GUANGSHEN RAILWAY CO LTD
Form 20-F
June 02, 2011

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As filed with the Securities and Exchange Commission on June 2, 2011
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

(Mark One)

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

or

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

or

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report __________

Commission file number: 1-14362

(Exact name of Registrant as specified in its charter)
GUANGSHEN RAILWAY COMPANY LIMITED
(Translation of Registrant s name into English)
People s Republic of China
(Jurisdiction of incorporation or organization)

No. 1052 Heping Road, Shenzhen, People s Republic of China 518010
(Address of Principal Executive Offices)

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

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

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

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None
Indicate the number of outstanding shares of each of the Registrant s classes of capital or common stock as of December 31, 2010:

Domestic shares (A shares), par value RMB 1.00 per share	5,652,237,000
H shares, par value RMB 1.00 per share	1,431,300,000

(including 220,360,300 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 þ No o

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 o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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 þ Accelerated Filer o Non-Accelerated Filer o

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

U.S. GAAP o

International Financial Reporting Standards as issued by the International Accounting Standards Board þ

Other o

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

Item 17 o Item 18 o

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 o No þ

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Forward-Looking Statements

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

When considering such forward-looking statements, you should keep in mind the factors described in Item 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 translations of amounts from RMB into U.S. dollars and vice versa at the rate of RMB 6.60 to US$ 1.00, which was the certified exchange rate for December 30, 2010 as published by the Federal Reserve Board of the United States, except where we specify that a different rate has been used. You should not construe these translations as representations that the RMB amounts actually represent U.S. dollar amounts or could be converted into U.S. dollars at that rate or at all. See Item 3A. Selected Consolidated Financial and Other Data Exchange Rate Information for information regarding the certified exchange rates for U.S. dollar/RMB conversions from January 1, 2006 through May 27, 2011.

We prepare and publish our consolidated financial statements in RMB.

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

Unless the context otherwise requires or otherwise specified:

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

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

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

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

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

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

HKSE means the Stock Exchange of Hong Kong Limited.

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

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

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

Macau means the Macau Special Administrative Region of the PRC.

MOR means the Ministry of Railways.

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

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

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

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

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

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Item 3A. Selected Consolidated Financial and Other Data

The following selected consolidated data relating to our consolidated balance sheets as of December 31, 2009 and 2010, and our consolidated comprehensive income statement, consolidated statement of changes in equity and consolidated cash flow statements for each of the years ended December 31, 2008, 2009 and 2010 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, 2006, 2007 and 2008, and our consolidated income statement, consolidated statement of changes in equity and cash flow statements for each of the years ended December 31, 2006 and 2007 have been restated to reflect the changes in our accounting policies in respect of fixed assets and government grants as described in detail in Note 5 to our audited consolidated financial statements included elsewhere in this annual report to conform to the current year presentation.

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

	Year ended December 31,					
	2006(2) RMB (Restated)	2007(2) RMB (Restated)	2008(2) RMB (Restated)	2009(2) RMB (Restated)	2010 RMB	2010 US$ (1)
	(in thousands except for per share data)					
Income Statement Data:						
Revenue from railroad businesses						
Passenger	2,608,838	5,833,538	6,759,229	7,195,717	8,104,126	1,227,898
Freight	565,557	1,326,450	1,324,701	1,210,118	1,360,822	206,185
Railway network usage and services	291,489	2,659,529	2,738,425	3,105,654	3,115,911	472,108
Subtotal	3,465,884	9,819,517	10,822,355	11,511,489	12,580,859	1,906,191
Revenue from other businesses	128,590	688,987	866,300	874,268	903,589	136,907
Total revenue	3,594,474	10,508,504	11,688,655	12,385,757	13,484,448	2,043,098
Railroad operating expenses	(2,591,801)	(8,367,791)	(9,203,347)	(9,651,278)	(10,481,496)	(1,588,105)
Other businesses operating expenses	(166,011)	(458,819)	(829,077)	(797,367)	(845,774)	(128,148)
Other income/(expense)	66,124	56,419	21,623	(16,808)	(47,060)	(7,130)
	902,787	1,738,313	1,677,854	1,920,304	2,110,118	319,715

Profit from operations						
Profit attributable to shareholders of the Company	718,458	1,408,554	1,193,668	1,342,450	1,486,062	225,161
Profit from operations per share	0.20	0.25	0.24	0.27	0.30	0.05
Earnings per share for profit attributable to shareholders of the Company						

	Year ended December 31,					
	2006(2) RMB (Restated)	2007(2) RMB (Restated)	2008(2) RMB (Restated)	2009(2) RMB (Restated)	2010 RMB	2010 US$ (1)
	(in thousands except for per share data)					
Basic and diluted	0.16	0.20	0.17	0.19	0.21	0.03
Dividends declared per share	0.08	0.08	0.08	0.08	0.09	0.01
Earnings per ADS for profit attributable to shareholders of the Company	8.13	9.94	8.43	9.48	10.49	1.59
Balance Sheet Data (at year end):						
Working capital	4,249,117	433,615	(616,158)	31,118	1,576,567	238,874
Fixed assets	7,817,581	21,040,892	24,922,566	25,036,329	24,466,130	3,706,989
Leasehold land payments	625,628	607,971	592,368	576,379	560,391	84,908
Total assets	25,071,095	27,523,542	29,011,095	29,427,247	30,604.502	4,637,046
Equity attributable to shareholders of the Company	19,334,080	21,845,806	22,472,791	23,248,638	24,168,017	3,661,820
Share capital, issued and outstanding, RMB 1.00 per value, domestic shares	5,652,237	5,652,237	5,652,237	5,652,237	5,652,237	856,400
H shares	1,431,300	1,431,300	1,431,300	1,431,300	1,431,300	216,864
Cash Flow Statement Data:						
Net cash generated from operating activities	1,112,004	1,957,645	1,641,069	2,617,533	3,331,458	504,766
Net cash used in investing activities	(7,833,331)	(5,585,414)	(2,915,785)	(2,096,154)	(1,188,763)	(180,116)
Net cash generated from /(used in) financing activities	11,461,030	128,289	483,317	(966,680)	(599,288)	(90,801)
Purchase of fixed assets and payment for construction-in-progress	(3,202,670)	(1,107,320)	(2,947,804)	(1,639,674)	(1,158,399)	(175,515)
Dividends paid to shareholders of the Company	(520,655)	(566,711)	(566,683)	(566,683)	(566,685)	(85,861)
Other Data:						
Railroad transportation operating income	874,083	1,451,726	1,619,008	1,860,211	2,099.363	318,086
	(34,764)	277,155	37,223	76,901	57,815	8,426

Other businesses
operating income/(loss)

(1) Translation of amounts from RMB into US$, for the convenience of the reader has been made at US$ 1.00 = RMB 6.60, the certified exchange rate for December 30, 2010 as published by the Federal Reserve Board of the United States. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at that rate on December 31, 2009 or on any other date.

(2) In 2010, we have changed our accounting policies in respect of fixed assets and government grants to enhance the comparability of our financial statements with those of the other listed companies with similar backgrounds, as well as to eliminate the differences between our financial statements under IFRS and our financial statements under PRC Generally Accepted Accounting Principles (PRC GAAP). See Note 5 to our audited consolidated financial statements included elsewhere in this annual report.

Exchange Rate Information

We derive a majority of our revenue and incur most of our expenses in RMB. In addition, we maintain our books and records in RMB and our financial statements are prepared and expressed in RMB. Solely for the convenience of the reader, this annual report contains translations of certain RMB amounts into U.S. dollars and vice versa at RMB 6.60 = USD 1.00, the certified exchange rate for December 30, 2010 as published by the Federal Reserve Board of United States. These translations should not be construed as representations that the RMB amounts could have been or could be converted into U.S. dollars at such rate or at all.

Effective January 1, 2009, the Federal Reserve Bank of New York discontinued publication of foreign exchange rates certified for customs purposes. Effective January 5,

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2009, the Federal Reserve Board of the United States reinstituted the publication of the daily exchange rate data in a weekly version of the H.10 release. The certified exchange rate for RMB published by the Federal Reserve Board of the United States was RMB 6.4920 = US$ 1.00 on May 27, 2011.

