting of Guangshen Railway held on June 26, 2008.

PwC was our auditor for 2007, 2006 and 2005.

The following table presents the aggregate fees for professional services and other services rendered by PwC to us in 2006 and 2007.

| | 2006 | 2007 |
|--------------------|----------------|-------|
| | ---- | ---- |
| | (RMB MILLIONS) | |
| Audit Fees | 5.82 | 8.0 |
| Audit-related Fees | 1.16 | - |
| Tax Fees | - | - |
| All Other Fees | - | - |
| | ----- | ----- |
| Total | 6.98 | 8.0 |
| | ===== | ===== |

Notes:

1. Traveling expenses and tax fees are included in the audit fees and do not require additional payment.
2. As of December 31, 2007, there did not exist any amount that became payable but remained outstanding.
3. The audit-related fees paid to PwC are related to the services for a pre-clearance matter in relation to the audit. The board of directors does not believe that such fees have affected the independence of the auditing.

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

Not applicable.

108

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

During the year ended December 31, 2007, there was no purchase, sale or redemption of our H shares or ADSs by us, or any of our subsidiaries.

109

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-58 following ITEM 19.

ITEM 19. EXHIBITS

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(a) See pages F-1 to F-58 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 |
| 4.1 | Land Lease Agreement dated November 15, 2004 between Guangshen Railway Company Limited and Guangzhou Railway (Group) Company* |
| 4.2 | Summary of the Conditional Agreement dated August 9, 2005 between Guangshen Railway Company Limited, Qingdao BSP and Bombardier Sweden and China International Tendering Company** |
| 4.3 | Summary of the Forms of the Surveying and Design Services Agreements For Railway Construction and the Construction Services Agreements, dated May 15, 2006 for the Fourth Line** |
| 4.4 | Summary of the Agreement between Guangshen Railway Company Limited and Guangzhou Zhongche Railway Rolling Stock Sales and Services Company Limited for the lease of electric train-set dated June 22, 2006** |
| 4.5 | Supplemental agreement to the comprehensive services agreement between Guangshen Railway Company Limited and Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company, dated April 19, 2007*** |
| 4.6 | Summary of the three loan agreements Guangshen Railway Company Limited entered into with three PRC banks in 2006*** |
| 4.7 | Summary of the three loan agreements Guangshen Railway Company Limited entered into with three PRC banks in 2007 |
| 4.8 | Supplemental agreement to Railway Business Related Assets Purchase Agreement dated November 14, 2006 between Guangshen Railway Company Limited and Guangzhou Railway Group Yangcheng Railway Enterprise Development Company*** |
| 4.9 | Master comprehensive services agreements dated November 5, 2007 between Guangshen Railway Company Limited and each of GRGC, GEDC and Yangcheng Railway Company |
| 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, 2007 |

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- 11.1 Code of Ethics as amended on April 23, 2008
- 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 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 29, 2006

***Incorporated by reference from the Registrant's annual report on Form 20-F filed with the SEC on June 28, 2007

111

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: June 26, 2008

By: /s/ He Yuhua

He Yuhua

Chairman of the Board of Directors

112

INDEX TO FINANCIAL STATEMENTS

| | Page |
|---|--------|
| | ----- |
| GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES | |
| Report of Independent Registered Public Accounting Firm | F-2, 3 |
| Consolidated Balance Sheets as of December 31, 2007 and 2006 | F-4 |
| Consolidated Income Statements for the years ended December 31, 2007, 2006 and 2005 | F-5 |
| Consolidated Cash Flow Statements for the years ended December 31, 2007, 2006 and 2005 | F-6 |
| Consolidated Statements of Changes in Equity for the years ended December 31, 2007, 2006 and 2005 | F-7 |
| Notes to the Consolidated Financial Statements | F-8 |

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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 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 (the "Company") and its subsidiaries ("the Group") at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 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 of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group's 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 page 106 of the 2007 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 audits (which was an integrated audit in 2007). 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.

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.

F-2

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of

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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. As described in Management's Report on Internal Control Over Financial Reporting in Item 15 appearing on page 106 of the 2007 Annual Report, management has excluded the railway transportation business of Guangzhou Railway Group Yangcheng Railway Enterprise Development Company ("Yangcheng Railway") from its assessment of internal control over financial reporting as of December 31, 2007 because it was acquired by the Group in a purchase business combination during 2007. We have also excluded Yangcheng Railway from our audit of internal control over financial reporting. The total assets and revenue of Yangcheng Railway represent approximately 36.9% and 57.0%, respectively, of the related consolidated financial statements amounts as of and for the year ended December 31, 2007.

/s/ PRICEWATERHOUSECOOPERS
Hong Kong, June 26, 2008

F-3

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006
(Amounts in thousands)

| | Note | December 31, | | |
|--|-------|--------------|------------|-----------|
| | | 2006 | 2007 | 2007 |
| | | RMB | RMB | US\$* |
| | | (Note 40) | | |
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Fixed assets | 6 | 6,738,477 | 19,995,286 | 2,742,838 |
| Construction-in-progress | 7 | 4,305,157 | 1,422,635 | 195,149 |
| Prepayment for fixed assets and construction-in-progress | | 411,476 | 891,592 | 122,304 |
| Leasehold land payments | 8 | 625,628 | 607,971 | 83,398 |
| Goodwill | 9,38 | -- | 281,255 | 38,581 |
| Prepayment and deferred acquisition costs relating to a business combination | 38 | 5,296,593 | -- | -- |
| Interests in associates | 11 | 122,520 | 124,350 | 17,058 |
| Available-for-sale investments | 12 | 46,108 | 46,608 | 6,393 |
| Long-term receivable | 14 | -- | 48,547 | 6,659 |
| Deferred tax assets | 15 | 190,843 | 362,256 | 49,692 |
| Deferred staff costs | 16 | 120,730 | 141,391 | 19,395 |
| | | 17,857,532 | 23,921,891 | 3,281,467 |
| CURRENT ASSETS | | | | |
| Materials and supplies | 17 | 66,967 | 153,674 | 21,080 |
| Trade receivables, net | 18 | 62,869 | 59,749 | 8,196 |
| Due from related parties | 37(c) | 31,757 | 83,925 | 11,512 |
| Prepayments and other receivables, net | 19 | 98,636 | 141,674 | 19,434 |
| Short-term deposits | 20 | 169,739 | -- | -- |
| Cash and cash equivalents | 34(b) | 5,851,831 | 2,352,351 | 322,682 |
| | | 6,281,799 | 2,791,373 | 382,904 |

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| | | | | |
|---|-------|------------|------------|-----------|
| TOTAL ASSETS | | 24,139,331 | 26,713,264 | 3,664,371 |
| EQUITY | | | | |
| Common stock, par value RMB1.00 per share, 7,083,537 shares authorized and outstanding | 21 | 7,083,537 | 7,083,537 | 971,678 |
| Reserves | 22 | 13,085,471 | 14,042,224 | 1,926,231 |
| | | 20,169,008 | 21,125,761 | 2,897,909 |
| MINORITY INTERESTS | | 50,922 | 55,709 | 7,642 |
| TOTAL EQUITY | | 20,219,930 | 21,181,470 | 2,905,551 |
| LIABILITIES | | | | |
| NON-CURRENT LIABILITIES | | | | |
| Borrowings | 23 | 1,860,000 | 2,850,000 | 390,947 |
| Retirement benefits obligations | 24 | 16,917 | 300,701 | 41,248 |
| Deferred tax liabilities | 15 | 9,802 | 23,335 | 3,201 |
| | | 1,886,719 | 3,174,036 | 435,396 |
| CURRENT LIABILITIES | | | | |
| Trade payables | 25 | 240,334 | 291,423 | 39,976 |
| Payables for fixed assets and construction-in-progress | | 1,004,750 | 337,213 | 46,257 |
| Due to related parties | 37(c) | 250,601 | 1,022,125 | 140,209 |
| Dividends payable | | 74 | 46 | 6 |
| Income tax payable | | 127,282 | 89,996 | 12,345 |
| Accruals and other payables | 26 | 409,641 | 616,955 | 84,631 |
| | | 2,032,682 | 2,357,758 | 323,424 |
| TOTAL LIABILITIES | | 3,919,401 | 5,531,794 | 758,820 |
| TOTAL EQUITY AND LIABILITIES | | 24,139,331 | 26,713,264 | 3,664,371 |

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 the Noon Buying Rate on December 31, 2007 of US\$1.00=RMB7.29 as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on December 31, 2007.

F-4

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in thousands, except per share and per ADS data)

Years ended December 31,

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| | Note | 2005 | 2006 | 2007 |
|---|--------|-------------|-------------|-------------|
| | | RMB | RMB | RMB |
| | | (Note 40) | (Note 40) | |
| Revenues from railroad businesses | | | | |
| Passenger | | 2,253,335 | 2,608,838 | 5,833,538 |
| Freight | | 540,341 | 565,557 | 1,326,450 |
| Railway network usage and services | | 305,790 | 291,489 | 2,659,529 |
| | | 3,099,466 | 3,465,884 | 9,819,517 |
| Revenues from other businesses | | 177,462 | 128,590 | 688,987 |
| Total revenues | | 3,276,928 | 3,594,474 | 10,508,504 |
| Operating expenses | | | | |
| Railroad businesses | | | | |
| Business tax | | (86,565) | (98,567) | (221,820) |
| Labour and benefits | 27 | (597,254) | (718,035) | (1,928,171) |
| Equipment leases and services | | (507,627) | (633,036) | (2,595,181) |
| Materials and supplies | | (283,902) | (268,259) | (1,240,801) |
| Repair costs, excluding materials and supplies | | (262,973) | (212,435) | (460,133) |
| Depreciation of fixed assets | | (289,185) | (317,358) | (1,006,728) |
| Amortisation of leasehold land payments | | (15,416) | (16,776) | (15,002) |
| Land use right leases | 36 (b) | -- | -- | (50,000) |
| Social services charges | | (78,227) | (74,520) | (396,789) |
| Utility and office expenses | | (109,719) | (102,949) | (109,792) |
| Others | | (108,516) | (85,972) | (309,876) |
| | | (2,339,384) | (2,527,907) | (8,334,293) |
| Other businesses | | | | |
| Business tax | | (10,493) | (4,885) | (17,611) |
| Labour and benefits | 27 | (58,761) | (65,710) | (171,921) |
| Materials and supplies | | (103,249) | (83,072) | (161,719) |
| Depreciation of fixed assets | | (2,773) | (2,529) | (10,372) |
| Amortisation of leasehold land payments | | (165) | -- | (1,019) |
| Utility and office expenses | | (14,906) | (9,815) | (96,177) |
| | | (190,347) | (166,011) | (458,819) |
| Total operating expenses | | (2,529,731) | (2,693,918) | (8,793,112) |
| Other income, net | 28 | 51,628 | 64,648 | 49,816 |
| PROFIT FROM OPERATIONS | | 798,825 | 965,204 | 1,765,208 |
| Finance costs | 29 | (22,738) | (15,970) | (98,487) |
| Share of results of associates | 11 | (19,949) | (28,306) | 1,830 |
| PROFIT BEFORE INCOME TAX | | 756,138 | 920,928 | 1,668,551 |
| Income tax expense | 30 | (110,176) | (149,155) | (232,349) |
| PROFIT FOR THE YEAR | | 645,962 | 771,773 | 1,436,202 |
| ATTRIBUTABLE TO: | | | | |
| Equity holders of the Company | | 646,960 | 771,513 | 1,431,415 |
| Minority interests | | (998) | 260 | 4,787 |
| | | 645,962 | 771,773 | 1,436,202 |
| DIVIDENDS | 33 | 520,266 | 566,683 | 566,683 |
| EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE | | | | |

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| | | | | |
|---|----|------------------|------------------|-------------------|
| EQUITY HOLDERS OF THE COMPANY DURING THE YEAR | | | | |
| - Basic and diluted | 32 | RMB0.15 ===== | RMB0.17 ===== | RMB0.20 ===== |
| EARNINGS PER EQUIVALENT ADS | | | | |
| - Basic and diluted | | RMB7.46 ===== | RMB8.73 ===== | RMB10.10 ===== |

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 the Noon Buying Rate on December 31, 2007 of US\$1.00=RMB7.29 as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on December 31, 2007.