The following table sets forth information for the RMB concerning (i) 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 period from January 1, 2006 to December 31, 2008 and (ii) the certified exchange rates as published by the Federal Reserve Board of the United States for the period subsequent to and including January 5, 2009, expressed in RMB per U.S. dollar, for the periods indicated:

	Certified Exchange Rate		
Period	**Average (1)**	**High**	**Low**
	(RMB per U.S. dollar)		
2006	7.9579	8.0702	7.8041
2007	7.5806	7.8127	7.2946
2008	6.9193	7.2946	6.7800
2009	6.8295	6.8470	6.8176
2010	6.7603	6.8330	6.6000
November 2010	6.6538	6.6892	6.6630
December 2010	6.6497	6.6745	6.6000
2011			
January	6.5964	6.6364	6.5809
February	6.5761	6.5965	6.5520
March	6.5438	6.5743	6.5483
April	6.5267	6.5477	6.4900
May (through May 27, 2011)	6.4965	6.5073	6.4913

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

Dividends

At a meeting of the directors held on March 24, 2011, the directors proposed a final dividend of RMB 0.09 per ordinary share for the year ended December 31, 2010, which was approved at our annual general meeting of shareholders held on June 2, 2011. This proposed dividend has not been reflected as a dividend payable in the financial statements as of December 31, 2010, but instead as equity attributable to equity holders of our Company.

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

Item 3B. Capitalization and Indebtedness

Not applicable.

Item 3C. Reasons for the Offer and Use of Proceeds

Not applicable.

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Item 3D. Risk Factors

Risks Relating to Our Business

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

The global financial markets experienced periods of extreme volatility and disruption in 2008 and early 2009. The global financial crisis, concerns over inflation or deflation, energy costs, geopolitical risks, and the availability and cost of financing contributed to the unprecedented levels of market volatility and adversely affected the expectations for the continuous growth of the global economy, the capital markets and the consumer industry. These factors, combined with others, resulted in a severe global economic downturn and also a slowdown in the PRC economy. This change in the macro-economic conditions had an adverse impact on our business and operations by causing a decrease in the number of passengers and the volume of freight that we transported in 2009. Although the global and PRC economies began to show signs of recovery since the second half of 2009, any recurrence of a global financial crisis as a result of the recent market volatility arising from the concerns over among other issues, the fiscal stability of certain European countries, may adversely affect the growth of the PRC economy, which could adversely affect our business, financial condition, results of operations and prospects.

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

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

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

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

We are subject to extensive PRC laws and regulations relating to the railway transportation industry. The MOR and other Chinese governmental authorities regulate pricing, speed, train routes, new railway construction projects, and 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.

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

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

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

Our railroads are an integral part of the PRC national railway network. Our railroads connect with the Beijing-Guangzhou line in the north, the Shenzhen-Kowloon rail line in the south, the Guangzhou-Maoming rail line in the west, and the Guangzhou-Meizhou-Shantou rail line in the east, all of which are owned and operated by other operators. See Item 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 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 EIT Law, which took effect on January 1, 2008. According to the EIT Law, the preferential income tax rate of 15% that was previously applicable to companies incorporated in Shenzhen (like us) and other special economic zones is being gradually phased out in five years beginning from January 1, 2008, and effective from January 1, 2012, the 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 of the PRC, or the State Council, companies which used to enjoy a preferential tax rate of 15% are being subject to the following tax rates from 2008 through 2012:

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

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

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

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

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

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

GRGC s interests may sometimes conflict with the interests of the other shareholders. We cannot assure you that GRGC, as our largest shareholder, will always vote its shares in a way that benefits the other shareholders of our Company. In addition to its relationship with us as our 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.

We have very limited insurance coverage.

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

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

Our railroad operations and real estate ownership are subject to extensive national and local environmental laws and regulations concerning, among other things, gaseous emissions, wastewater discharge, disposal of solid waste and noise control. In addition, environmental liabilities may arise from claims asserted by adjacent landowners or other third parties. As of December 31, 2010, we had not incurred any such liabilities and therefore, had not made any provision for such liabilities. We may also be required to incur significant expenses to remediate any violation of applicable environmental laws and regulations. In 2010, our environmental protection-related expenses were approximately RMB 15.4 million, mainly related to the renovation of the sewage pipes and boilers.

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

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

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

If we experience any equipment failures, delays, temporary cancellations of schedules, collisions and derailments, or any deterioration in the performance or quality of any of our services, it could result in personal injuries, damage of goods, customer claims of damages, customer refunds and loss of goodwill. These problems may lead to decreases in customers and revenue, damage to our reputation, unexpected expenses, loss of passengers and freight customers, incurrence of significant warranty and repair costs, diversion of our attention from our transportation service efforts or strained customer relations, any one of which could materially adversely affect our business. For example, in January and February 2008, certain regions in southern China experienced extraordinary harsh winter weather, which caused

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equipment failures and delays and cancellations of some of our scheduled trains. As a result, during such period of freezing weather, our cost for repair of equipment increased and our revenue decreased. We cannot assure you that such events will not happen again in the future.

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

As described in Item 7B Related Party Transactions and Notes 40 and 41 to our audited consolidated financial statements included elsewhere in this annual report, due to the fact that the railway business is centrally managed by the MOR within the PRC, we work in cooperation with the MOR and other railway companies owned and controlled by the MOR for the operation of certain long-distance passenger train and freight transportation businesses within the PRC. The revenue generated from these long-distance passenger and freight transportation businesses is collected and settled by the MOR according to its settlement systems. The charges for the use of the rail lines and services provided by other railway companies are also settled by the MOR based on its systems. Although we can, to certain extent, calculate the revenue and charges settled by the MOR based on our own data and information, the amount of settlement is finally determined by the MOR.

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

The United States Securities and Exchange Commission, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company in the United States to include a management report on such company s internal control over financial reporting in its annual report, which contains management s assessment of the effectiveness of the company s internal control over financial reporting. In addition, an independent registered public accounting firm must report on the effectiveness of the company s internal control over financial reporting. These requirements first applied partially to our annual report on Form 20-F for the 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 independent registered public accounting firm began reporting on the effectiveness of our internal control over financial reporting from our annual report on Form 20-F for the year ended December 31, 2007. Although we have concluded that we maintained effective internal control over financial reporting for each of the years ended December 31, 2008, 2009 and 2010, we may not be able to conclude in future years that we have effective internal control over financial reporting, in accordance with the Sarbanes-Oxley Act of 2002. See Item 15. Controls and Procedures.

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

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Risks Relating to Conducting Business in China

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

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

As we are established, and operate substantially all of our businesses, in China, any changes in the political, economic and social conditions of the PRC or any changes in PRC governmental policies or regulations, including a change in the PRC government s economic or monetary policies or railway or other transportation regulations, may have a material adverse effect on our business and operations and our results of operations. The economic environment in the PRC differs significantly from the United States and many Western European countries in terms of its structure, stage of development, capital reinvestment, growth rate, level of government involvement, resource allocation, self-sufficiency, rate of inflation and balance of payments position. The PRC government s economic reform policies since 1978 have resulted in a gradual reduction in state planning in the allocation of resources, pricing and management of assets, and a shift towards the utilization of market forces. The PRC government is expected to continue its reforms, and many of its economic and monetary policies still need to be developed and refined. We cannot assure you that future changes in governmental policies or regulation will not have a material adverse effect on our business, operations or results of operations.

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

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

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

The value of the RMB fluctuates and is subject to changes in market conditions as well as China s political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day s inter-bank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. As of May 2011, this change in policy has

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resulted in a more than 20% appreciation of the RMB against the U.S. dollar since July 2005. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. We have certain U.S. dollar-denominated and HK dollar-denominated assets and the appreciation of RMB could result in a decrease of the value of these assets. For further information on our foreign exchange risks and certain exchange rates, see Item 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 RMB against the United States dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

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

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

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, and have conducted our business for fifteen years. Our legal name is , and its English translation is Guangshen Railway Company Limited. Our registered office is located at No. 1052 Heping Road, Shenzhen, Guangdong Province, The People s Republic of China, 518010. Our telephone number is (86-755) 2558-7920 or 2558-8146 and our fax number is (86-755) 2559-1480.

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

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

Passenger transportation is our principal business. As of December 31, 2010, we operated 224 pairs of passenger trains in accordance with our daily train schedule, including 110 pairs of inter-city express trains between Guangzhou and Shenzhen (including 19 pairs of standby trains), 13 pairs of Hong Kong Through Trains (including 11 pairs of Guangzhou-Kowloon Through Trains, one pair of Zhaoqing-Kowloon Through Trains and one pair of Beijing/Shanghai-Kowloon Through Trains) and 101 pairs of long-distance passenger trains. With our efforts to promote the development of Guangzhou-Shenzhen inter-city project, our domestically manufactured electric multiple units trains, known as China Railway High-Speed or CRHs , with a top speed of 200 kilometers per hour, transported most of our passengers between Guangzhou and Shenzhen. One pair of CRHs between Guangzhou and Shenzhen is dispatched every 10 minutes on average during peak hours, in accordance with our As-Frequent-As-Buses operating model.

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

Background, Restructuring and Acquisition

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

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

In 1984, to exploit the rapid growth in the Pearl River Delta, Guangshen Railway Company, our predecessor, was established pursuant to the approval of the State Council as a state-owned enterprise administered by the Guangzhou Railway Bureau. At that time, Guangshen Railway Company had only a single-line railroad. Since then, large capital expenditures have been made to expand and upgrade its facilities and services. In 1987, construction of the second line was completed. In 1991, Guangshen Railway Company began the construction of a semi- high-speed rail line and purchased high-speed locomotives and 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 RMB 1.00 per share, of our Company were issued to GRGC, a state-owned enterprise controlled by the MOR. Guangshen Railway Company retained the assets, liabilities and businesses not assumed by us, including units providing staff quarters and social services such as health care, education, public security and other ancillary services, as well as subsidiaries or joint ventures whose businesses do not relate to railroad operations and do not compete with our businesses. As part of our Restructuring, Guangshen Railway Company was renamed Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company, or GEDC.

Since April 1, 1996, we have been able to set our own prices for our 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 RMB 1.00 per share. Our H shares are listed for trading on the HKSE and our American depositary shares, or ADSs, each representing 50 H shares, are listed for trading on the NYSE.

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

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

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

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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 June 2, 2011, we had 48 stations situated on our rail lines, providing passenger and freight transportation services for cities, towns and ports situated along the Shenzhen-Guangzhou-Pingshi corridors and Hong Kong (which we serve in conjunction with MTR). In addition to our Hong Kong Through Train passenger service in conjunction with the MTR, we also allow Hong Kong-bound freight trains to use our railroad.

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% equity interest, that runs through the western part of Guangdong Province, connecting with other rail lines that continue on into the Guangxi Zhuang Autonomous Region, which provides access to southwestern China.

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

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

Item 4B. Business Overview

Business Operations

Our principal businesses are railroad passenger, freight transportation and railway network usage and services, which collectively generated 93.3% of our total revenue in 2010.

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

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

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

In 2010, our total revenue was RMB 13,484.4 million, representing an increase of 8.9% from RMB 12,385.8 million in 2009. Our revenue from railroad passenger transportation service, freight transportation service, railway network usage and services and other businesses was RMB 8,104.1 million, RMB 1,360.8 million, RMB 3,115.9 million and RMB 903.6 million, respectively, accounting for 60.1%, 10.1%, 23.1% and 6.7%, respectively, of our total revenue in 2010. Our profit attributable to shareholders was RMB 1,486.1 million, representing an increase of 10.7% from RMB 1,342.5 million in 2009. The revenue from our other businesses was RMB 903.6 million, representing an increase of 3.4% from RMB 874.3 million in 2009.

The table below summarizes our railroad transportation revenue and traffic volume in each of the five years ended December 31, 2006, 2007, 2008, 2009 and 2010.

	Year ended December 31,				
	2006	**2007**	**2008**(4)	**2009**(4)	**2010**(4)
Passenger Transportation					
Total passenger revenue (RMB millions)	2,608.84	5,833.54	6,759.23	7,195.71	8,104.13
Total passengers (millions)	35.98	73.05	83.82	81.84	84.92
Total passenger-kilometers (millions)	4,842.7	26,278.2	27,923.70	27,233.10	27,472.00
Revenue per passenger-kilometer (RMB)(1)	0.54	0.22	0.24	0.26	0.29
Freight Transportation					
Total freight revenue (RMB millions)	565.56	1,326.45	1,324.70	1,210.12	1,360.82
Total freight tonnes (millions)	30.71	71.01	70.14	61.99	67.93
Revenue per tonne (RMB)(2)	18.42	18.68	18.89	19.52	20.03
Total tonne-kilometers (millions)	2,276.3	15,306.9	15,557.37	13,446.70	15,191.43
Revenue per tonne-kilometer (RMB)(3)	0.25	0.09	0.09	0.09	0.09

	Year ended December 31,				
	2006	2007	2008(4)	2009(4)	2010(4)
Railway Network Usage and Services (RMB millions)	291.49	2,659.53	2,738.43	3,105.65	3,115.91

(1) Revenue per passenger-kilometer is calculated by dividing total passenger revenue by total passenger-kilometers. Management believes that revenue per passenger-kilometer is a useful measure for assessing the revenue levels of our passenger transportation business. The decrease in revenue per passenger-kilometer in 2007, 2008, 2009 and 2010 from 2006 was primarily due to our acquisition of the railway transportation business between Guangzhou and Pingshi in 2007, whose passenger transportation business had lower pricing levels than the Guangzhou-Shenzhen Railway we operated before 2007.

(2) Revenue per tonne is calculated by dividing total freight revenue by total freight tonnes. Management believes that revenue per tonne is a useful measure for assessing the revenue levels of our freight transportation business.

(3) Revenue per tonne-kilometer is calculated by dividing total freight revenue by total tonne-kilometers. Management believes that revenue per tonne-kilometer is a useful measure for assessing the revenue levels of our freight transportation business. The decrease in revenue per tonne-kilometer in 2007, 2008, 2009 and 2010 from 2006 was primarily due to our acquisition of the railway transportation business between Guangzhou and Pingshi in 2007, whose freight transportation business had lower pricing levels than the Guangzhou-Shenzhen Railway we operated before 2007.

(4) On January 1, 2007, the railway transportation business of the Guangzhou-Pingshi Railway came under the control of our Company. Accordingly, we consider January 1, 2007 as the effective date of the acquisition for accounting purposes. Prior to our A Share Offering, Yangcheng Railway Company and our Company were both controlled by the MOR, as the MOR indirectly held controlling interests in both companies. Subsequent to our A Share Offering, the equity interest of the MOR in our Company decreased to approximately 41%. On January 1, 2007, Yangcheng Railway Company and our Company were no longer deemed to be under common control. As a result, such transaction does not constitute a business combination under common control because our Company and Yangcheng Railway Company are not ultimately controlled by the same party both before and after the business combination. Accordingly, the transaction has been accounted for using the purchase method of accounting and the results of operations of Yangcheng Railway Business have been included in our consolidated comprehensive income statement starting from January 1, 2007. As a result, our consolidated financial information for each of the years ended December 31, 2007, 2008, 2009 and 2010 included in this annual report has reflected the impact arising from the Acquisition.

Passenger Transportation

Passenger transportation is our largest business segment, accounting for 60.1% of our total revenue and 64.4% of our railroad transportation revenue in 2010. Our passenger train services can be categorized as follows:

- inter-city high-speed express trains between Guangzhou and Shenzhen;
- Hong Kong Through Trains between Hong Kong and Guangzhou; and
- domestic long-distance trains.