F-5

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in thousands)

| | Note | Year ended December 31, | | |
|---|--------|-------------------------|-------------|-------------|
| | | 2005 | 2006 | 2007 |
| | | RMB | RMB | RMB |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Cash generated from operations | 34 (a) | 1,471,525 | 1,230,958 | 2,430,689 |
| Interest paid | | (654) | (1,745) | (173,515) |
| Income tax paid | | (90,724) | (117,209) | (299,529) |
| Net cash generated from operating activities | | 1,380,147 | 1,112,004 | 1,957,645 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Payments for acquisition of fixed assets and construction-in-progress and prepayment for fixed assets, net of related parties | | (1,588,374) | (3,202,670) | (1,107,320) |
| Deposits for business combination | | -- | (5,265,250) | -- |
| Payment for business combination, net of cash acquired | 38 | -- | -- | (4,781,633) |
| Disposal of subsidiaries, net of cash received | | -- | -- | (7,084) |
| Proceeds from sales of fixed assets | | 38,235 | 42,596 | 83,701 |
| Net cash balance acquired in an acquisition of a subsidiary | | -- | 1,905 | -- |
| Increase / (decrease) in interests in associates, net | | 62,700 | (42,937) | -- |
| Decrease in short-term deposits with maturities more than three months | | 613,178 | 596,392 | 169,739 |
| Interest received | | 53,346 | 36,633 | 57,183 |

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| | | | | |
|--|--------|-----------|-------------|-------------|
| Net cash used in investing activities | | (820,915) | (7,833,331) | (5,585,414) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Proceeds from issuance of share capital | | -- | 10,332,432 | -- |
| Share issuance costs | | (12,972) | (210,747) | -- |
| Proceeds from borrowings | | -- | 1,860,000 | 695,000 |
| Dividends paid to the Company's equity holders | | (476,904) | (520,655) | (566,711) |
| Dividends paid to minority interests | | (1,857) | -- | -- |
| Net cash (used in) / generated from financing activities | | (491,733) | 11,461,030 | 128,289 |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | | 67,499 | 4,739,703 | (3,499,480) |
| CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR | | 1,044,629 | 1,112,128 | 5,851,831 |
| CASH AND CASH EQUIVALENTS, AT END OF YEAR | 34 (b) | 1,112,128 | 5,851,831 | 2,352,351 |

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 the Noon Buying Rate on December 31, 2007 of US\$1.00=RMB7.29 as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on December 31, 2007.

F-6

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in thousands)

| | Attributable to equity holders | | | | | |
|---|--------------------------------|---------------|-----------------------|---------------------------|-------------------------------|-------------------------------|
| | Share capital | Share premium | Shares issuance costs | Statutory surplus reserve | Statutory public welfare fund | Discretionary surplus reserve |
| | RMB (Note 21) | RMB | RMB | RMB (Note 22) | RMB (Note 22) | RMB (Note 22) |
| Balance at January 1, 2005 | 4,335,550 | 2,715,778 | (14,035) | 605,345 | 511,294 | 341,659 |
| Share issuance costs | -- | -- | (12,972) | -- | -- | -- |
| Profit for the year | -- | -- | -- | -- | -- | -- |
| Adjustment related to carrying value of | | | | | | |

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| | | | | | | |
|-------------------------|-------------|---------------|-----------|-------------|-----------|------------|
| fixed assets at | | | | | | |
| Restructuring | -- | 140,000 | -- | -- | -- | -- |
| Appropriation from | | | | | | |
| retained earnings | -- | -- | -- | 61,192 | 29,834 | 13 |
| Transfers | -- | -- | -- | (3,995) | (6,592) | 4,321 |
| Dividends relating to | | | | | | |
| 2004 | -- | -- | -- | -- | -- | -- |
| Balance at December 31, | | | | | | |
| 2005 | 4,335,550 | 2,855,778 | (27,007) | 662,542 | 534,536 | 345,993 |
| Balance at January 1, | | | | | | |
| 2006 | 4,335,550 | 2,855,778 | (27,007) | 662,542 | 534,536 | 345,993 |
| Class A share issuance | 2,747,987 | 7,584,445 | -- | -- | -- | -- |
| Share issuance costs | -- | -- | (210,747) | -- | -- | -- |
| Profit for the year | -- | -- | -- | -- | -- | -- |
| Acquisition of a | | | | | | |
| subsidiary | -- | -- | -- | -- | -- | -- |
| Disposal of a | | | | | | |
| subsidiary | -- | -- | -- | -- | -- | -- |
| Appropriation from | | | | | | |
| retained earnings | -- | -- | -- | 71,605 | -- | 41 |
| Share issuance cost | | | | | | |
| offset against share | | | | | | |
| premium | -- | (237,754) | 237,754 | -- | -- | -- |
| Transfers | -- | -- | -- | 534,536 | (534,536) | -- |
| Dividends relating to | | | | | | |
| 2005 | -- | -- | -- | -- | -- | -- |
| Balance at December 31, | | | | | | |
| 2006 | 7,083,537 | 10,202,469 | -- | 1,268,683 | -- | 346,034 |
| Balance at January 1, | | | | | | |
| 2007 | 7,083,537 | 10,202,469 | -- | 1,268,683 | -- | 346,034 |
| Adjustment to deferred | | | | | | |
| tax arising from | | | | | | |
| group reorganisation | | | | | | |
| brought forward due | | | | | | |
| to change of income | | | | | | |
| tax rate (Note 15) | -- | 92,021 | -- | -- | -- | -- |
| Profit for the year | -- | -- | -- | -- | -- | -- |
| Appropriation from | | | | | | |
| retained earnings | -- | -- | -- | 139,778 | -- | -- |
| Reversal of | | | | | | |
| appropriation | | | | | | |
| (Note 22) | -- | -- | -- | (2,766) | -- | -- |
| Dividends relating to | | | | | | |
| 2006 | -- | -- | -- | -- | -- | -- |
| Balance at December 31, | | | | | | |
| 2007 | 7,083,537 | 10,294,490 | -- | 1,405,695 | -- | 346,034 |
| Balance at December 31, | | | | | | |
| 2007 (*) | US\$971,679 | US\$1,412,139 | -- | US\$192,825 | -- | US\$47,467 |

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

* Translation of amounts from Renminbi ("RMB") into United States dollars

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("US\$") for the convenience of the reader has been made at the Noon Buying Rate on December 31, 2007 of US\$1.00=RMB7.29 as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on December 31, 2007.

F-7

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and 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 RMB4,214,000,000 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 assets and liabilities associated with the railway transportation business of Guangzhou Railway Group Yangcheng Railway Enterprise Development Company ("Yangcheng Railway"), a wholly owned subsidiary of Guangzhou Railway Group which operate a railway line between the cities of Guangzhou and Pingshi in the Southern region of the PRC (please see Note 38 for further details).

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

The registered address of the Company is No. 1052 Heping Road, Shenzhen, Guangdong Province, the People's Republic of China.

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As of December 31, 2007, the Company had in total 33,075 employees, representing an increase of 23,664 compared to that of December 31, 2006.

The financial statements have been approved for issuance by the board of directors of the Company on April 23, 2008.

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

F-8

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

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.

(1) BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The 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) Standards, amendments and interpretation effective in 2007:

- IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements - Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments.
- IFRIC - Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group has applied this standard from January 1, 2007.

(b) Standards, amendments and interpretation effective in 2007 but not relevant to the Group's Operations:

- IFRS 4, 'Insurance contracts';
- IFRIC- Int 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies';

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- IFRIC - Int 8, 'Scope of IFRS 2'; and
- IFRIC - Int 9, 'Re-assessment of embedded derivatives'.

F-9

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PRESENTATION (CONTINUED)

- (c) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

The following standards, and interpretations to existing standards, have been published that are mandatory for the Group's accounting periods beginning on or after November 1, 2008 or later periods that the Group had not early adopted:

- IAS 1 (Revised), 'Presentation of Financial Statements' (effective from January 1, 2009). The amendment requires all non-owner changes in equity (i.e. comprehensive income) to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Management does not expect that the application will result in a material impact on the Group's accounts.
- IFRS 3 (Revised), 'Business Combination' (effective from July 1, 2009). IFRS 3 requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. IFRS 3 also requires any non-controlling interest in an acquiree to be measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Management does not expect that the application will result in a material impact on the Group's accounts.
- IFRS 8, 'Operating segments ' (effective from January 1, 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from January 1, 2009. The expected impact is still being assessed in details by management, but management does not anticipate that the application will result in any material impact on the Group's accounts.
- IAS 27 (Revised), 'Consolidated and Separate Financial Statement' (effective from July 1, 2009). IAS 27 requires non-controlling interests (i.e. minority interest) to be presented in the consolidated

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statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gains or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. Management does not expect to have any impact on the Group's accounts.

F-10

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PRESENTATION (CONTINUED)

(c) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued):

- IAS 23 (Amendment), 'Borrowing costs' (effective from January 1, 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The existing accounting policy of the Group is the same as that revised IAS 23 requirement.
- IFRIC - Int 12, 'Service concession arrangements' (effective from January 1, 2008). IFRIC - Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. Management does not expect to have any impact on the Group's accounts.

(d) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations:

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after January 1, 2008 or later periods but are not relevant to the Group's operations:

- IFRS 2 Amendment, 'Share-based Payment Vesting Conditions and Cancellations' (effective from January 1, 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be

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met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. This amendment does not have an impact on the Group's presentation of financial statements.

F-11

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(1) BASIS OF PRESENTATION (CONTINUED)

(d) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations (continued):

- IFRS 1 (Amendment), 'First-time Adoption of International Financial Reporting Standards' and IAS 27 (Amendment), 'Consolidated and Separate Financial Statements' (effective from January 1, 2009). The amendment requires that certain additional disclosure should be made to entity's first IFRS separate financial statement if an entity uses a deemed cost in its opening IFRS statement of financial position for an investment in a subsidiary, jointly controlled entity or associate in its separate financial statements. This amendment does not have an impact on the Group's financial statements.
- IAS 32 and IAS 1 (Amendment), 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from January 1, 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. This amendment does not have an impact on the Group's financial statements.
- IFRIC - Int 11, 'IFRS 2 - Group and treasury share transactions' (effective from annual periods beginning on or after March 1, 2007). IFRIC - Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements.
- IFRIC - Int 13, 'Customer loyalty programmes' (effective from July 1, 2008). IFRIC - Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC - Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

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- IFRIC - Int 14, "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from January 1, 2008). It provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. Management does not expect this interpretation to have any material impact on the Group's financial statements.

F-12

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(2) CONSOLIDATION

(a) Subsidiaries

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. 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. Details of the Company's subsidiaries are shown in Note 10.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's stand-alone balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividends received and receivable.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests

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as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

F-13

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(2) CONSOLIDATION (CONTINUED)

(c) 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 and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. Details of the Group's associates are set out in Note 11.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the 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 obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

In the Company's stand-alone balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

(3) SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

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(4) FOREIGN CURRENCY TRANSACTIONS

(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 presentation currency.

F-14

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(4) FOREIGN CURRENCY TRANSACTIONS (CONTINUED)

(b) Transactions and balances

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

(5) FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Cost represents the purchase price of the assets and other costs incurred to bring the assets into existing use.

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 income statement during the financial period in which they are incurred.

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 | 25 to 40 years |
| Leasehold improvements | over the lease terms |
| Track, bridges and service roads (Note a) | 55 to 100 years |
| Locomotives and rolling stock | 20 years |
| Communications and signalling systems | 8 to 20 years |
| Other machinery and equipment | 7 to 25 years |

Note a:

The estimated useful lives of tracks, bridges and service roads exceed the initial lease period of the respective land use right lease grants (the "Lease Term") and land use right operating lease (the "Operating Lease Term") on which these assets are located (see Notes 2(7) and 36(b)(i)).

Pursuant to the relevant laws and regulations in the PRC governing the land use right lease grant, the Group has the right to renew the leases up for a period equivalent to the initial Lease Term. 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. 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 lease agreement entered into with the substantial shareholder (details contained in Note 36(b)(i)), the Company can renew the lease at its own discretion upon expiration of the Operating Lease Term. Based on these 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.

F-15

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(5) FIXED ASSETS (CONTINUED)

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

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(9)).

Gains and losses on disposals are determined by comparing the sales proceeds with the carrying amount and are recognised within other gain or loss, included in the income statement.

(6) CONSTRUCTION-IN-PROGRESS

Construction-in-progress represents buildings, track, bridges and service roads, mainly including the construction related costs for the fourth railway line of the Group under construction. 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. Construction-in-progress is not depreciated until such assets are completed and ready for their intended use.

(7) LEASEHOLD LAND PAYMENTS

All land in the PRC is state-owned and no individual land ownership right exists. The Group acquired the right to use certain parcels of land for its rail lines, stations and other businesses. The premium paid for such

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leasehold land payments represents pre-paid lease payments, which are amortised over the lease terms of 36.5 to 50 years using the straight-line method. Pursuant to the relevant laws and regulations in the PRC governing the land use right lease grant, the Group has the right to a renewal period that is equivalent to the initial Lease Term. 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 public interest. The Group considers the approval process to be perfunctory and the renewal to be reasonably assured.

(8) GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for 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 that are expected to benefit from the business combination in which the goodwill arose.

F-16

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(9) IMPAIRMENT OF 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 that are subject to amortisation 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.

(10) FINANCIAL ASSETS

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, 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

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financial assets at initial recognition and re-evaluates this designation at every reporting date. During 2006 and 2007, other than loans and receivables and available-for-sale financial assets, the Group did not hold any financial assets in other categories.

(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 maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loan and receivables comprise 'receivables' and 'cash and cash equivalents' in the balance sheet (Note 2(13) and 2(14)).

(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 management intends to dispose of the investment within 12 months of the balance sheet date.

Regular 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. 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. Available-for-sale financial assets are subsequently carried at fair value except for no quoted market price in an active market is available for such investments or fair value cannot be reliably measured by alternative valuation methods. They are carried at costs subject to impairment review. Loans and receivables are carried at amortised cost using the effective interest method.

F-17

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(10) FINANCIAL ASSETS (CONTINUED)

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the

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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 income statement. Impairment testing of receivables is described in Note 2(13).

(11) DEFERRED STAFF COSTS

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 over 15 years, which 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 staff costs and the balance is then amortised over the contractual period of the employees participating in the Scheme.