As of December 31, 2010, we operated 224 pairs of passenger trains per day (each pair of trains meaning trains making one round-trip between two points), representing an increase of 7 pairs from 217 pairs as of December 31, 2009, of which:

- 110 pairs were high-speed express passenger trains operating between Guangzhou and Shenzhen (including 19 stand-by pairs), representing an increase of 10 pairs;

13 pairs were Hong Kong Through Trains, including 11 pairs of Guangzhou-

Kwoloon Through Trains, one pair of through trains between Zhaoqing and Kowloon, and one pair of through trains that operates on alternating days either on the Beijing-Kowloon line or the Shanghai-Kowloon line; and

101 pairs were domestic long-distance passenger trains, representing a decrease of 3 pairs from 104 pairs as of December 31, 2009, which included long-distance passenger trains operated by us between Shenzhen and Yueyang, between Shenzhen and Shanghai South, between Shenzhen and Beijing West, between Kowloon and Beijing West, between Shenzhen and Shaoguan, between Guangzhou and Chongqing North, between Guangzhou and Wanzhou, between Guangzhou and Liuzhou, between Guangzhou and Xi an, between Guangzhou and Taizhou, between Guangzhou and Shanghai South, between Guangzhou and Jiujiang, between Chenzhou and Foshan, between Guangzhou and Zhangjiajie, between Guangzhou and Lhasa and between Sanya and Beijing West, as well as domestic long-distance trains that are operated by other operators but originating or terminating on, or passing through, our railroad.

The table below sets out passenger revenue and volumes for our Hong Kong Through Trains and domestic trains in each of 2008, 2009 and 2010:

	Total passenger revenue			Total passengers			Revenue per passenger		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
	(RMB millions)			(millions)			(RMB)		
Guangzhou-Shenzhen Trains	1,973.1	2,046.6	2,361.3	32.1	33.5	36.9	61.5	61.1	63.9
Hong Kong Through Trains (1)	380.3	378.4	413.7	3.1	2.8	3.1	122.1	135.2	133.7
Long-distance Trains (1)	4,405.8	4,770.6	5,329.2	48.6	45.5	44.9	N/A(2)	N/A(2)	N/A(2)
Combined passenger operations	6,759.2	7,195.7	8,104.1	83.8	81.8	84.9	N/A(2)	N/A(2)	N/A(2)

(1) The operation of Beijing-Kowloon Through Trains, which run between Beijing West and Kowloon, has been handed over to our Company since January 1, 2009. Before 2009, our Company s revenue from Beijing-Kowloon Through Trains, excluding the revenue attributable to MTR in Hong Kong, was generated only from the Guangzhou East-Kowloon section that implemented a special pricing policy. Starting from January 1, 2009, all the revenue generated from the operation of Beijing-Kowloon Through Trains, excluding the revenue attributable to MTR in Hong Kong, became the revenue of our Company. We divide the revenue generated from the operation of Beijing-Kowloon Through Trains into two parts: (i) all the revenue generated from passengers departing for or from Hong Kong, excluding the revenue attributable to MTR, is accounted as revenue from Hong Kong Through Trains and (ii) the remaining revenue is accounted as revenue from long-distance trains.

(2) Our revenue of long-distance passenger trains includes both the revenue from the passengers arriving at our railway stations and the revenue from the passengers departing from our railway stations. However, the number of our long-distance passengers only includes the passengers departing from our railway stations. As a result, we believe that the per passenger revenue cannot fairly reflect the financial status of our passenger transportation business.

Guangzhou-Shenzhen Trains. In 2010, our passenger transportation services on the trains between Guangzhou and Shenzhen contributed a substantial portion to our railroad passenger transportation revenue. In 2010, we did not operate any regular speed inter-city train between Guangzhou and Shenzhen. As of December 31, 2010, we operated, on average, a total of 110 pairs of CRH high-speed passenger trains between Guangzhou and Shenzhen daily. Such CRH high-speed passenger trains are capable of running at a top speed of 200 kilometers per hour. The number of passengers traveling on our Guangzhou-Shenzhen trains increased by 10.3% from 33.5 million in 2009 to 36.9 million in 2010. The revenue from our Guangzhou-Shenzhen trains increased by 15.4% from RMB 2,046.6 million in 2009 to

RMB 2,361.3 million in 2010. The increase in passenger volume of Guangzhou-Shenzhen trains was primarily due to (i) the recovery of Chinese economy and in particular the economic recovery in Guangdong, Hong Kong and Macau, which led to the increase of the volumes of business and passengers; (ii) the continuous implementation of a stop-at-all-stations operating model, starting from May 2009, which caused the increase of passenger volume at the intermediary stations; (iii) the raise of the price per one way ticket by RMB 5, which was implemented on June 18, 2010 and resulted in an increase in transportation revenue and (iv) the increase in the number of Guangzhou-Shenzhen inter-city trains to 110 pairs (including 19 pairs of standby trains) since July 1, 2010, which resulted in an increase in overall passenger transportation capacity.

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

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

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

In 2010, the volume of passengers who traveled on the Hong Kong Through Trains increased by 10.5% from 2.799 million in 2009 to 3.093 million in 2010. The revenue from Hong Kong Through Trains increased by 9.3% from RMB 378.4 million in 2009 to RMB 413.7 million in 2010. The increase was mainly due to (i) the recovery of Chinese economy and the increase in the economic and trade activities between Guangdong, Hong Kong and Macau that boosted the volumes of business and passengers; (ii) the Shanghai Expo and the Asian Games and Asian Para Games held in Guangzhou.

Domestic Long-distance Trains. As of December 31, 2010, we operated on a daily basis 101 pairs of domestic long-distance passenger trains on our rail lines to cities in Guangdong, Hunan, Hubei, Jiangxi, Anhui, Jiangsu, Liaoning, Shanxi, Gansu, Fujian, Heilongjiang, Jilin, Zhejiang, Hebei, Henan, Sichuan, Yunnan and Shandong provinces, Chongqing, Shanghai, Beijing and Tianjin municipalities and Guangxi Autonomous Region and Tibet Autonomous Region. In 2010, the number of passengers traveling on our long-distance trains was 44.9 million, representing a decrease of 1.5% from 45.5 million in 2009. The decrease in the volume of passengers of the long-distance trains was mainly because of

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the cancellation by the MOR of certain long-distance trains formerly operated by us as a result of the commencement of operations of the Wuhan-Guangzhou passenger line from December 2009.

In 2010, our revenue from long-distance trains was RMB 5,329.2 million, representing an increase of 11.7% from RMB 4,770.7 million in 2009, mainly due to (i) the increase in the number of our long-distance trains as a result of the commencement of operations of the Guangzhou to Tongren trains since March 21, 2010 and the Guangzhou to Xinyang trains since April 17, 2010; (ii) our Shenzhen to Shanghai special trains operated during the Shanghai Expo, which led to an increase in passenger revenue, and (iii) the increase of the occupancy rate of our other long-distance trains within the Wuhan to Guangzhou section of the Beijing-Guangzhou line, despite the cancellation of certain long-distance trains running between that section.

Major Stations. The following are the major train stations owned and operated by us as of December 31, 2010:

Guangzhou East Station. Our Guangzhou East Station provides services for our railway transportation 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 connected to Lines 1 and 3 of the Guangzhou municipal subway. As of December 31, 2010, the Guangzhou East Station handled on a daily basis 13 pairs of Hong Kong Through Trains, 91 pairs of Guangzhou-Shenzhen trains, 15 pairs of long-distance passenger trains between the Guangzhou East Station and other locations in China, including Shantou, Nanchang, Hefei, Macheng, Shenyang North, Xiangfan, Tsingtao, Yingtan, Harbin, Xiamen, Taiyuan and Beijing West (one train every two days), Shanghai (one train every two days), Shaoguan, Chenzhou, Shanghai South, and 18 pairs of passenger trains passing through the Guangzhou East Station. In 2010, the number of passengers traveling from Guangdong East Station was approximately 17.8 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, 2010, this station handled on a daily basis the transfer service for nine pairs of domestic long-distance passenger trains, 90 pairs of Guangzhou-Shenzhen high-speed passenger trains and 10 pairs of Hong Kong Through Trains. In 2010, the number of passengers traveling from Dongguan Station was approximately 4.4 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, 2010, our Shenzhen Station handled on a daily basis more than 91 pairs of Guangzhou-Shenzhen passenger trains and 15 pairs of domestic long-distance passenger trains between Shenzhen and other locations in China, including Beijing (two pairs), Changsha, Shaoguan, Wuchang (four pairs), Shantou, Zhengzhou, Fuzhou, Shenyang, Xi an, Changde, Jiujiang, Yueyang, Guilin, and Shanghai. In 2010, the number of passengers traveling from Shenzhen Station was approximately 19.2

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million.

Shaoguan East Station. Our Shaoguan East 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, 2010, our Shaoguan East Station handled on a daily basis 55.5 pairs of passenger trains. In 2010, the number of passengers traveling from Shaoguan East Station was approximately 3.3 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, 2010, our Guangzhou Station handled on a daily basis 70 pairs of passenger trains and 175 pairs during the Chinese New Year holiday period. In 2010, the number of passengers traveling from Guangzhou Station was 29.4 million. During the Chinese New Year holiday period in 2010, the number of daily passengers traveling from our Guangzhou Station exceeded 233,000.

Freight Transportation

Revenue from our freight transportation accounted for 10.1% of our total revenue and 10.8% of our railroad transportation revenue in 2010. Our principal market for freight is domestic medium and long-haul freight, originating and/or terminating outside the Shenzhen-Guangzhou-Pingshi corridor. We are well equipped with various freight facilities and can efficiently transport full load cargo, single load cargo and containers. We have established business cooperation with ports, logistics bases and specialized building materials markets in our service region.

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

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

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

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

The total tonnage of freight we transported in 2010 was 67.9 million tonnes, representing an increase of 9.6% from 62.0 million tonnes in 2009. Revenue from freight transportation business in 2010 was RMB 1,360.8 million, representing an increase of 12.5% from RMB 1,210.1 million in 2009. This increase is mainly due to the following factors:

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

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

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

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

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

Railway Network Usage and Services Business

Revenue from our railway network usage and services accounted for 23.1% of our total revenue and 24.8% of our railroad transportation revenue in 2010. 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 2010, our revenue from railway network usage and services was RMB 3,115.9 million, representing an increase of 0.3% from RMB 3,105.7 million in 2009. The increase in revenue from railway network usage and services was principally due to (i) the increase in the vehicle coupling services provided as a result of the increase in the number of freight trains between Guangzhou and Pingshi section and (ii) the increase in the ticketing and other customer services provided by us for the Wuhan-Guangzhou High Speed Railway Company Limited.

The following table shows the composition of our revenue from railway network usage and services for the three years ended December 31, 2008, 2009 and 2010:

	2008	**2009**	**2010**
		(RMB millions)	
Locomotive traction	1,114.2	1,359.9	1,372.6
Track usage	953.5	1,026.7	965.4
Electric catenaries	281.8	283.3	282.9
Vehicle coupling	224.0	275.4	307.6
Other services	164.9	160.4	187.4
Total	2,738.4	3,105.7	3,115.9

Other Businesses

We engage in other businesses principally related to our railroad transportation business. Revenue from our other businesses accounted for 6.7% of our total revenue in 2010. Our other businesses mainly consist of sales of materials and supplies, maintenance and repair of trains, on-board catering services, labor services and other businesses related to railway transportation.

Revenue from our other businesses in 2010 was RMB 903.6 million representing an increase of 3.4% from RMB 874.3 million in 2009. The increase in revenue from other businesses was mainly due to the increase in the sales of food, beverages and goods on the Wuhan-Guangzhou passenger line.

Seasonality of Our Railway Transportation Business

There is some seasonality in our businesses. The first quarter of each year typically contributes the highest portion of our annual revenue, mainly because it coincides with the Spring Festival holidays (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 Qingming Festival Holidays, the Labor Day holidays, the Dragon Boat Festival Holidays, summer holidays and the National Day holidays in China are also high travel seasons. During these holidays, we usually operate additional passenger trains to meet the increased transportation demand.

Sales

Passenger Transportation

Our passenger tickets are currently sold primarily at ticket counters 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.

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 are sold exclusively by the MTR. As MTR s sales network for these tickets is relatively limited, MTR has engaged the China Travel Service (HK) Ltd., or CTS, as the primary agent for such sales on a non-exclusive basis.

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

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

Shanghai and Hong Kong, between Zhaoqing and Hong Kong and the Hong Kong Through Trains. See Item 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.

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 short notice.

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

Competition

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

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

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

Equipment, Tracks and Maintenance

As of December 31, 2010, we owned 165 diesel locomotives, 68 electric locomotives, 29 high speed CRHs and 1400 passenger coaches. We currently use 20 high speed CRHs for our passenger transportation business between Guangzhou and Shenzhen.

The freight cars we use are all leased from the MOR, to which we pay uniform rental fees based on the national standards set by the MOR. The amounts of such usage fees and depreciation charges we paid to the MOR in 2008, 2009 and 2010 were approximately RMB 176.9 million, RMB 162.7 million and RMB 178.9 million, respectively.

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

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

We believe that our existing tracks and equipment meet the needs of our current

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business and operations. Most of the rails and ties on our main lines have been installed within the last decade and are maintained and upgraded on an ongoing basis as required. In 2009 and 2010, we made improvements to approximately 141 kilometers and 130 kilometers of railroad, respectively.

Major 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 CRHs 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 domestic or foreign 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. Because the costs are affected by inflation, we are subject to inflationary risks in connection with our payment obligations under these service contracts. The subsidiaries of GRGC provide public security for our employees and their families under a contract and in exchange for fee payments. 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 2008, 2009 and 2010, we paid approximately RMB 606.9 million, RMB 561.5 million and RMB 552.3 million, respectively, in electricity charges.

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 2010

Regulatory Overview

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

National Railway System

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

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

Transport Operations

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

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

Since March 1996, the MOR and GRGC have provided us with substantially greater latitude in our transportation operations. In particular, we were granted sufficient autonomy over passenger services on our own line, including autonomy over speed, frequency and train car mix. Pursuant to this authority, we have implemented a strategy of scheduling more high-speed trains, running shorter passenger trains more frequently, and adjusting the train schedules on our line to meet passenger demand. On October 21, 2001, we successfully launched our As-Frequent-As-Buses operating model, which provides inter-city express train services. As of December 31, 2010, the total number of inter-city high-speed passenger trains running daily between Guangzhou and Shenzhen was 110 pairs (including 19 pairs of stand-by trains). We currently have 101 pairs of long-distance trains and 13 pairs of Hong Kong Through Trains.

Where our service runs beyond our own line, clearance by and coordination with

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

Pricing

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

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

Environmental Protection

We believe that we are in material compliance with all applicable PRC national and local environmental protection laws and regulations. We have not been fined or cited for any activities that have caused environmental damages. We have 14 wastewater treatment facilities used for purposes of treating wastewater generated from cleaning of special cargo freight cars, locomotives, coaches and from residential use of our employees. We pay regular fees to local authorities for the discharge of waste substances. In 2010, our environmental protection-related expenses were RMB 15.4 million, mainly related to the renovation of the sewage pipes and boilers.

Insurance

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

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 Factors Risks Relating to Our Business We have very limited insurance coverage .

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

Item 4C. Organizational Structure

The following table lists the significant subsidiaries of our Company as of December 31, 2010:

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

Item 4D. Property, Plant and Equipment

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

With respect to the land for which we hold the land use rights, the terms range from 36.5 to 50 years, terminating between 2031 and 2055. Pursuant to relevant PRC regulations currently in effect, these land use rights are renewable at the end of their terms upon execution of relevant documentation and payment of applicable fees. With respect to the land leased from GRGC, the term is 20 years, terminating in 2027. Based on the land lease agreement we entered into with GRGC in 2004, we can renew such lease at our discretion upon the expiration of the term of such land lease.

As of December 31, 2010, we had not obtained the land use right certificates, or Land Certificates, of certain parcels of land of our Company with an aggregate area of approximately 1,620,894 square meters. After consultation with our Company s PRC legal counsel, we believe there is no legal hurdle for us to apply for and to obtain the Land Certificates and we do not believe the current lack of Land Certificates will lead to any material adverse impact on the operation of our business. Accordingly, we do not consider any provision for impairment necessary.

As of December 31, 2010, we had not obtained the ownership certificates of certain buildings, or Building Ownership Certificates, with an aggregate area of approximately 252,247 square meters, which had an aggregate carrying value of approximately RMB 916.5 million. After consultation with our Company s legal counsel, we believe that there is no legal hurdle for us to apply for and obtain the Building Ownership Certificates and it should not lead to any material adverse impact on the operation of our business. Accordingly, we do not consider any provision for impairment necessary.