At each balance sheet date, the Group assesses whether there is any indication of impairment, considering the remaining service period of the employees and other qualitative factors. If such indication exists, a detailed analysis will be performed in order to assess whether the carrying amount of the deferred staff costs can be recoverable in full. A write-down is made if the carrying amount exceeds the recoverable amount.

(12) MATERIALS AND SUPPLIES

Materials and supplies consist mainly of items for repair and maintenance of rail-line tracks, and are stated at lower of cost and net realisable value. Cost is determined using the weighted average method. Materials and supplies are expensed when used. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

F-18

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(13) RECEIVABLES

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the provision asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income

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statement within 'Operating expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'Operating expenses' in the income statement.

(14) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, deposits placed with the deposit centre operated by the MOR which is licensed to undertake deposits by the PRC financial authorities, and other short-term highly liquid investments with original maturities of three months or less.

(15) TRADE PAYABLES

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

(16) BORROWINGS

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

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 balance sheet date.

F-19

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(17) CURRENT AND DEFERRED 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 PRC 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.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred

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income tax liability is settled.

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

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

(18) EMPLOYEE BENEFITS

(a) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

See also Note 2 (11) above.

(b) Termination benefits

Termination benefits are payable when selected employees who meet certain criteria accept voluntary redundancy in exchange for these benefits. 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.

F-20

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(19) REVENUE RECOGNITION

The Group recognizes revenue on the following basis, provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenues and costs, if applicable, can be measured reliably:

(a) Passenger and freight services

Revenue is recognised when the services are provided.

(b) Revenue from railway network usage and services and revenue from other businesses

Revenue from railway network usage and services and revenue from other business are recognised once the related services or goods are delivered

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and the related risks and rewards of ownership have been transferred.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a 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 loans is recognised using the original effective interest rate.

(d) Dividend income

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

(20) GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of fixed assets are deducted against the carrying amount of the fixed assets.

(21) 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 income statement on a straight-line basis over the period of the lease.

(22) 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.

F-21

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTOR

The Group's activities expose it to a variety of financial risks: 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.

(a) Foreign currency risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. RMB is not freely convertible into other foreign currencies. The

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conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. In addition, the Group is required to pay dividends in HKD and USD in the future when dividends are declared.

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 denominated monetary assets and liabilities:

| Monetary assets and liabilities ----- | Currency denomination ----- | As of December 31, | |
|--|-----------------------------------|----------------------------|----------------------------|
| | | 2007 ----- (RMB'000) | 2006 ----- (RMB'000) |
| Cash and cash equivalents | USD | 3,505 | 23,701 |
| Cash and cash equivalents | HKD | 9,312 | 51,988 |
| Other receivables | HKD | 562 | 603 |
| Trade payables | USD | (1,005) | -- |

The Group may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with our deposits and other monetary assets and liabilities shown above. The Group has not used any means to hedge the exposure to foreign exchange risk. Nevertheless, given the recent continuous appreciation of RMB against HKD and USD, the directors consider that the risk is not high.

F-22

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTOR (CONTINUED)

(b) 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 0.72%. Any change in the interest rate promulgated by the People's Bank of China from time to time is not considered to have significant impact to the Group.

The Group's interest rate risk which affects its income and operating cash flows mainly arises from bank borrowings. All the Group's bank borrowings were at floating rates (Note 23). Bank borrowings at floating rates expose the Group to cash flow interest rate risk.

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As of December 31, 2007, if interest rates on bank borrowings had been 10 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately Rmb2,292,000 lower/higher, mainly as a result of higher/lower interest expense.

(c) Credit risk

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

Cash and short term liquid investments are placed with reputable banks and clearing house operated by MOR (which is a government authority of the PRC). There was no recent history of default of cash and cash equivalents and short-term deposits from such financial institutions/authority. The majority of the Group's trade receivable balances are due from third party customers as a result of rendering of services or sales of merchandises. The Group's other receivable balances mainly arise from services rendered other than the main railway transportation operations. The Group performs ongoing credit evaluations of its customers/debtors' financial condition and generally does not require collateral from the customers/debtors' account on the outstanding balances. Based on the expected realisability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectation. In view of our history of cooperation with the customers and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balances.

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

With the consideration of the above and the fact that majority of the Group's revenue from railroad businesses is derived from cash transactions, management believes that there is no significant credit risk inherent in the Group's business during the reporting period.

F-23

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 FINANCIAL RISK FACTOR (CONTINUED)

(d) Liquidity risk

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, the Group treasury function allows flexibility in funding by maintaining committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserves (comprises undrawn borrowing facilities (Note 23) and cash and cash equivalents (Note 34) on the basis of expected cash flows).

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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.

| | LESS THAN 1 YEAR | BETWEEN 1 AND 2 YEARS | BETWEEN 2 AND 5 YEARS | OVER 5 YEARS |
|--------------------------------|---------------------|-----------------------------|-----------------------------|------------------|
| | ----- RMB'000 | ----- RMB'000 | ----- RMB'000 | ----- RMB'000 |
| AT DECEMBER 31, 2007 | | | | |
| Bank borrowings | -- | -- | 2,850,000 | -- |
| Interest payable on borrowings | 199,704 | 201,288 | 371,740 | -- |
| Due to related parties | 1,022,125 | -- | -- | -- |
| Trade and other payables | 908,378 | -- | -- | -- |
| | ===== | ===== | ===== | ===== |
| AT DECEMBER 31, 2006 | | | | |
| Borrowings | -- | -- | 1,860,000 | -- |
| Interest payable on borrowings | 113,949 | 130,545 | 364,356 | -- |
| Due to related parties | 250,601 | -- | -- | -- |
| Trade and other payables | 649,975 | -- | -- | -- |
| | ===== | ===== | ===== | ===== |

F-24

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

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; as well as 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, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital by regularly reviewing the gearing ratio. The gearing ratio is calculated as total debt divided by total equity, as shown in the consolidated balance sheet.

The gearing ratios as at December 31, 2007 and 2006 were as follows:

| 2007 | 2006 |
|-------|-------|
| ----- | ----- |

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| | RMB'000 | RMB'000 |
|---------------|------------|------------|
| Total debt | 2,850,000 | 1,860,000 |
| Equity | 21,181,470 | 20,219,930 |
| | ----- | ----- |
| Gearing ratio | 13% | 9% |
| | ===== | ===== |

The increase in the gearing ratio during 2007 resulted primarily from the increase in borrowings of RMB990,000,000 (see Note 23). The directors of the Company, having considered such gearing ratio, are of the view that current capital structure is appropriate.

3.3 FAIR VALUE ESTIMATION

The carrying amounts of the Group's cash and cash equivalents, short-term deposits, trade and other receivables, amounts due from related parties, and financial liabilities including trade and other payables, and amounts due to related parties, approximate their fair values due to their short maturities.

The fair values of long-term receivable and long-term bank borrowings 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.

F-25

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

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 outlined below.

(a) The estimates of the depreciable lives of fixed assets

The estimate of depreciable lives of fixed assets was made by the directors with reference to the results of technical assessment on the expected 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 the Group to renew the land use right grants and the land use right lease on which these assets are located (see Notes 2(7) and 36(b)(i)), and the changes in market demand for, or legal or comparable

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limits imposed on, the use of such fixed assets.

The current estimated useful lives are stated in Note 2(5). If the estimated depreciable lives of fixed assets had been increased/decreased by 10%, the depreciation of fixed assets would be decreased/increased by approximately RMB98,306,000 and RMB109,971,000 respectively.

(b) Estimated impairment of goodwill

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(8). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (see Note 9).

F-26

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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 rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

For the impairment assessment made on the recoverable amount of the carrying value of the Company's investment in an associate, Guangzhou Tiecheng Enterprise Company, please refer to details of the estimate made described in Note 11.

5 SEGMENT INFORMATION

(a) Primary reporting format - business segments

As of December 31, 2007, the Group conducts the majority of its business activities in railway transportation ("Railroad Businesses") and other related business operations. These segments are so determined primarily due to the fact that senior management make key operating decisions and assess performance of the segments separately. The accounting policies of the Group's segments are described in the principal accounting policies section in Note 2(3). The Group evaluates performance based on profit from operations.

Segment assets consist primarily of fixed assets, construction-in-progress, leasehold land payments, prepayments for fixed assets and

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construction-in-progress, goodwill, investments in subsidiaries/associates, long-term receivable, deferred staff costs, materials and supplies, trade receivables, amounts due from related parties, prepayments and other receivables and cash and cash equivalents, excluding deferred tax assets. Segment liabilities primarily consist of borrowings, retirement benefit obligations, trade payables, payables for fixed assets and construction-in-progress, amounts due to related parties and accruals and other payables, excluding income tax payable and deferred tax liabilities. Capital expenditure comprises addition from acquisition of a business (see Note 38), additions to fixed assets (see Note 6), construction-in-progress (see Note 7) and prepayments for fixed assets and construction-in-progress.

F-27

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

5 SEGMENT INFORMATION (CONT'D)

(a) Primary reporting format - business segments (Cont'd)

An analysis by business segment is as follows:

| | Railroad businesses | | | Other businesses | | |
|--------------------------------|---------------------|------------|------------|------------------|----------|---------|
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenues | | | | | | |
| - External | 3,099,466 | 3,465,884 | 9,819,517 | 177,462 | 128,590 | 688,988 |
| - Inter-segment | -- | -- | -- | 159,503 | 29,661 | -- |
| | 3,099,466 | 3,465,884 | 9,819,517 | 336,965 | 158,251 | 688,988 |
| Other income | 48,531 | 61,991 | 52,829 | 3,097 | 2,657 | (3,011) |
| SEGMENT RESULT | 808,613 | 999,968 | 1,538,053 | (9,788) | (34,764) | 227,155 |
| Finance costs | -- | -- | -- | -- | -- | -- |
| Share of results of associates | 30 | -- | -- | (19,979) | (28,306) | 1,833 |
| Income tax expense | -- | -- | -- | -- | -- | -- |
| PROFIT FOR THE YEAR | 808,643 | 999,968 | 1,538,053 | (29,767) | (63,070) | 228,988 |
| OTHER INFORMATION | | | | | | |
| Segment assets | 11,271,820 | 23,879,189 | 26,209,676 | 218,545 | 69,299 | 141,333 |
| Deferred tax assets | -- | -- | -- | -- | -- | -- |
| TOTAL ASSETS | | | | | | |
| Segment liabilities | 1,615,851 | 3,759,032 | 5,341,957 | 115,388 | 23,285 | 76,500 |
| Taxes payable | -- | -- | -- | -- | -- | -- |
| Deferred tax liability | -- | -- | -- | -- | -- | -- |
| TOTAL LIABILITIES | | | | | | |
| CAPITAL EXPENDITURE | | | | | | |

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| | | | | | | |
|---|-------------|-----------|-----------|------------|------------|----------|
| Acquisition of a business (Note 38) | -- | 5,296,593 | 4,873,332 | -- | -- | -- |
| Other additions | 2,248,976 | 3,584,388 | 931,117 | 9,335 | 1,048 | 16,84 |
| NON-CASH EXPENSES | | | | | | |
| - Depreciation | 289,185 | 317,358 | 1,006,728 | 2,773. | 2,529 | 10,37 |
| - Amortisation of leasehold land payments | 15,416 | 16,776 | 15,002 | 165 | -- | 1,01 |
| - Amortisation of deferred staff costs | 15,090 | 15,091 | 24,339 | -- | -- | |
| - Recognition of early retirement benefit | -- | 22,420 | 63,268 | -- | -- | -- |
| - Impairment for fixed assets | -- | -- | 6,359 | -- | -- | -- |
| - Reversal of provision for doubtful accounts | 8,550 | (4,331) | (8,260) | 1,190 | 16 | -- |
| | | | | | | |
| | Elimination | | | Total | | |
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenues | | | | | | |
| - External | -- | -- | -- | 3,276,928 | 3,594,474 | 10,508,5 |
| - Inter-segment | (159,503) | (29,661) | -- | -- | -- | -- |
| | (159,503) | (29,661) | -- | 3,276,928 | 3,594,474 | 10,508,5 |
| Other income | -- | -- | -- | 51,628 | 64,648 | 49,8 |
| SEGMENT RESULT | -- | -- | -- | 798,825 | 965,204 | 1,765,2 |
| Finance costs | -- | -- | -- | (22,738) | (15,970) | (98,4 |
| Share of results of associates | -- | -- | -- | (19,949) | (28,306) | 1,8 |
| Income tax expense | -- | -- | -- | (110,176) | (149,155) | (232,3 |
| PROFIT FOR THE YEAR | -- | -- | -- | 645,962 | 771,773 | 1,436,2 |
| OTHER INFORMATION | | | | | | |
| Segment assets | -- | -- | -- | 11,490,365 | 23,948,488 | 26,351,0 |
| Deferred tax assets | -- | -- | -- | 192,692 | 190,843 | 362,2 |
| TOTAL ASSETS | | | | 11,683,057 | 24,139,331 | 26,713,2 |
| Segment liabilities | -- | -- | -- | 1,731,239 | 3,782,317 | 5,418,4 |
| Taxes payable | -- | -- | -- | 102,155 | 127,282 | 89,9 |
| Deferred tax liability | -- | -- | -- | 4,830 | 9,802 | 23,3 |
| TOTAL LIABILITIES | | | | 1,838,224 | 3,919,401 | 5,531,7 |
| CAPITAL EXPENDITURE | | | | | | |
| Acquisition of a business (Note 38) | -- | -- | -- | -- | 5,296,593 | 4,873,3 |
| Other additions | -- | -- | -- | 2,258,311 | 3,585,436 | 947,9 |
| NON-CASH EXPENSES | | | | | | |
| - Depreciation | -- | -- | -- | 291,958 | 319,887 | 1,017,1 |
| - Amortisation of leasehold land payments | -- | -- | -- | 15,581 | 16,776 | 16,0 |
| - Amortisation of deferred staff costs | -- | -- | -- | 15,090 | 15,091 | 24,3 |
| - Recognition of early retirement benefit | -- | -- | -- | -- | 22,420 | 63,2 |
| - Impairment for fixed assets | -- | -- | -- | -- | -- | 6,3 |
| - Reversal of provision for doubtful accounts | -- | -- | -- | 9,740 | (4,315) | (8,2 |

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts express in Renminbi, except number of shares and ADSs, per share
and per ADS data and unless otherwise stated)

5 SEGMENT INFORMATION (CONTINUED)

(b) Secondary reporting format - geographical segments

For the year ended December 31, 2007 (2006 and 2005 - same), all of the Group's business operations are conducted within the PRC. Accordingly, no analysis of geographical segment information is presented.