Railroad operators typically require substantial land use rights for track, freight and maintenance yards, stations and related facilities. The availability of convenient rail transportation generally enhances the value of land along a rail line. We have not engaged and do not have any current plans to engage in commercial development of any of our land use rights for use other than in connection with our existing businesses. We do not at present intend to contribute capital to engage in any land development projects in the future. However, we may contribute land use rights not otherwise being fully utilized by us for equity stakes in these projects if we believe these opportunities are economically viable. Any development projects will require approval from PRC government authorities responsible for regulating land development.

As of June 2, 2011, we had 48 stations situated on our rail line, of which the Guangzhou East Station is the largest, occupying an area of 402,438 square meters.

For additional information regarding our property, plant and equipment, see Item 4B. Business Overview Equipment, Tracks and Maintenance and Note 7 to our audited consolidated financial statements included elsewhere in this annual report.

ITEM 4A. UNRESOLVED STAFF COMMENTS

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

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview

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

For the year ended December 31, 2010, our total revenue was RMB 13,484.4 million, profit attributable to shareholders was RMB 1,486.1 million, and earnings per share were RMB 0.21. Railroad business revenue accounted for 92.6%, 92.9% and 93.3% of our total revenue in 2008, 2009 and 2010, respectively.

Passenger transportation is our principal business. In 2010, the total number of our passengers was 84.9 million, representing an increase of 3.8% from 81.8 million in 2009. Our passenger transportation revenue was RMB 8,104.1 million, representing an increase of 12.6% from RMB 7,195.7 million in 2009.

We transported a total of 67.9 million tonnes of freight in 2010, representing an increase of 9.6% from 2009. Our freight transportation revenue in 2010 was RMB 1,360.8 million, representing a decrease of 12.5% from RMB 1,210.1 million in 2009.

Revenue from our railway network usages and services business was RMB 3,115.9 million in 2010, representing an increase of 0.3% from RMB 3,105.7 million in 2009.

Revenue from our other businesses was RMB 903.6 million in 2010, representing an increase of 3.4% from RMB 874.3 million in 2008.

In 2010, we have changed our accounting policies in respect of fixed assets and government grants to enhance the comparability of our financial statements with those of the other listed companies with similar backgrounds, as well as to eliminate the differences between our financial statements under IFRS and our financial statements under PRC GAAP. See Note 5 to our audited consolidated financial statements included elsewhere in this annual report.

Item 5A. Operating Results

Principal Factors Affecting Our Results of Operations

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

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

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

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

Revenue

In 2010, our total revenue was RMB 13,484.4 million, representing an increase of 8.9% from RMB 12,385.8 million in 2009. Our revenue from railroad passenger transportation service, freight transportation service, railway network usage and services and other businesses was RMB 8,104.1 million, RMB 1,360.8 million, RMB 3,115.9 million and RMB 903.6 million, respectively, accounting for approximately 60.1%, 10.1%, 23.1% and 6.7%, respectively, of our total revenue in 2010.

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

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In 2010, our total number of passengers was 84.9 million, representing an increase of 3.8% from 81.8 million in 2009. Our revenue from passenger transportation was RMB 8,104.1 million in 2010, representing an increase of 12.6% from RMB 7,195.7 million in 2009. The increase of total number of passengers and our revenue from passenger transportation was mainly due to: (i) the recovery of the Chinese economy and in particular, the economic recovery in Guangdong, Hong Kong and Macau, (ii) the Shanghai Expo and the Asian Games and Asian Para Games held in Guangzhou in 2010, (iii) the price increase of RMB 5 per one way ticket for Guangzhou-Shenzhen trains since June 18, 2010 and (iv) the increase in the number of our long-distance trains as a result of the commencement of operations of the Guangzhou to Tongren train since March 21, 2010 and the Guangzhou to Xinyang train since April 17, 2010.

The following table sets forth our revenue from passenger transportation and the number of passengers for the three years ended December 31, 2010:

	Year ended December 31,			Change in 2010 from 2009
	2008	**2009**	**2010**	
Revenue from passenger transportation (RMB thousands)	6,759,229	7,195,717	8,104,126	12.6%
Total passengers (thousands)	83,825	81,838	84,923	3.8%
Total passenger-kilometers (millions)	27,923.7	27,233.1	27,472.0	0.9%
Revenue per passenger-kilometer (RMB)	0.24	0.26	0.29	11.5%

Freight transportation. Freight transportation is another important business segment for us. The total tonnage of freight we transported in 2010 was 67.9 million tonnes, representing an increase of 9.6% from 62.0 million in 2009. Revenue from our freight transportation business in 2010 was RMB 1,360.8 million, representing an increase of 12.5% from RMB 1,210.1 million in 2009. The increase of revenue from freight transportation is mainly due to the following factors:

- the recovery of the Chinese economy, which resulted in strong demand for our railway freight transportation services;
- leveraging on the launching of the Wuhan-Guangzhou passenger line, which resulted in the release of certain freight transportation capacity for the Wuhan-Guangzhou section of the Beijing-Guangzhou line, we actively increased our marketing efforts and strengthened the coordination of our freight transportation activities; and
- the increase in the national basic transportation price by RMB 0.007 per tonne kilometer from December 13, 2009, which also contributed to the increase in the revenue of our freight transportation business.

The following table sets forth our revenue from freight transportation and the volumes of commodities we shipped for the three years ended December 31, 2010:

	Year ended December 31,			Change in 2010 from 2009
	2008	**2009**	**2010**	
Revenue from freight transportation (RMB thousands)	1,324,701	1,210,118	1,360,822	12.5%
Revenue from outbound freight transportation[(1)]	282,678	285,186	339,956	19.2%

	Year ended December 31,			Change in 2010 from
	2008	2009	2010	2009
Revenue from inbound[1] and pass-through transportation	948,177	836,408	925,608	10.7%
Revenue from other freight transportation services.	93,848	88,524	95,258	7.6%
Total freight tonnes (thousands of tonnes)	70,141	61,987	67,932	9.6%
Outbound freight tonnage	16,847	17,622	20,963	19.0%
Inbound and pass-through freight tonnage	53,295	44,365	46,969	5.9%
Revenue per tonne (RMB)	18.89	19.52	20.03	2.6%
Total tonne-kilometers (millions)	15,557.4	13,446.7	15,191.4	13.0%
Revenue per tonne-kilometer (RMB)	0.09	0.09	0.09	

(1) A portion of the revenue previously recorded as inbound freight revenue was recognized as revenue from outbound freight.

Railway Network Usage and Services Business. Revenue from our railway network usage and services accounted for 23.1% of our total revenue and 24.8% of our railroad business revenue in 2010. Railway network usage and services mainly include locomotive traction, track usage, electric catenaries, vehicle coupling and other services. In 2010, our revenue from railway network usage and services was RMB 3,115.9 million, representing an increase of 0.3% from RMB 3,105.7 million in 2009. The increase of revenue from our railway network usage and services was mainly due to (i) the increase in the vehicle coupling services provided as a result of the increase in the number of freight trains between Guangzhou and Pingshi and (ii) the increase in the ticketing and other customer services provided by us for the Wuhan-Guangzhou High Speed Railway Company Limited.

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

Operating Expenses

In 2010, our total operating expenses were RMB 10,481.5 million, representing an increase of 8.6% from RMB 9,651.3 million in 2009. The following table sets forth the principal operating expenses associated with our railroad businesses, as a percentage of our railroad business revenue, for 2008, 2009 and 2010:

	Year ended December 31,		
	2008	2009	2010
Railroad businesses revenue (RMB millions)	10,822.4	11,511.5	12,580.9
Business tax	2%	2%	2%
Labor and benefits	20%	20%	21%
Equipment leases and services	25%	26%	26%
Lease of land use right	0.46%	0.45%	0.42%
Materials and supplies	12%	12%	12%
Repair costs, excluding materials and supplies	6%	5%	7%
Depreciation and amortization of leasehold land payments	11%	11%	11%
Fee for social services	4%	3%	1%
Utility and office expenses	1%	1%	1%
Others	4%	3%	3%
Operating expenses ratio[1]	85%	84%	83%
Railroad businesses operating margin	15%	16%	17%

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

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

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

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

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

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

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

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

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

Profit from Operations

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

Taxation

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

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

Profit attributable to shareholders of the Company

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

Year ended December 31, 2009 compared with year ended December 31, 2008

Revenue

In 2009, our total revenue was RMB 12,385.8 million, representing an increase of 6.0% from RMB 11,688.7 million in 2008. Our revenue from railroad passenger transportation service, freight transportation service, railway network usage and services and other businesses was RMB 7,195.7 million, RMB 1,210.1 million, RMB 3,105.7 million and RMB 874.3 million, respectively, accounting for approximately 58.1%, 9.8%, 25.1% and 7.0%, respectively, of our total revenue in 2009.

Passenger transportation service. As of December 31, 2009, we operated 217 pairs of passenger trains daily, representing a decrease of 21.5 pairs from the number in operation as of December 31, 2008. There were 100 pairs of high-speed passenger trains between Guangzhou and Shenzhen, a decrease of 20 pairs compared to 2008, 13 pairs of Hong Kong Through Trains, and 105 pairs of long-distance passenger trains, a decrease of 1.5 pairs compared to 2008.

In 2009, our total number of passengers was 81.8 million, representing a decrease of 2.4% from 83.8 million in 2008. Our revenue from passenger transportation was RMB 7,195.7 million in 2009, representing an increase of 6.5% from RMB 6,759.2 million in 2008. The decrease in the total number of passengers in 2009 was mainly due to the decrease in the number of passengers using our Hong Kong Through Trains and long-distance trains services, which was a result of the reduced number of people travelling in the Pearl River Delta region caused by the financial crisis and economic downturn and the outbreak of H1N1 influenza in China in 2009. Despite the decrease in the total number of passengers, our revenue from passenger transportation increased in 2009, primarily due to our effective marketing efforts in 2009 and the fact that our long-distance passenger transportation was not adversely affected by extreme weather conditions such as severe snow storms that occurred in 2008. The increase in our revenue from passenger transportation in 2009 was also due to the increase in the revenue generated from the Guangzhou-Shenzhen inter-city trains as a result of the implementation of a stop-at-all-stations operating model for the Guangzhou-Shenzhen inter-city trains from May 2009, as well as the introduction of the Finance IC card and Fastpass card systems since February 2009.

The following table sets forth our revenue from passenger transportation and the number of passengers for the three years ended December 31, 2009:

	Year ended December 31,			Change in 2009 from
	2007	**2008**	**2009**	**2008**
Revenue from passenger transportation (RMB thousands)	5,833,538	6,759,229	7,195,717	6.5%
Total passengers (thousands)	73,053	83,825	81,838	(2.4%)
Total passenger-kilometers (millions)	26,278.2	27,923.7	27,233.1	(2.5%)
Revenue per passenger-kilometer (RMB)	0.22	0.24	0.26	8.3%

In 2009, we did not make any adjustment to the pricing policies of our passenger transportation services.

Freight transportation. The total tonnage of freight we transported in 2009 was 62.0 million tonnes, representing a decrease of 11.6% from 70.1 million tonnes in 2008. Revenue from our freight transportation business in 2009 was RMB 1,210.1 million, representing a decrease of 8.7% from RMB 1,324.7 million in 2008. In 2009, we adjusted the method for categorizing revenue generated from outbound and inbound and pass-through freight, and a portion of the revenue previously recorded as revenue from inbound and pass-through freight was recognized as revenue generated from outbound freight. Based on the new categorization method for our freight transportation revenue:

in 2009, our outbound freight tonnage was 17.6 million tonnes, representing an increase of 4.6% from 16.8 million tonnes in 2008. Our outbound freight revenue was RMB 285.2 million in 2009, representing an increase of 0.9% from RMB 282.7 million in 2008. Our outbound freight tonnage increased in 2009 due to (i) the partial recovery of our freight transportation business, along with the economic recovery of China, from the decline caused by the global

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financial crisis and economic downturn in 2008 and (ii) an increase in the freight transportation volume of our Beijing-Guangzhou line.

in 2009, our inbound and pass-through freight tonnages were 44.4 million tonnes, representing a decrease of 16.8% from 53.3 million tonnes in 2008. Our inbound and pass-through freight revenue was RMB 836.4 million in 2009, representing a decrease of 11.8% from RMB 948.2 million in 2008. Our inbound and pass-through freight revenue decreased mainly because of the decrease in the inbound and pass-through freight tonnages, as a result of the decrease in freight transported to harbors for exportation, which was affected by the PRC government s policy to encourage domestic enterprises to focus on meeting demand from the domestic market.

The following table sets forth our revenue from freight transportation and the volumes of commodities we shipped for the three years ended December 31, 2009:

	Year ended December 31,			Change in 2009 from 2008
	2007	**2008**	**2009**	
Revenue from freight transportation (RMB thousands)	1,326,450	1,324,701	1,210,118	(8.7%)
Revenue from outbound freight transportation[1]	216,888	282,678	285,186	0.9%
Revenue from inbound[1] and pass-through transportation	1,010,665	948,177	836,408	(11.8%)
Revenue from other freight transportation services	98,897	93,848	88,524	(5.7%)
Total freight tonnes (thousands of tonnes)	71,010	70,141	61,987	(11.6%)
Outbound freight tonnage	19,056	16,847	17,622	4.6%
Inbound and pass-through freight tonnage	51,955	53,295	44,365	(16.8%)
Revenue per tonne (RMB)	18.68	18.89	19.52	3.3%
Total tonne-kilometers (millions)	15,306.9	15,557.4	13,446.7	(13.6%)
Revenue per tonne-kilometer (RMB)	0.09	0.09	0.09	

(1) A portion of the revenue previously recorded as inbound freight revenue was recognized as revenue from outbound freight.

From December 13, 2009, the national basic price for the freight transportation services was increased by RMB 0.007 per ton kilometer.

Railway Network Usage and Services Business. Revenue from our railway network usage and services accounted for 25.1% of our total revenue and 27.0% of our railroad business revenue in 2009. In 2009, our revenue from railway network usage and services was RMB 3,105.7 million, representing an increase of 13.4% from RMB 2,738.4 million in 2008. The increase was mainly due to the increase in the number of long-distance trains operated by other railway companies that use our tracks and services, which led to the increase in related revenue.

Other Businesses. Revenue from other businesses in 2009 was RMB 874.3 million, representing an increase of 0.9% from RMB 866.3 million in 2008.

Operating Expenses

In 2009, our total operating expenses were RMB 10,418.1 million, representing an increase of 4.3% from RMB 9,991.4 million in 2008. The following table sets forth the principal operating expenses associated with our railroad businesses, as a percentage of our railroad business revenue, for 2007, 2008 and 2009:

	Year ended December 31,		
	2007	**2008**	**2009**
Railroad businesses revenue (RMB millions)	9,819.5	10,822.4	11,511.5
Business tax	2%	2%	2%
Labor and benefits	20%	20%	20%
Equipment leases and services	26%	25%	26%
Lease of land use right	0.51%	0.46%	0.45%
Materials and supplies	13%	12%	12%
Repair costs, excluding materials and supplies	5%	6%	5%
Depreciation and amortization of leasehold land payments	10%	11%	11%
Fee for social services	4%	4%	3%
Utility and office expenses	1%	1%	1%
Others	3%	4%	3%
Operating expenses ratio(1)	85%	85%	84%
Railroad businesses operating margin	15%	15%	16%

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

Railway Operating Expenses. Our total railway operating expenses increased by 5.0% from RMB 9,162.3 million in 2008 to RMB 9,620.7 million in 2009. The following sets forth a breakdown of major changes by line item:

Equipment leases and services. Our expenses for equipment leases and services mainly consist of railway line usage fees, train hauling fees and train leasing fees paid to other railway bureaus. In 2009, our expenses relating to equipment leases and services amounted to RMB 2,974.8 million, representing an increase of 12.1% from RMB 2,653.2 million in 2008. This was mainly due to increased railway usage fees paid by us as result of (i) our takeover of the entire operation of Beijing-Kowloon Through Train since January 2009 and (ii) the change in the status of the Guangzhou-Xi an trains from temporarily operated trains to regularly operated trains.