6 FIXED ASSETS

| | Buildings | Leasehold improvements | Tracks, bridges and service roads | Locomotives and rolling stock | Comm and |
|---|-----------|---------------------------|---|-------------------------------------|-------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| AT JANUARY 1, 2006 | | | | | |
| Cost | 1,864,120 | 38,500 | 3,720,018 | 1,083,845 | |
| Accumulated depreciation | (266,778) | (36,575) | (867,004) | (385,258) | |
| Impairment | -- | -- | -- | (14,284) | |
| Net book amount | 1,597,342 | 1,925 | 2,853,014 | 684,303 | |
| YEAR ENDED DECEMBER 31, 2006 | | | | | |
| Opening net book amount | 1,597,342 | 1,925 | 2,853,014 | 684,303 | |
| Additions | 5,563 | -- | -- | 306,757 | |
| Transfer from construction-in-progress (Note 7) | 371,501 | -- | -- | 527 | |
| Assets acquired as a result of business combinations | 6,007 | -- | -- | -- | |
| Reclassifications | 55,199 | -- | (57,964) | (611) | |
| Disposals | (33,560) | -- | -- | -- | |
| Government grants received | (34,957) | -- | -- | -- | |
| Depreciation charges | (75,029) | (1,925) | (81,135) | (60,189) | |
| Closing net book amount | 1,892,066 | -- | 2,713,915 | 930,787 | |
| AT DECEMBER 31, 2006 | | | | | |
| Cost | 2,245,311 | 38,500 | 3,644,108 | 1,392,654 | |
| Accumulated depreciation | (353,245) | (38,500) | (930,193) | (447,583) | |
| Impairment | -- | -- | -- | (14,284) | |
| Net book amount | 1,892,066 | -- | 2,713,915 | 930,787 | |
| YEAR ENDED DECEMBER 31, 2007 | | | | | |
| Opening net book amount | 1,892,066 | -- | 2,713,915 | 930,787 | |
| Acquisition of a business (Note 38) | 1,131,855 | -- | 5,540,127 | 2,456,408 | |

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| | | | | |
|--|-----------|----------|-------------|-----------|
| Additions | 741 | -- | -- | 23,964 |
| Transfer from construction-in-progress (Note 7) | 41,638 | -- | 2,705,401 | 7,778 |
| Reclassifications | (1,885) | -- | -- | (936) |
| Disposals | (85,107) | -- | -- | (26,200) |
| Depreciation charges | (111,609) | -- | (139,178) | (259,938) |
| Impairment charges | (6,359) | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Closing net book amount | 2,861,340 | -- | 10,820,265 | 3,131,863 |
| | ===== | ===== | ===== | ===== |
| AT DECEMBER 31, 2007 | | | | |
| Cost | 3,363,597 | 38,500 | 11,929,430 | 3,859,566 |
| Accumulated depreciation | (495,898) | (38,500) | (1,109,165) | (727,703) |
| Impairment | (6,359) | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Net book amount | 2,861,340 | -- | 10,820,265 | 3,131,863 |
| | ===== | ===== | ===== | ===== |

F-29

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

6 FIXED ASSETS (CONTINUED)

As of December 31, 2007, the ownership certificates of certain buildings ("Building Ownership Certificates") of the Group with an aggregate carrying value of approximately RMB1,746,537,000 (2006: RMB1,298,350,000) 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.

7 CONSTRUCTION-IN-PROGRESS

| | 2006 | 2007 |
|-------------------------------------|-----------|-------------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| At January 1 | 1,449,358 | 4,305,157 |
| Acquisition of a business (Note 38) | -- | 215,391 |
| Additions | 3,304,379 | 413,366 |
| Transfer to fixed assets (Note 6) | (447,669) | (3,511,279) |
| Disposal of a subsidiary | (911) | -- |
| | ----- | ----- |
| At December 31 | 4,305,157 | 1,422,635 |
| | ===== | ===== |

The construction-in-progress of the Group represents plant and facilities, mainly including the construction related costs for a portion of the fourth railway line of the Group. For the year ended December 31, 2007, approximately RMB79,438,000 (2006: approximately RMB24,903,000) of interest expenses were capitalised in the construction-in-progress balance. A

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capitalisation rate of 5.86% (2006: 5.83%) per annum was used to determine the amount of borrowing costs eligible for capitalisation.

F-30

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

8 LEASEHOLD LAND PAYMENTS

| | RMB'000 |
|------------------------------|-----------|
| | ----- |
| AT JANUARY 1, 2006 | |
| Cost | 770,774 |
| Accumulated amortization | (149,976) |
| | ----- |
| Net book amount | 620,798 |
| | ===== |
| YEAR ENDED DECEMBER 31, 2006 | |
| Opening net book amount | 620,798 |
| Additions | 21,879 |
| Amortisation charges | (16,776) |
| Disposal of a subsidiary | (273) |
| | ----- |
| Closing net book amount | 625,628 |
| | ===== |
| AT DECEMBER 31, 2006 | |
| Cost | 792,654 |
| Accumulated amortization | (167,026) |
| | ----- |
| Net book amount | 625,628 |
| | ===== |
| YEAR ENDED DECEMBER 31, 2007 | |
| Opening net book amount | 625,628 |
| Amortisation charges | (16,021) |
| Disposal | (1,636) |
| | ----- |
| Closing net book amount | 607,971 |
| | ===== |
| AT DECEMBER 31, 2007 | |
| Cost | 791,018 |
| Accumulated amortization | (183,047) |
| | ----- |
| Net book amount | 607,971 |
| | ===== |

As of December 31, 2007, land use right certificates ("Land Certificates") of certain parcels of land of the Group with an aggregate area of approximately 1,712,846 square meters (2006: 1,733,987 square meters) 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.

F-31

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

9 GOODWILL

| | RMB'000 |
|-------------------------------------|---------|
| | ----- |
| YEAR ENDED DECEMBER 31, 2007 | |
| Opening net book amount | -- |
| Acquisition of a business (Note 38) | 281,255 |
| | ----- |
| Closing net book amount | 281,255 |
| | ===== |
| AT DECEMBER 31, 2007 | |
| Cost | 281,255 |
| Accumulated impairment | -- |
| | ----- |
| Net book amount | 281,255 |
| | ===== |

As explained in more details in Note 38, goodwill arose from the excess of purchase consideration paid by the Company over the aggregate fair values of the identifiable assets, liabilities and contingent liabilities of the railway business acquired from the Yangcheng Railway.

Goodwill is allocated to the cash-generating units ("CGU") identified according to business segment. A segment-level summary of the goodwill allocation is presented below:

| | 2007 |
|---------------------------------------|---------|
| | ----- |
| | RMB'000 |
| Railroad business - Yangcheng Railway | 281,255 |
| | ===== |

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 budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the railroad business in which the CGU operates.

The key assumptions used for value-in-use calculations are as follows:

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Railroad
business

Gross margin 25.8%
Growth rate 3.4%
Discount rate 10.9%
=====

Management estimated the gross margin based on past performance and its expectations for the market development. The weighted average growth rate used is consistent with the forecasts included in industry reports. 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 at December 31, 2007, the Group would have recognised an impairment of goodwill by RMB77,832,000.

F-32

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

9 GOODWILL (CONTINUED)

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, the Group would have recognised an impairment against goodwill by RMB5,270,000.

10 INVESTMENTS IN SUBSIDIARIES

(i) As of December 31, 2007, the Company had direct or indirect interests in the following principal subsidiaries which were incorporated/established and are operating in the PRC:

| Name of the entity ----- | Date of incorporation/ establishment ----- | Percentage of equity interest attributable to the Company ----- | Paid-in capital ----- | Pri ----- |
|--|---|---|-----------------------------|--------------|
| DIRECTLY HELD BY THE COMPANY | | | | |
| Shenzhen Railway Station Passenger Services Company | December 18, 1986 | 100% | RMB 1,500,000 | Cater sa |
| Shenzhen Fu Yuan Enterprise Development Company ("Fu Yuan") | November 1, 1991 | 100% | RMB18,500,000 | Hotel |
| Dongguan Changsheng Enterprise Company | May 22, 1992 | 51% | RMB38,000,000 | Wareh |
| Guangzhou East Station Dongqun | November 23, 1992 | 100% | RMB 1,020,000 | Sales |

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| | | | | |
|---|--------------------|--------|---------------|-------------------------|
| Trade and Commerce Service Company | | | | |
| Shenzhen Longgang Pinghu Qun Yi Railway Store Loading and Unloading Company | September 11, 1993 | 55% | RMB10,000,000 | Cargo un wa tr |
| Shenzhen Jing Ming Industrial & Commercial Company Limited | January 18, 1994 | 100% | RMB 2,110,000 | Maint el |
| Guangzhou Tielian Economy Development Company Limited ("Tielian") | December 27, 1994 | 50.50% | RMB 1,000,000 | Wareh tr se |
| Shenzhen Guangshen Railway Travel Service Ltd. | August 16, 1995 | 100% | RMB 2,400,000 | Trave |
| INDIRECTLY HELD BY THE COMPANY | | | | |
| Shenzhen Nantie Construction Supervision Company | May 8, 1995 | 100% | RMB 2,000,000 | Super co |
| Shenzhen Railway Property Management Company Limited | November 13, 2001 | 100% | RMB 3,000,000 | Prope |
| Shenzhen Guangshen Railway Economic and Trade Enterprise Company | March 7, 2002 | 100% | RMB 2,000,000 | Cater |

All the above subsidiaries are limited liability companies.

(ii) Subsidiaries disposed

In 2007, the Company put Shenzhen Road Multi-modal Transportation Company Limited and Shenzhen Yuezheng Enterprise Company Limited into liquidation and recorded disposal losses of RMB166,000 and RMB897,000, respectively.

F-33

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share
and per ADS data and unless otherwise stated)

11 INVESTMENTS IN ASSOCIATES

| | 2006 | 2007 |
|---|----------|----------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| Unlisted shares, at cost | -- | -- |
| Share of net assets | 152,209 | 154,039 |
| Less: provision for impairment in value (a) | (29,689) | (29,689) |
| | ----- | ----- |
| | 122,520 | 124,350 |
| | ===== | ===== |

Note a: The impairment provision at the Group level as of December 31, 2007 represents provision for full impairment losses in investment in Zengcheng Lihua Stock Company Limited at approximately RMB29,689,000 ("Zengcheng Lihua Provision").

The movement of investments in associates of the Group during the year is

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as follows:

| | 2006 | 2007 |
|----------------------------|----------|---------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| Beginning of the year | 107,889 | 122,520 |
| Additions - cost | 45,891 | -- |
| Share of results after tax | (28,306) | 1,830 |
| Disposal | (2,954) | -- |
| | ----- | ----- |
| End of the year | 122,520 | 124,350 |
| | ===== | ===== |

As of December 31, 2007, the Group had direct or indirect interests in the following companies which were incorporated / established and are operating in the PRC:

| Name of the entity | Date of incorporation/ establishment | Percentage of equity interest attributable to the Company | Registered capital amount of the associate | Principals |
|---|--|--|--|---|
| ----- | ----- | ----- | ----- | ----- |
| DIRECTLY HELD BY THE COMPANY | | | | |
| SZ Civil Engineer | March 1, 1984 | 49% | RMB 55,000,000 | Construction |
| Zengcheng Lihua | July 30, 1992 | 27% | RMB100,000,000 | Real estate o of warehou and unload |
| Tiecheng | May 2, 1995 | 49% | RMB245,000,000 | Properties ma of merchandis |
| INDIRECTLY HELD BY THE COMPANY | | | | |
| Guangzhou Huangpu Yuehua Freight Transportation Joint Venture Company Limited | July 20, 1990 | 33.3% | RMB 6,610,000 | Cargo loading warehousin agency ser |

All the above associates are limited liability companies.