Depreciation. Our depreciation expenses of fixed assets increased by 6.8% from RMB 1,186.7 million in 2008 to RMB 1,267.9 million in 2009, mainly due to the increase in depreciation expenses relating to the CRHs and the Fourth Rail Line between Guangzhou and Shenzhen.

Labor and benefits. In 2009, our labor and benefits expenses amounted to RMB 2,277.1 million, representing an increase of 7.1% from RMB 2,125.4 million in 2008. The increase was mainly due to the increase in employees basic salaries, allowances and benefits.

Business tax. Our business tax in 2009 was RMB 267.0 million, representing an increase of 5.5% from RMB 253.0 million in 2008. The increase was mainly due to the increase in our operating revenue.

Other than the above increases, certain line items of our operating expenses decreased in 2009:

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Others. Our other railway operating expenses decreased by 13.8% from RMB 382.2 million in 2008 to RMB 329.6 million in 2009. This was mainly because we did not incur as severe weather conditions in the first quarter of 2009 as in the first quarter of 2008, and therefore did not spend the related operating costs.

Repair (excluding materials and supplies). Our repair expenses decreased by 12.2% from RMB 670.2 million in 2008 to RMB 588.3 million in 2009, primarily because we completed most of our previously planned repair work in 2008 and therefore managed to reduce repair expenses in 2009.

Utility and office expense. Our utility and office expense decreased by 7.9% from RMB 121.4 million in 2008 to RMB 111.8 million in 2009. This was mainly due to our efforts to control costs on administration and transportation in response to the recent global financial crisis and economic downturn.

Social service expenses. Our social service expenses decreased by 6.8% from RMB 400.5 million in 2008 to RMB 373.3 million in 2009. This was primarily because (i) we did not experience as severe weather conditions in the first quarter of 2009 as in the first quarter of 2008 and therefore incurred less expenses for implementing security measures and (ii) in 2009, we were no longer required to implement the security measures required by the PRC government for the Beijing 2008 Olympic Games.

Profit from Operations

Our profit from operations increased by 14.5% from RMB 1,677.9 million in 2008 to RMB 1,920.3 million in 2009 primarily due to (i) an increase in our revenue from long-distance train services, (ii) an increase in revenue as a result of our implementation of the stop-at-all-stations operating model for Guangzhou-Shenzhen inter-city trains from May 1, 2009 and (iii) a decrease in our non-operating expenses due to the effective cost controls of our Company.

Taxation

As we are registered and established in the Shenzhen Special Economic Zone, we were subject to income tax in 2009 at a rate of 20%, which was 5% lower than the standard income tax rate of 25% generally applicable to PRC companies. According to relevant tax regulations, our subsidiaries were subject to income tax at the rate of either 20% or 25%, depending on the location of incorporation. Our income tax expense was RMB 348.9 million in 2009, representing an effective tax rate of 20.4% and an increase of RMB 71.6 million compared to RMB 277.3 million in 2008. The increase was mainly due to the overall increase in our effective income tax rate.

Profit attributable to shareholders of the Company

As a result of the above, our consolidated net profit increased by 12.5% from RMB 1,193.7 million in 2008 to RMB 1,342.5 million in 2009.

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Critical Accounting Policies and Estimates

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

In 2010, we have changed our accounting policies in respect of fixed assets and government grants to enhance the comparability of our financial statements with those of the other listed companies with similar backgrounds, as well as to eliminate the differences between our financial statements under IFRS and our financial statements under PRC GAAP. See Note 5 to our audited consolidated financial statements included elsewhere in this annual report.

Revenue recognition

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

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

Revenue from railway business: revenue from railway business includes revenue from passenger and freight services and revenue from railway network usage and services. Revenue from railway business is recognized when the services are rendered and revenue can be reliably measured.

Revenue from other businesses: revenue from other businesses is recognized once the related services or goods are delivered, the related risks and rewards of ownership have been transferred and revenue can be reliably measured.

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

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

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

Fixed assets

The railway industry is capital intensive. Under IFRS, fixed assets are initially recorded at historical cost less depreciation and impairment loss. Historical cost represents expenditure that is directly attributable to the acquisition of the items (for the case of fixed assets acquired by us from GRGC during the Restructuring, the revaluated amount in the Restructuring was deemed costs). We have early adopted the improved IFRS 1, First-time Adoption of IFRS beginning from January 1, 2010. With the improved IFRS 1, the revaluated amount can become deemed costs so long as the revaluation takes place at periods before or during the first-time IFRS adoptors first set of IFRS financial statements. In addition, the IASB has made a special provision in this IFRS 1, which allows existing IFRS preparers to retrospectively apply this rule. See Note 5 to our audited consolidated financial statements included elsewhere in this annual report.

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

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

Buildings (*Note a*)	20 to 40 years
Leasehold improvements	Shorter of useful life or lease terms
Track, bridges and service roads (*Note a*)	16 to 100 years
Locomotives and rolling stock	20 years
Communications and signaling systems	8 to 20 years
Other machinery and equipment	4 to 25 years

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

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

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

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

Government grants

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

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

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the comprehensive income statement on a straight-line basis over the expected lives of the related assets. We changed the accounting policy in respect of government grants relating to property, plant and equipment from January 1, 2010. See Note 5 to our audited consolidated financial statements included elsewhere in this annual report.

Trade and other receivables

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

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

significant financial difficulty of the issuer or obligor;

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

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

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

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

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

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

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

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

Trade payables

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

Goodwill

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

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

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

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

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

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Current and deferred income tax

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

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

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

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

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

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

Employee benefits

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

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

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Critical Accounting Estimates and Assumptions

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

Estimates of the depreciable lives of fixed assets

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

See Item 5A. Operating Results Critical Accounting Policies and Estimated Fixed Assets Note 2.5 to our consolidated financial statements included elsewhere in this annual report for the current estimated useful lives of fixed assets. If the estimated depreciable lives of tracks, bridges and service roads had been increased/decreased by 10%, the depreciation expenses of fixed assets for the year ended December 31, 2010 would have been decreased/ increased by approximately RMB 18.7 million and RMB 22.9 million, respectively (2009: RMB 17.8 million and RMB 21,8 million, respectively).

Estimated impairment of goodwill

We test whether goodwill has suffered any impairment annually or, whenever there is an indication of impairment, in accordance with the accounting policy stated in Note 2.8 to our consolidated financial statements included elsewhere in this annual report. The recoverable amounts of cash-generating units have been determined based on the higher of an asset s fair value less costs to sell and value in use. These calculations require the use of estimates. See Note 10 to our consolidated financial statements included elsewhere in this annual report.

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

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

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Income taxes

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

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 RMB 3,331.5 million of net cash flow from operating activities in 2010. Substantially all of our revenue was received in cash, with accounts receivable arising primarily from long-distance passenger train services provided and pass-through freight transactions originating from other railway companies whose lines connect to our railroad. Similarly, some accounts payable arise from payments for railroad transportation services that we collect on behalf of other railroad companies and should pay to these companies. Accounts receivable and payable were generally settled either quarterly or monthly between us and the other railroad companies. Most of our revenue generated from our other businesses was also received in cash. We also have accounts payable associated with the purchase of materials and supplies in our other businesses.

In 2010, other than operating expenses, our cash outflow mainly related to the following:

- capital expenditures of approximately RMB 1,158.4 million, representing a decrease of 29.4% from RMB 1,639.7 million in 2009;
- payment of dividends of approximately RMB 566.7 million; and
- income tax expenses of approximately RMB 390.3 million.

Our capital expenditures for 2010 consisted primarily of the following projects:

- constructing the Buji passenger station;
- upgrading and expanding the transportation equipment for the Shenzhen-Guangzhou-Pingshi Railway; and
- upgrading the supporting facilities to improve the safety for railway transportation.

Funds not required for immediate use are kept in short term investments and bank deposits. We had cash and cash equivalents of approximately RMB 2,659.1 million as of December 31, 2010.

As of December 31, 2010, we did not have any entrusted deposits placed with any financial institutions in the PRC and we did not engage in any trust business.