F-34

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

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:

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| | Assets | Liabilities | Revenues | Profit/ (Loss) | % interest held |
|------------------|------------------|------------------|------------------|-------------------|--------------------|
| | ----- RMB'000 | ----- RMB'000 | ----- RMB'000 | ----- RMB'000 | ----- |
| 2006 | | | | | |
| Tiecheng (b) | 184,428 | 93,560 | 2,899 | (26,973) | 49% |
| Other associates | 207,434 | 175,782 | 94,974 | (1,333) | 27%~49% |
| | ----- | ----- | ----- | ----- | |
| | 391,862 | 269,342 | 97,873 | (28,306) | |
| | ===== | ===== | ===== | ===== | |
| 2007 | | | | | |
| Tiecheng (b) | 198,149 | 110,399 | 4,486 | (3,118) | 49% |
| Other associates | 178,419 | 141,819 | 109,783 | 4,948 | 27%~49% |
| | ----- | ----- | ----- | ----- | |
| | 376,568 | 252,218 | 114,269 | 1,830 | |
| | ===== | ===== | ===== | ===== | |

Note b: As indicated above, the carrying amount of the Company's investment in Tiecheng as of December 31, 2007 was approximately RMB87,750,000.

In 1996, Tiecheng and a third party company jointly established a sino-foreign contractual joint venture, Guangzhou Guantian Real Estate Company ("Guangzhou Guantian"), in Guangzhou of PRC for developing certain properties near a railway station operated by the Group. In 2000, Guangzhou Guantian together with two other parties namely Guangzhou Guanhua Real Estate Company Limited ("Guangzhou Guanhua") and Guangzhou Guanyi Real Estate Company Limited ("Guangzhou Guanyi"), agreed to act as joint guarantors (collectively the "Guarantors") for certain payable balances (the "Payables") due from Guangdong Guancheng Real Estate Company Limited ("Guangdong Guancheng") to a third party creditor (the "Creditor").

Guangzhou Guantian, Guangzhou Guanhua, Guangzhou Guanyi and Guangdong Guancheng are related companies to the extent that they have one common chairman. Due to the fact that Guangdong Guancheng has failed to settle the Payables, as a result, the Guarantors were found to be jointly liable to the Creditor an amount of approximately RMB257,000,000 plus accrued interest (collectively the "Damages") according to a court verdict made in 2001 (the "Verdict"). In the case that Guangzhou Guantian had to honour its joint obligation to settle the Damages, the carrying value of the Company's investment in Tiecheng would have been impaired.

In 2003, Guantian applied to the People's High Court of Guangdong Province (the "High Court") for a re-trial to discharge its obligation under the aforesaid guarantee. In 2005, the People's Supreme Court of Guangdong Province granted an order for the High Court to launch such a re-trial and certain preparatory procedures were undertaken by the High Court. Two trials were held by the High Court on November 14, 2006 and December 25, 2006 respectively, but no judgement had been made as at the date of approval of these financial statements. After consultation made with its PRC legal counsel, the directors are of the opinion that there is a high possibility that the above guarantee arrangement would be determined to be invalid according to the relevant rules and regulations of the PRC. Accordingly, no provision for impairment in its investment in Tiecheng was considered necessary in the consolidated financial statements as at December 31, 2007.

In addition, in order to avoid any monetary losses that the Company might suffer arising from this outstanding legal proceeding, the Company has also

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obtained a letter of undertaking issued by the Guangzhou Railway Group dated December 14, 2004, whereby the Guangzhou Railway Group has undertaken to adopt relevant procedures and actions to ensure that the investment interests of the Company in Tiecheng would not be adversely affected by this outstanding proceeding.

F-35

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

12 AVAILABLE-FOR-SALE INVESTMENTS

| | 2006 | 2007 |
|--|---------|---------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| Beginning of the year | 46,108 | 46,108 |
| Addition arising from acquisition of a business (Note 38) | -- | 500 |
| | ----- | ----- |
| End of the year | 46,108 | 46,608 |
| | ===== | ===== |

The Group's ownership in the equity interests in each of these investments is less than 10%. The directors of the Company are of the opinion that no quoted market price in an active market is available for these investments and their fair values cannot be reliably measured by alternative valuation methods. In accordance with the provisions under IFRS, the above non-current available-for-sale investments were carried at cost subject to review for impairment loss. As of December 31, 2007 and 2006, no impairment provision was considered necessary by the directors to write down the carrying amounts of these investments.

13 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the items tabulated below:

| | LOANS AND RECEIVABLES | AVAILABLE- FOR-SALE | TOTAL |
|---|--------------------------|------------------------|-----------|
| | ----- | ----- | ----- |
| ASSET ITEMS REPORTED IN THE CONSOLIDATED BALANCE SHEET | | | |
| As at December 31, 2007: | | | |
| Available-for-sale investments (Note 12) | -- | 46,608 | 46,608 |
| Long-term receivable (Note 14) | 48,547 | -- | 48,547 |
| Trade and other receivables (Notes 18 and 19) | 174,386 | -- | 174,386 |
| Due from related parties (Note 37(c)) | 83,925 | -- | 83,925 |
| Cash and cash equivalents (Note 34(b)) | 2,352,351 | -- | 2,352,351 |
| | ----- | ----- | ----- |

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| | | | |
|---|-----------|--------|-----------|
| Total | 2,659,209 | 46,608 | 2,705,817 |
| | ===== | ===== | ===== |
| As at December 31, 2006: | | | |
| Available-for-sale investments (Note 12) | -- | 46,108 | 46,108 |
| Trade and other receivables (Notes 18 and 19) | 158,500 | -- | 158,500 |
| Due from related parties (Note 37(c)) | 31,757 | -- | 31,757 |
| Short-term deposits (Note 20) | 169,739 | -- | 169,739 |
| Cash and cash equivalents (Note 34(b)) | 5,851,831 | -- | 5,851,831 |
| | ----- | ----- | ----- |
| Total | 6,211,827 | 46,108 | 6,257,935 |
| | ===== | ===== | ===== |

F-36

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

13 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

| | OTHER FINANCIAL LIABILITIES ----- |
|--|--|
| LIABILITY ITEMS REPORTED IN CONSOLIDATED BALANCE SHEET | |
| As at December 31, 2007: | |
| Borrowings (Note 23) | 2,850,000 |
| Trade and other payables (Notes 25 and 26) | 908,378 |
| Payables for fixed assets and construction-in-progress | 337,213 |
| Due to related parties (Note 37(c)) | 1,022,125 |
| | ----- |
| Total | 5,117,716 |
| | ===== |
| As at December 31, 2006: | |
| Borrowings (Note 23) | 1,860,000 |
| Trade and other payables (Notes 25 and 26)) | 649,975 |
| Payables for fixed assets and construction-in-progress | 1,004,750 |
| Due to related parties (Note 37(c)) | 250,601 |
| | ----- |
| Total | 3,765,326 |
| | ===== |

14 LONG-TERM RECEIVABLE

| | 2007 ----- RMB'000 |
|-------------------------------------|--------------------------|
| Opening net book amount | -- |
| Acquisition of a business (Note 38) | 54,547 |
| Payment received | (5,740) |

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| | |
|-------------------------|--------|
| Unwind interest | (260) |
| | ----- |
| Closing net book amount | 48,547 |
| | ===== |

The long-term receivable represents freight service fee receivable from a third party customer acquired from Yangcheng Railway (Note 38). The original carrying amount of the receivable is RMB140,000,000. On the acquisition date of Yangcheng Railway, it was remeasured at its fair value, which was assessed by the discounted cash flow method with reference made to the payment schedule agreed by both parties.

As of December 31, 2007, the carrying amount of the above receivable approximated to its fair value.

F-37

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

15 DEFERRED TAX ASSETS/LIABILITIES

Deferred income taxes are calculated in full on temporary differences under the liability method using the applicable tax rates for the respective companies affected.

| | 2006 | 2007 |
|---|---------|----------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| DEFERRED TAX ASSETS: | | |
| - Deferred tax assets to be recovered after more than 12 months | 175,700 | 343,389 |
| - Deferred tax assets to be recovered within 12 months | 15,143 | 18,867 |
| | ----- | ----- |
| | 190,843 | 362,256 |
| | ===== | ===== |
| DEFERRED TAX LIABILITIES: | | |
| - Deferred tax liabilities to crystallise after more than 12 months | -- | (23,155) |
| - Deferred tax liabilities to crystallise within 12 months | (9,802) | (180) |
| | ----- | ----- |
| | (9,802) | (23,335) |
| | ===== | ===== |

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

| | Credit/ (Charged) | At | Acquisition | (Ch |
|---------------|----------------------|--------------|-------------|-----|
| At January 1, | to the | December 31, | of a | th |
| | income | | | |

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| | 2006 | statement | 2006 | business | s |
|--|---------|-----------|---------|-----------|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| | | | | (Note 38) | |
| DEFERRED TAX ASSETS: | | | | | |
| Provision for impairment of receivables | 14,090 | 185 | 14,275 | -- | |
| Impairment provision for fixed assets | 2,946 | (750) | 2,196 | -- | |
| Impairment provision for interests in associates | 4,453 | -- | 4,453 | -- | |
| Adjustments made to carrying value of fixed assets | 167,859 | 572 | 168,431 | -- | |
| Retirement benefit obligations | -- | 3,363 | 3,363 | 54,750 | |
| Others | 3,344 | (5,219) | (1,875) | -- | |
| | ----- | ----- | ----- | ----- | |
| | 192,692 | (1,849) | 190,843 | 54,750 | |
| | ===== | ===== | ===== | ===== | |

| | At January 1, 2006 | Credit/ (Charged) to the income statement | At December 31, 2006 | Acquisition of a business | (Ch th s |
|---|--------------------|---|----------------------|---------------------------|----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| | | | | (Note 38) | |
| DEFERRED TAX LIABILITIES: | | | | | |
| Capitalisation of replacement costs of rail-line track assets | 4,830 | (66) | 4,764 | -- | |
| Difference on deferral of acquisition cost | -- | 3,082 | 3,082 | -- | |
| Difference on capitalisation of interest expense | -- | 1,956 | 1,956 | -- | |
| Adjustment made to carrying value of fixed assets | -- | -- | -- | 12,291 | |
| | ----- | ----- | ----- | ----- | |
| | 4,830 | 4,972 | 9,802 | 12,291 | |
| | ===== | ===== | ===== | ===== | |

F-38

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

15 DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

Pursuant to a circular jointly issued by the State Tax Bureau and the Ministry of Finance (Caishui [2008]12) in March 2008, the appraised values of the acquired assets and liabilities arising from the acquisition of operating net assets of Yangcheng Railway (Note 38) should be used as tax bases and the related depreciation/amortization is tax deductible. Accordingly, no temporary differences originated from this

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assets/liabilities appraisal.

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"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises from 33% (15% or 24%) to 25% with effect from January 1, 2008. As a result of change in tax rate under the new CIT Law, additional deferred tax assets/liabilities recognized by the Group in the income statement for the year ended December 31, 2007 amounted to approximately RMB39,650,000 (benefit) and RMB9,237,000 (charge), respectively (Note 30). In addition, additional deferred tax asset at approximately RMB92,021,000 arising from the change in enacted tax rate was recognized in equity by the Group for temporary differences arising from fixed assets contributed by GEDC into the Group during the Restructuring of the Group.

16 DEFERRED STAFF COSTS

| | 2006 | 2007 |
|-------------------------------------|-----------|-----------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| AT JANUARY 1 | | |
| Cost | 226,369 | 226,369 |
| Accumulated amortization | (90,548) | (105,639) |
| | ----- | ----- |
| Net book amount | 135,821 | 120,730 |
| | ----- | ----- |
| YEAR ENDED DECEMBER 31 | | |
| Opening net book amount | 135,821 | 120,730 |
| Acquisition of a business (Note 38) | -- | 45,000 |
| Amortization | (15,091) | (24,339) |
| | ----- | ----- |
| Closing net book amount | 120,730 | 141,391 |
| | ===== | ===== |
| AT DECEMBER 31 | | |
| Cost | 226,369 | 271,369 |
| Accumulated amortization | (105,639) | (129,978) |
| | ----- | ----- |
| Net book amount | 120,730 | 141,391 |
| | ===== | ===== |

F-39

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

17 MATERIALS AND SUPPLIES

| | 2006 | 2007 |
|-----------------------------|---------|---------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| Train compartment materials | 34,331 | 61,855 |

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| | | |
|--|--------|---------|
| Locomotive materials | 5,949 | 33,310 |
| Track and track diversion joints materials | 6,849 | 27,016 |
| Reusable rail-line track materials | 8,532 | 9,129 |
| Retailing materials and uniform | 3,135 | 8,396 |
| Electrical materials | 2,770 | 6,821 |
| Others | 5,401 | 7,147 |
| | ----- | ----- |
| | 66,967 | 153,674 |
| | ===== | ===== |

The costs of materials and supplies consumed by the Group were recognised as 'operating expenses' during the year in the amount of approximately RMB1,402,520,000 (2006: RMB351,331,000). As of December 31, 2007 and 2006, there were no inventories stated at net realisable value.

18 TRADE RECEIVABLES

| | | |
|---|---------|---------|
| | 2006 | 2007 |
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| Trade receivables | 71,614 | 66,516 |
| Less: Provision for impairment of receivables | (8,745) | (6,767) |
| | ----- | ----- |
| | 62,869 | 59,749 |
| | ===== | ===== |

The Group's trade receivables are all denominated in RMB (2006: RMB).

The credit period of trade receivables is generally within one year. As of December 31, 2007 and 2006, the aging analysis of trade receivables was as follows:

| | | |
|---------------------------------|---------|---------|
| | 2006 | 2007 |
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| Within 1 year | 62,769 | 55,936 |
| Over 1 year but within 2 years | 100 | 2,162 |
| Over 2 years but within 3 years | -- | 1,068 |
| Over 3 years | -- | 583 |
| | ----- | ----- |
| | 62,869 | 59,749 |
| | ===== | ===== |

Trade receivables that are less than three months past due are not considered impaired. As of December 31, 2007, trade receivables of approximately RMB1,306,000 (2006: Nil) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

| | | |
|--|---------|---------|
| | 2006 | 2007 |
| | ----- | ----- |
| | RMB'000 | RMB'000 |

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| | | |
|--------------------------------|-------|-------|
| Over 1 year but within 2 years | -- | 1,306 |
| | ===== | ===== |

F-40

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

18 TRADE RECEIVABLES (CONTINUED)

As of December 31, 2007, trade receivables of approximately RMB9,274,000 (2006: RMB8,845,000) were impaired. The amount of the provision was approximately RMB6,767,000 as of December 31, 2007 (2006: RMB8,745,000). The individually impaired receivables mainly relate to freight transportation, which are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

| | 2006 | 2007 |
|---------------------------------|---------|---------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| Over 1 year but within 2 years | 231 | 857 |
| Over 2 years but within 3 years | 1,306 | 1,068 |
| Over 3 years | 7,308 | 7,349 |
| | ----- | ----- |
| | 8,845 | 9,274 |
| | ===== | ===== |

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

| | 2006 | 2007 |
|--|---------|---------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| AT JANUARY 1 | 10,485 | 8,745 |
| Provision for impairment loss | 340 | 86 |
| Receivables written off during the year as uncollectible | -- | (224) |
| Reversal of impairment loss provision | (2,080) | (1,840) |
| | ----- | ----- |
| AT DECEMBER 31 | 8,745 | 6,767 |
| | ===== | ===== |

The creation and release of provision for impaired receivables have been included in utility and office expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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Concentration of credit risk with respect to trade receivables is low due to the fact that the Group has a large number of customers, which are widely dispersed. Accordingly, management believes that there is no additional credit risk beyond the amount already provided for expected collectibility losses.

As of December 31, 2007 and 2006, the carrying amounts of the above trade receivables approximated to their fair values.

F-41

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

19 PREPAYMENTS AND OTHER RECEIVABLES

| | 2006 | 2007 |
|--|----------|----------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| Other receivables | 156,072 | 168,572 |
| Less: Provision for impairment loss (Note a) | (60,441) | (53,935) |
| | ----- | ----- |
| Other receivables, net | 95,631 | 114,637 |
| Prepayments | 3,005 | 27,037 |
| | ----- | ----- |
| | 98,636 | 141,674 |
| | ===== | ===== |

Note a:

Included in the balance was a doubtful debt provision of approximately RMB31,365,000 set up by the Company in prior years in order to provide for potential recoverability losses associated with a deposit with a principal balance of the same amount ("the Deposit"). The Deposit was placed with a deposit-taking agency, Zeng Cheng City Li Cheng Credit Cooperative ("Li Cheng") and the Company has been unable to recover it from Li Cheng upon maturity. The Company has initiated several legal proceedings to enforce the recovery but without success. Accordingly, a full doubtful debt provision had been made.

As of December 31, 2007 and 2006, there were no significant other receivables past due but not impaired. A reversal of provision for impairment loss of approximately RMB6,506,000 (2006: RMB2,575,000) had been included in the income statement.

Other receivables mainly represent miscellaneous deposits and receivables arising during the course of the provision of non railway transportation services by the Group. Prepayments mainly represent amounts paid in advance to the suppliers for utilities and other operating expenses of the Group.

20 SHORT-TERM DEPOSITS

Short-term deposits with original maturities ranging from three months to

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one year are held for investment purposes and are stated at amortised cost.

| | 2006 | 2007 |
|--|------------------|-------------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| Time deposits with maturities over three months in the deposit-taking centre of MOR ("MOR Depositing-taking Centre") | 169,739 ===== | -- ===== |

Time deposits with maturities over three months were maintained in the MOR Deposit-taking Centre, which has been licensed by the People's Bank of China to engage in deposit taking activities in the PRC for railway companies. The balances of 2006 consist of short-term deposits denominated in RMB with original maturities of six months. The annual interest rate is 2.07% in 2006. Total interest income derived from these deposits amounted to approximately RMB3,496,000 for the year ended December 31, 2006.

F-42

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

21 SHARE CAPITAL

As of December 31, 2007, the total authorised number of ordinary shares is 7,083,537,000 shares (2006: 7,083,537,000 shares) with a par value of RMB 1.00 per share (2006: RMB 1.00 per share).

| | Opening balance at January 1, 2007 | Transfers | Closing balance at December 31, 2007 |
|---|---|-------------|---|
| | ----- | ----- | ----- |
| | RMB'000 | RMB'000 | RMB'000 |
| Authorised, issued and fully paid: | | | |
| A shares subject to sale restrictions | | | |
| - shares held by state-owned legal person | 2,904,250 | -- | 2,904,250 |
| - shares held by legal persons | 1,480,944 | (1,480,944) | -- |
| | ----- | ----- | ----- |
| | 4,385,194 | (1,480,944) | 2,904,250 |
| | ----- | ----- | ----- |
| Listed shares | | | |
| - H shares | 1,431,300 | -- | 1,431,300 |
| - A shares | 1,267,043 | 1,480,944 | 2,747,987 |
| | ----- | ----- | ----- |
| | 2,698,343 | 1,480,944 | 4,179,287 |
| | ----- | ----- | ----- |
| Total | 7,083,537 | -- | 7,083,537 |
| | ===== | ===== | ===== |

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In December 2006, the Company issued 2,747,987,000 A shares on the Shanghai Stock Exchange through an initial public offering, among which 1,480,944,000 A shares held by legal person are subject to one-year restriction in their sales. During the year, these shares became marketable without any restrictions.

22 RESERVES

According to the provisions of the articles of association of the Company, the Company shall first set aside 10% of its profit attributable to shareholders after tax 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 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 from 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 may 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.

F-43

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

22 RESERVES (CONTINUED)

For the years ended December 31, 2007, 2006 and 2005, the directors of the Company proposed the following appropriations to reserves of the Company:

| | 2005 | | 2006 | | 2007 | |
|-----------------|------------|---------|------------|---------|------------|---------|
| | Percentage | RMB'000 | Percentage | RMB'000 | Percentage | RMB'000 |
| Surplus reserve | 15% | 91,590 | 10% | 71,469 | 10% | 139,778 |
| | === | ===== | === | ===== | === | ===== |

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In addition, with the first-time adoption of the new accounting standards in the PRC ("New PRC GAAP") effective from January 1, 2007, the Group retrospectively adjusted the retained earnings of prior years in the financial statements prepared in accordance with New PRC GAAP ("statutory financial statements"). As a result, the amounts of statutory surplus reserve appropriated from the profits of prior years in the statutory financial statements were changed accordingly. Such adjustment amounting to RMB2,766,000 was reflected as 'reversal of appropriations' in the statement of changes in equity of 2007.

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, (b) IFRS and (c) the accounting standards of the countries in which its shares are listed. 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.

23 BORROWINGS

| | 2006 | 2007 |
|-------------|-----------|-----------|
| | ----- | ----- |
| | Rmb'000 | Rmb'000 |
| Borrowings | | |
| - Unsecured | 1,860,000 | 2,850,000 |
| | ===== | ===== |

The borrowings are mainly obtained for the construction of a fourth rail-line of the Group. The carrying amounts of the Group's borrowings are all denominated in RMB.

The maturity of these borrowings is as follows:

| | 2006 | 2007 |
|----------------------|-----------|-----------|
| | ----- | ----- |
| | Rmb'000 | Rmb'000 |
| Within 2 to 5 years* | 1,860,000 | 2,850,000 |
| | ===== | ===== |

* The maturity dates of all the borrowings are from 2011 to 2012.

F-44

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (All amounts expressed in Renminbi, except number of shares and ADSs,
 per share and per ADS data and unless otherwise stated)

23 BORROWINGS (CONTINUED)

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The interest rate exposure of the borrowings of the Group is as follows:

| | 2006 | 2007 |
|---|-----------|-----------|
| | Rmb'000 | Rmb'000 |
| At floating rates (relevant prevailing interest rates minus a maximum range of 10%) | 1,860,000 | 2,850,000 |
| | ===== | ===== |

The effective interest rates of the bank borrowings as of December 31, 2007 were 6.07% (2006: 5.83%). The carrying amounts of the Group's borrowings approximate their fair values.

As of December 31, 2007, the Group had RMB5,450,000,000 unutilized banking facilities granted by financial institutions (2006: RMB4,900,000,000).

24 RETIREMENT BENEFITS OBLIGATIONS

| | 2006 | 2007 |
|-------------------------------------|---------|-----------|
| | RMB'000 | RMB'000 |
| At January 1 | -- | 22,420 |
| Acquisition of a business (Note 38) | -- | 410,000 |
| Additions | 22,420 | 65,256 |
| Interest unwound | -- | (1,988) |
| Payment | -- | (118,279) |
| | ----- | ----- |
| At December 31 | 22,420 | 377,409 |
| | ===== | ===== |

| | 2006 | 2007 |
|---|---------|----------|
| | RMB'000 | RMB'000 |
| Retirement benefits obligations | 22,420 | 377,409 |
| Less: current portion included in accruals and other payables | (5,503) | (76,708) |
| | ----- | ----- |
| | 16,917 | 300,701 |
| | ===== | ===== |

Pursuant to an early retirement scheme implemented by the Group in 2006, selected employees who meet certain specified criteria were provided with an offer for early retirement. The employees may apply to enjoy such early retirement benefits, such as payments of the basic salary and other fringe benefits, until they reach the statutory retirement age. Under the terms of the scheme, all applications are subject to the approval of the Group. Expenses incurred on such employee early retirement benefits have been recognised in the income statement when such employee benefits are expected to be accepted by the related employees. The specific terms of these benefits vary among different employees, depending on their position held, tenure of service and employment location.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (All amounts expressed in Renminbi, except number of shares and ADSs,
 per share and per ADS data and unless otherwise stated)

24 RETIREMENT BENEFITS OBLIGATIONS (CONTINUED)

With the acquisition of the net assets and liabilities from Yangcheng Railway (see Note 38), the Group has also assumed certain retirement benefits obligations associated with the operations of Yangcheng Railway at approximately RMB410,000,000. The amount mainly includes early retirement obligation, to which the eligible employees are entitled, assumed by the Company from Yangcheng Railway (described above) and the obligation for funding the post-retirement medical insurance premiums.

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).

25 TRADE PAYABLES

The aging analysis of trade payables was as follows:

| | 2006 | 2007 |
|---------------------------------|---------|---------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| Within 1 year | 238,381 | 288,763 |
| Over 1 year but within 2 years | 1,875 | 1,064 |
| Over 2 years but within 3 years | 78 | 83 |
| Over 3 years | -- | 1,513 |
| | ----- | ----- |
| | 240,334 | 291,423 |
| | ===== | ===== |

26 ACCRUALS AND OTHER PAYABLES

| | 2006 | 2007 |
|---|---------|---------|
| | ----- | ----- |
| | RMB'000 | RMB'000 |
| Deposits received for construction projects | 188,600 | 197,561 |
| Deposits received from ticketing agencies | 13,831 | 64,748 |
| Retirement benefits obligations (Note 24) | 5,503 | 76,708 |
| Salary and welfare payables | 28,075 | 55,217 |
| Other taxes payable | 11,507 | 42,644 |
| Advance received from customers | 38,484 | 42,274 |
| Housing maintenance fund | 18,377 | 17,212 |
| Other deposits received | 10,776 | 14,556 |

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| | | |
|------------------------------------|---------|---------|
| Fund for employee injury insurance | 5,207 | 7,564 |
| Accrued expenses | 21,541 | 2,771 |
| Other payables | 67,740 | 95,700 |
| | ----- | ----- |
| | 409,641 | 616,955 |
| | ===== | ===== |

F-46

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (All amounts expressed in Renminbi, except number of shares and ADSs,
 per share and per ADS data and unless otherwise stated)

27 LABOUR AND BENEFITS

| | 2005 | 2006 | 2007 |
|--|---------|---------|-----------|
| | ----- | ----- | ----- |
| | RMB'000 | Rmb'000 | Rmb'000 |
| Wages and salaries | 477,799 | 570,049 | 1,388,342 |
| Provision for staff welfare and bonus | 71,391 | 71,451 | 290,281 |
| Contributions to a defined contribution pension scheme (a) | 52,949 | 62,274 | 220,856 |
| Contributions to the housing scheme (b) | 23,941 | 29,142 | 75,861 |
| Medical and other employee benefits | 14,845 | 13,318 | 35,157 |
| Amortisation of deferred staff cost (Note 16) | 15,090 | 15,091 | 24,339 |
| Retirement benefit obligations (Note 24) | -- | 22,420 | 65,256 |
| | ----- | ----- | ----- |
| | 656,015 | 783,745 | 2,100,092 |
| | ===== | ===== | ===== |

(a) Pension scheme

All the full-time employees of the Group are entitled to pension payments from a statutory pension scheme 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 staff. The government agency is responsible for the pension liabilities due to such staff upon their retirement. The Group accounts for these contributions on an accrual basis and charges the related contributions to income in the year to which the contributions relate.

(b) Housing scheme

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the State-sponsored Housing Fund at 7% or 13% of the specific salaries of the employees. At the same time, the employees are also required to make a contribution at 7% or 13% of the specific salaries out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Group have no further legal or constructive obligation for housing benefits beyond the above contributions made.

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The Company is responsible for administering the fund on behalf of employees. The funds collected have been deposited in designated bank accounts set up by and under the name of the Company for the respective employees. The Company does not have any right to use the funds for any other purposes except for making housing welfare related payments upon requests made by the respective employees.

F-47

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs,
per share and per ADS data and unless otherwise stated)

28 OTHER INCOME, NET

| | 2005 | 2006 | 2007 |
|---|----------|---------|---------|
| | ----- | ----- | ----- |
| | RMB'000 | RMB'000 | RMB'000 |
| Interest income | 53,409 | 30,735 | 61,063 |
| Income from waiver of payables | -- | 30,441 | -- |
| Loss on disposal of fixed assets | (20,262) | (8,414) | (3,335) |
| Gain/(loss) on disposal of subsidiaries | -- | 1,161 | (1,063) |
| Others | 18,481 | 10,725 | (6,849) |
| | ----- | ----- | ----- |
| | 51,628 | 64,648 | 49,816 |
| | ===== | ===== | ===== |

29 FINANCE COSTS

| | 2005 | 2006 | 2007 |
|--|---------|----------|----------|
| | ----- | ----- | ----- |
| | RMB'000 | RMB'000 | RMB'000 |
| Interest expenses on borrowings | -- | 24,903 | 169,511 |
| Less: interest capitalized as construction-in-progress (Note 7) | -- | (24,903) | (79,438) |
| Interest expenses paid by Deposit-taking Centre of the Company to related parties | 654 | 1,745 | 4,004 |
| Bank charges | 323 | 546 | 1,942 |
| Net foreign exchange losses | 21,761 | 13,679 | 2,468 |
| | ----- | ----- | ----- |
| | 22,738 | 15,970 | 98,487 |
| | ===== | ===== | ===== |

30 INCOME TAX EXPENSE

Enterprises established in the Shenzhen Special Economic Zone of the PRC are 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 are subject to income tax rate of 15%, while those subsidiaries located outside Shenzhen are subject to income tax

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rate of 33%.

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

| | 2005 | 2006 | 2007 |
|-------------------------------|---------|---------|----------|
| | ----- | ----- | ----- |
| | RMB'000 | RMB'000 | RMB'000 |
| Current income tax | 117,002 | 142,334 | 255,749 |
| Deferred income tax (Note 15) | (6,826) | 6,821 | (23,400) |
| | ----- | ----- | ----- |
| | 110,176 | 149,155 | 232,349 |
| | ===== | ===== | ===== |

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:

F-48

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (All amounts expressed in Renminbi, except number of shares and ADSs,
 per share and per ADS data and unless otherwise stated)

30 INCOME TAX EXPENSE (CONTINUED)

| | 2005 | 2006 | 2007 |
|---|----------|---------|-----------|
| | ----- | ----- | ----- |
| | RMB'000 | RMB'000 | RMB'000 |
| Profit before tax | 756,138 | 920,928 | 1,668,551 |
| | ===== | ===== | ===== |
| Tax calculated at the statutory rate of 15% (2006 and 2005: 15%) | 113,421 | 138,139 | 250,283 |
| Tax effect of expenses that are not deductible in determining taxable profit: | | | |
| Effect of different tax rates of certain subsidiaries | 1,111 | 1,495 | 1,137 |
| Effect of share of results of associates | 2,992 | 4,246 | (275) |
| Tax losses for which no deferred tax asset was recognised | -- | 38 | 380 |
| Expenses not deductible for tax purposes | 4,944 | 5,237 | 5,462 |
| Effect of change of income tax rate on deferred taxes previously recognised (Note 15) | -- | -- | (30,413) |
| Provision of deferred tax for adjustments made to carrying values of fixed assets | (12,292) | -- | -- |
| Reversal of deferred tax assets due to the changes in tax law | -- | -- | 5,775 |
| | ----- | ----- | ----- |
| Income tax expense | 110,176 | 149,155 | 232,349 |
| | ===== | ===== | ===== |

The weighted average applicable tax rate was 13.9% (2006 and 2005: 16.2% and 14.6%).

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31 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year was approximately RMB1,433,377,000 (2006 and 2005: RMB763,556,000 and RMB633,161,000).

32 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary shareholders of approximately RMB1,431,415,000 (2006 and 2005: RMB771,513,000 and RMB646,960,000), divided by the weighted average number of ordinary shares outstanding during the year of 7,083,537,000 shares (2006 and 2005: 4,418,427,000 shares and 4,335,550,000 shares). There were no dilutive potential ordinary shares as at year end.

33 DIVIDENDS

| | 2005 | 2006 | 2007 |
|--|---------|---------|---------|
| | ----- | ----- | ----- |
| | RMB'000 | RMB'000 | RMB'000 |
| Final, proposed, of RMB0.08 (2006: RMB0.08 and 2005: RMB0.12) per ordinary share | 520,266 | 566,683 | 566,683 |
| | ===== | ===== | ===== |

At a meeting of the directors held on April 23, 2008, the directors proposed a final dividend of RMB0.08 per ordinary share for the year ended December 31, 2007. 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, 2008.

F-49

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

34 CASH FLOW GENERATED FROM OPERATIONS

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

| | 2005 | 2006 | 2007 |
|--|---------|---------|----------|
| | ----- | ----- | ----- |
| | RMB'000 | RMB'000 | RMB'000 |
| Profit before income tax: | 756,138 | 920,928 | 1,668,55 |
| Adjustments for: | | | |
| Depreciation of fixed assets (Note 6) | 291,958 | 319,887 | 1,017,10 |
| Impairment of fixed assets (Note 6) | -- | -- | 6,35 |
| Amortisation of leasehold land payments (Note 8) | 15,581 | 16,776 | 16,02 |
| Loss on disposal of fixed assets (Note 28) | 23,385 | 8,414 | 3,33 |
| Amortisation of deferred staff costs (Note 16) | 15,090 | 15,091 | 24,33 |

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| | | | |
|---|-----------|-----------|----------|
| Provision for retirement benefits obligations (Note 24) | -- | -- | 65,25 |
| Amortisation of retirement benefits obligations (Note 24) | -- | -- | (1,98) |
| Share of results of associates (Note 11) | 19,949 | 28,306 | (1,83) |
| Loss on disposal of subsidiaries | -- | -- | 1,06 |
| Provision/(reversal) for doubtful accounts (Notes 18, 19) | 9,740 | (4,315) | (8,26) |
| Interest expenses | 654 | 1,745 | 173,51 |
| Interest income (Note 28) | (53,409) | (30,735) | (61,06) |
| | ----- | ----- | ----- |
| Operating profit before working capital changes | 1,079,086 | 1,276,097 | 2,902,39 |
| Decrease in trade receivables | 5,198 | 45,263 | 46,83 |
| Increase in materials and supplies | (4,351) | (2,014) | (31,63) |
| Decrease/(increase) in prepayments and other current assets | 31,286 | 5,963 | (14,26) |
| Decrease in other long-term receivables | -- | -- | 6,00 |
| Decrease/(increase) in due from related parties | 55,190 | (46,445) | 36,65 |
| Increase/(decrease) in trade payables | 81,571 | 121,627 | (145,77) |
| Increase/(decrease) in retirement benefits obligations | -- | 22,420 | (112,52) |
| Increase/(decrease) in due to related parties | 199,838 | (257,585) | 206,74 |
| Increase/(decrease) in accrued expenses and other payables | 23,707 | 65,632 | (463,74) |
| | ----- | ----- | ----- |
| Cash generated from operations | 1,471,525 | 1,230,958 | 2,430,68 |
| | ===== | ===== | ===== |

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

| | 2005 | 2006 | 2007 |
|--|-----------|-----------|-----------|
| | ----- | ----- | ----- |
| | RMB'000 | RMB'000 | RMB'000 |
| Cash at the MOR Deposit-taking Centre (Note i) | 628,746 | 25,786 | -- |
| Cash at bank and in hand | 113,382 | 5,406,045 | 1,109,241 |
| Short-term deposits with original maturities no more than three months (Note ii) | 370,000 | 420,000 | 1,243,110 |
| | ----- | ----- | ----- |
| | 1,112,128 | 5,851,831 | 2,352,351 |
| | ===== | ===== | ===== |

Note i: The interest rate of cash deposited with the MOR Deposit-taking Centre as of December 31, 2006 was 0.72% (2005: 0.72%), which is commensurate with the prevailing interest rates offered by banks in the PRC.

F-50

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

34 CASH FLOW GENERATED FROM OPERATIONS (CONTINUED)

Note ii: Short term time deposits with maturities of no more than three months consist of deposits denominated in RMB. The original effective interest rate of RMB deposits is 1.71% (2006 and 2005: 1.665% and 1.71%).

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35 CONTINGENCY

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

36 COMMITMENTS

(a) Capital commitments

As of December 31, 2007, the Group had the following capital commitments which are authorized but not contracted for, and contracted but not provided for:

| | 2006 ----- RMB'000 | 2007 ----- RMB'000 |
|-----------------------------------|--------------------------|--------------------------|
| Authorised but not contracted for | 1,384,287 ===== | 3,674,095 ===== |
| Contracted but not provided for | 3,137,581 ===== | 2,132,634 ===== |

A substantial amount of these commitments is related to the remaining construction works of a portion of the fourth rail-line of the Company, improvement of the existing operation equipment and purchase of new locomotives for its expanded operations.

(b) Operating lease commitments

(i) In connection with the acquisition of Yangcheng Railway mentioned in Note 38, the Company signed an agreement on November 15, 2004 with Guangzhou Railway (Group) Company for leasing the land use rights associated with the land on which the acquired assets of Yangcheng Railway are located. The agreement became effective upon the completion of the acquisition on January 1, 2007 and the 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 RMB74,000,000. During the year ended December 31, 2007, the related lease rental paid and payable was RMB50,000,000.

(ii) Apart from the above land use right operating lease commitment mentioned in (i) above, the Group did not have other material operating lease commitments as at December 31, 2007. The total future minimum lease payments under other non-cancellable operating leases for machinery and equipment as at December 31, 2006 were as follows:

| | 2006 ----- RMB'000 | 2007 ----- RMB'000 |
|---|--------------------------|--------------------------|
| Machinery and equipment - not more than one year | 69,673 ===== | -- ===== |

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

37 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) The Group has the following material related parties:

| NAME OF RELATED PARTIES | RELATIONSHIP WITH THE GROUP |
|---|---|
| PARENT OF SUBSTANTIAL SHAREHOLDER, SUBSTANTIAL SHAREHOLDER AND FELLOW SUBSIDIARIES | |
| Ministry of Railways ("MOR") of the PRC | Parent of substantial shareholder |
| MOR's Railroad Deposit-taking Centre | Branch of substantial shareholder |
| Guangzhou Railway (Group) Company | Substantial shareholder |
| Guangzhou Railway Group YangCheng Railway Enterprise Development Company ("Yangcheng Railway") | Subsidiary of the substantial shareholder |
| Guangmeishan Railway Company Limited ("Guangmeishan") | Subsidiary of the substantial shareholder |
| Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company (the Predecessor as defined in Note 1, "GEDC") | Subsidiary of the substantial shareholder |
| Guangzhou Railway Material Supply Company | Subsidiary of the substantial shareholder |
| Guangzhou Railway Engineer Construction Enterprise Development Company ("Engineer Construction Enterprise") | Subsidiary of the substantial shareholder |
| Yuehai Railway Company Limited | Subsidiary of the substantial shareholder |
| Shichang Railway Company Limited | Subsidiary of the substantial shareholder |
| CYTS Guangdong Railway Shenzhen Co., Ltd. | Subsidiary of the substantial shareholder |
| Changsha Railway Construction Company Limited | Subsidiary of the substantial shareholder |
| Guangdong Pearl River Delta Inter-city Railway Traffic Co., Ltd. | Subsidiary of the substantial shareholder |
| Guangdong Sanmao Enterprise Development Company Limited | Subsidiary of the substantial shareholder |
| Guangzhou Qingda Transportation Company Limited | Subsidiary of the substantial shareholder |
| ASSOCIATES OF THE GROUP | |
| Guangzhou Tiecheng Enterprise Company Limited | Associate of the Company |
| Zengcheng Lihua Stock Company Limited | Associate of the Company |
| Shenzhen Guangshen Railway Civil Engineering Company | Associate of the Company |
| OTHER STATE-CONTROLLED COMPANIES ("OTHER STATE-CONTROLLED COMPANIES") (NOTE 1) | |
| Shenyang Train Class Company | |
| Puzhen Train Company | |
| Changchun Tracks and Equipment Company | |
| Sifang Passenger Trains Repair Stock Company | |
| Qixuyan Locomotive and Carriages Company | |
| Dalian Locomotives and Carriages Company | |
| Chengdu Materials Company | |
| Liuzhou Wood Company | |
| Hengyang Mechanism Company | |
| Construction Technique Company of China | |
| Nanfang Railway Repair Center | |
| The Fourth Railway Reconnaissance Design House | |
| Railway construction bureaus (including Third bureau, Seventh bureau, | |

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Eleventh bureau, Thirteenth bureau and others)
The Forth Construction Bureau of China

- (i) Subsequent to the A share issuance on December 22, 2006, the Company is no longer controlled by Guangzhou Railway Group and MOR (but they still remain as related parties of the Group). As a result, Other State-controlled Companies in the PRC were no longer considered as related parties of the Group from December 22, 2006 onwards.

F-52

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

37 RELATED PARTY TRANSACTIONS (CONTINUED)

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

| | 2005 | 2006 |
|---|-----------|-----------|
| | RMB'000 | RMB'000 |
| RECURRING TRANSACTIONS: | | |
| I. TRANSACTIONS WITH THE MOR AND GUANGZHOU RAILWAY (GROUP) COMPANY AND ITS SUBSIDIARIES | | |
| (A) INCOME | | |
| Provision of train transportation and related services to other railway companies controlled by the MOR (i) | (304,842) | (315,847) |
| Revenue received, processed and allocated by the MOR ((i) and (v)) | | |
| - long distance passenger transportation | (575,849) | (800,859) |
| - cargo forwarding railway usage fees | (123,763) | (124,465) |
| Provision of repairing service for cargo truck of Guangzhou Railway Group and MOR (i) | (28,799) | (32,787) |
| Provision of train transportation service to Guangzhou Railway Group and its subsidiaries (i) | -- | (22,295) |
| Interest income received/receivable from the MOR Deposit-taking Centre | (5,530) | (5,331) |
| (B) CHARGES AND PAYMENTS | | |
| Services charges allocated from the MOR for train transportation and related services offered by other railway companies controlled by the MOR ((i) and (v)) | 290,825 | 410,353 |
| Operating lease rentals paid/payable to the MOR (i) | 50,804 | 40,885 |
| Provision of train transportation service provided by Guangzhou Railway Group and its subsidiaries (i) | 8,449 | 26,065 |
| Social services (employee housing, health care, educational and public security services and other ancillary services) provided by the GEDC and Yangcheng Railway under the service agreements (ii) | 78,227 | 74,520 |
| Operating lease rental paid to Guangzhou Railway Group for the leasing of land use rights (Note 36(b)(i)) | -- | -- |
| Purchase of materials and supplies from Guangzhou Railway Group and its subsidiaries (iii) | 73,146 | 89,731 |

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| | | |
|--|-----------|-----------|
| Provision of repair and maintenance services provided by Guangzhou Railway Group and its subsidiaries (i) | -- | -- |
| Interest expenses paid/payable to Guangzhou Railway Group, net (iv) | 721 | -- |
| | ===== | ===== |
| NON-RECURRING TRANSACTIONS: | | |
| I. TRANSACTIONS WITH THE MOR AND GUANGZHOU RAILWAY (GROUP) COMPANY AND ITS SUBSIDIARIES | | |
| Disposal of an available-for-sale investment | (121,854) | -- |
| Partial disposal of equity interests in a subsidiary | -- | (35,224) |
| Provision of repair and maintenance services by Guangzhou Railway Group and its subsidiaries (i) | 73,134 | 21,779 |
| Provision of construction management services by Guangzhou Railway Group in connection with the construction of fixed assets of the Company (iv) | 6,194 | 9,326 |
| Provision of supplies and materials by subsidiaries of Guangzhou Railway Group (iii) | 5,249 | 4,045 |
| Provision of construction projects (ii) | -- | 70,537 |
| Payment for the acquisition of net assets of Yangcheng Railway (c) (vii) | -- | 5,265,250 |
| Other service provided with subsidiary of Guangzhou Railway Group (iii) | -- | -- |
| II. TRANSACTIONS WITH OTHER STATE-CONTROLLED COMPANIES | | |
| Provision of construction project and related services (iii) | 1,148,781 | 3,112,131 |
| Provision of repair and maintenance services (iii) | 75,867 | 105,641 |
| Provision of supplies and materials (iii) | 5,977 | 15,051 |
| Purchase of fixed assets (iii) | 55,803 | 207,688 |
| | ===== | ===== |

F-53

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

37 RELATED PARTY TRANSACTIONS (CONTINUED)

- (i) 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.
- (ii) The service charges are levied based on contract prices determined based on cost plus a profit margin.
- (iii) The prices are determined based on mutual negotiation between the contracting parties with reference to guidance provided by the MOR.
- (iv) Pursuant to the provisions of a construction management agreement and several supplementary agreements (collectively, the "Management Agreements") entered into with the Guangzhou Railway Group in 2005 and 2006, Guangzhou Railway Group has undertaken to provide project management services to the Company on monitoring the construction services provided/to be provided by certain contractors and sub-contractors, which are substantially State-Owned Companies, employed for the construction of certain railway assets and railway stations of the Company, including the fourth rail-line. The management service fees are determined based on the pricing scheme set by the MOR.

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- (v) Due to the fact that the railway business is centrally managed by the MOR within the PRC, the Company works in co-operation with the MOR and other railway companies owned and controlled by the MOR in order to operate certain long distance passenger train transportation and cargo forwarding services within the PRC. The related revenues are collected by other railway companies, which are then remitted to the MOR, and centrally processed. A certain portion of the revenues so collected are allocated to the Company for the use of its rail-lines or for services rendered by the Company in conjunction with the delivery of these services. On the other hand, the Company is also allocated by the MOR certain charges for the use of the rail lines and services provided by other railway companies. Such allocation is determined by the MOR based on its standard charges applied on a nationwide basis.

F-54

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

37 RELATED PARTY TRANSACTIONS (CONTINUED)

- (c) As of December 31, 2007 and 2006, the Group had the following material balances maintained with related parties:

| | 2006 | 2007 |
|--|-----------|-----------|
| | RMB'000 | RMB'000 |
| Cash and cash equivalents maintained in the MOR | | |
| Deposit-taking Centre (Note 34(b)) | 25,786 | -- |
| Short-term time deposits in the MOR Deposit-taking | | |
| Centre (Note 20) | 169,739 | -- |
| Due (to)/from Guangzhou Railway Group | 31,584 | (78,262) |
| - Trade balance (vi) | 28,234 | (96,995) |
| - Non-trade balance | 3,350 | 18,733 |
| Deposit for acquisition of Yangcheng Railway (vii) | 5,265,250 | -- |
| Due from subsidiaries of Guangzhou Railway Group | 173 | 82,100 |
| - Trade balance | 61 | 17,843 |
| - Non-trade balance | 112 | 64,257 |
| Due to subsidiaries of Guangzhou Railway Group | (220,915) | (940,928) |
| - Trade balance (viii) | (39,813) | (157,001) |
| - Non-trade balance (ix) | (181,102) | (783,927) |
| Due from an associate | -- | 1,825 |
| - Trade balance | 12,312 | 14,137 |
| Less: impairment provision (xi) | (12,312) | (12,312) |
| Due to an associate | (29,686) | (2,935) |
| - Non-trade balance (x) | (29,686) | (2,935) |

- (vi) The trade balances due from/to Guangzhou Railway Group, subsidiaries of Guangzhou Railway Group and the MOR 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 (iv).

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- (vii) As of December 31, 2006, the balance represents 51% of the agreed purchase consideration paid to Guangzhou Railway Group for the acquisition of net assets of Yangcheng Railway as a deposit (Note 38).
- (viii) The trade balances due to related parties 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 parties (see Note (b) above).
- (ix) The non-trade balances due to related parties mainly represent the deposits of related parties maintained in the Deposit-taking Centre of the Company.
- (x) The non-trade balance due to associate mainly represents the payable balance arising from unsettled balance for the construction project services undertaken by an associate.
- (xi) Full impairment loss provision set up against a receivable balance due from Zengcheng Lihua, which was brought forward from prior years.

As of December 31, 2007, all the balances maintained with related parties are unsecured, non-interest bearing and are repayable on demand.

F-55

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

38 THE ACQUISITION OF NET ASSETS OF YANGCHENG RAILWAY

On November 15, 2004, the Company entered into an agreement to acquire the railway transportation business of Yangcheng Railway which consists of all of its assets and liabilities related to its railway transportation business ("Yangcheng") on the rail line running between the cities of Guangzhou and Pingshi in Southern China.

The purchase consideration of approximately RMB10,181,037,000 was determined based on an appraisal of Yangcheng performed by an independent appraisal firm as of March 31, 2006. As outlined below, the purchase consideration is subject to certain adjustments in accordance with the agreement based on the finalization of the completion audit. The primary source of funding (at least 65%) for the acquisition was derived from the issuance of A shares of the Company, as discussed in Note 21. The acquisition received the approval of more than 50% of the then H share shareholders attending a special shareholders' meeting for the transaction on December 30, 2004.

As disclosed in Note 21, the offering of A shares of the Company was completed in December 2006. On December 28, 2006, the Company paid 51% of the purchase consideration (approximately RMB5.3 billion) as a deposit to Yangcheng Railway in accordance with the provisions of the agreement. Pursuant to the agreement, the remaining 49% of the purchase consideration (approximately RMB5 billion) was paid to Yangcheng Railway within 2 months after the completion of a closing audit of Yangcheng in 2007.

Costs incurred by the Company that are directly attributable to the acquisition of Yangcheng including professional fees paid to appraisal

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firms, law firms and accounting firms, with an amount of approximately RMB31,343,000, have been included in the total purchase consideration .

On January 1, 2007, control of the assets and operations of Yangcheng was transferred to the Company. Accordingly, for accounting purposes, January 1, 2007 is considered by the directors of the Company to be the effective date of acquisition. The results of operations of Yangcheng have been included in the Group's consolidated income statement from that date onwards. The acquired business contributed revenue of approximately RMB5,993,189,000 and net profit of approximately RMB900,332,000 to the Group for the period from January 1, 2007 to December 31, 2007.

Prior to the A share issuance, Yangcheng Railway and the Group were both controlled by the MOR, as it indirectly held controlling interests in both the companies. Subsequent to the A share issuance in December 2006, the equity interest of the MOR in the Group was diluted to 41%. As a result, as on the acquisition date of January 1, 2007, Yangcheng Railway and the Group were no longer under common control. Under IFRS 3 "Business Combination", the transaction does not constitute a business combination under common control as the Group and Yangcheng Railway are not ultimately controlled by the same party (the MOR) both before and after the business combination. Accordingly, the transaction has been accounted for using the purchase method of accounting with the acquired identifiable assets, liabilities and contingent liabilities stated at their respective fair values as at the date of acquisition.

F-56

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

38 THE ACQUISITION OF NET ASSETS OF YANGCHENG RAILWAY (CONTINUED)

The Group performed purchase price allocation with the assistance of an independent appraisal firm. Details of net assets acquired and goodwill are as follows:

| | RMB'000 |
|--|-------------|
| | ----- |
| Purchase consideration: | |
| - Cash paid | 10,138,582 |
| - Direct costs relating to the acquisition | 31,343 |
| | ----- |
| Total purchase consideration | 10,169,925 |
| Fair value of assets acquired (see below) | (9,888,670) |
| | ----- |
| Goodwill | 281,255 |
| | ===== |

Goodwill is mainly attributable to the profitability of Yangcheng Railway's derived from its monopolised operations in the region where the acquired business is located.

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The assets and liabilities arising from the acquisition are as follows:

| | Fair value | Acquiree's Carrying amount |
|--|------------|----------------------------------|
| | RMB'000 | RMB'000 |
| Cash and cash equivalents | 91,699 | 91,699 |
| Trade and other receivables | 58,720 | 57,733 |
| Materials and supplies | 55,070 | 55,070 |
| Fixed assets | 10,827,744 | 7,291,022 |
| Construction-in-progress | 215,391 | 215,391 |
| Long-term receivable | 54,547 | 140,000 |
| Available-for-sale investment | 500 | 500 |
| Deferred staff cost | 45,000 | -- |
| Deferred tax assets | 54,750 | -- |
| Trade and other payables | (797,460) | (797,460) |
| Deferred tax liability | (12,291) | -- |
| Retirement benefit obligations | (410,000) | -- |
| Borrowings | (295,000) | (295,000) |
| | 9,888,670 | 6,758,955 |
| | 9,888,670 | 6,758,955 |
| Outflow of cash to acquire business, net of cash acquired: | | |
| - Cash consideration paid in 2006 and 2005 (as a deposit and acquisition cost) | | 5,296,593 |
| - Cash consideration paid in 2007 | | 4,873,332 |
| - Cash and cash equivalents balance acquired | | (91,699) |
| | | 10,078,226 |
| Net cash outflow on acquisition | | 10,078,226 |

F-57

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts expressed in Renminbi, except number of shares and ADSs, per share
and per ADS data and unless otherwise stated)

39 SUBSEQUENT EVENTS

Save as disclosed in other notes to the financial statements, the Group does not have other significant subsequent events.

40 COMPARATIVE FIGURES

Certain 2006 and 2005 comparative figures have been reclassified as follows:

- i. Revenue from network usage and services was recorded within the "Passenger" and "Freight" category of revenue in the prior year has been separately disclosed on the income statement in order to conform

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with the current year presentation.

- ii. Amounts due from/to associates which were recorded within "Interest in associates" in the prior year have been reclassified to "Due from/to related parties" to conform with the presentation of the balance sheet in the current year.
- iii. Restricted cash balance, which represents funds set aside by the Group for the employee housing fund maintained in designated bank accounts of the Company held on behalf of the related employees, has been offset against the corresponding payable balance due to the employees in order to conform with the current year presentation of the balance sheet.

F-58