GUANGSHEN RAILWAY CO LTD
Form 20-F
June 28, 2007

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 28, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

(Mark One)

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

or

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

or

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

For the transition period from __________ to __________

or

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

COMMISSION FILE NUMBER: 1-14362

(Chinese Characters)
(Exact name of Registrant as specified in its charter)

GUANGSHEN RAILWAY COMPANY LIMITED
(Translation of Registrant's name into English)

PEOPLE'S REPUBLIC OF CHINA
(Jurisdiction of incorporation or organization)

NO. 1052 HEPING ROAD, SHENZHEN, PEOPLE'S REPUBLIC OF CHINA 518010
(Address of Principal Executive Offices)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH LISTED
American Depositary Shares, each representing 50 Class H ordinary shares	New York Stock Exchange, Inc.
Class H ordinary shares, nominal value RMB1.00 per share	The Stock Exchange of Hong Kong Limited

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

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

Indicate the number of outstanding shares of each of the Registrant's classes of capital or common stock as of December 31, 2006:

Domestic shares (A Shares), par value RMB1.00 per share...	5,652,237,000
H shares, par value RMB1.00 per share.....................	1,431,300,000

(including 229,976,050 H shares in the form of American Depositary Shares)

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

Yes ___ No X___

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ___ No X___

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X___ No ___

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

Large Accelerated Filer ___ Accelerated Filer X___ Non-Accelerated Filer ___

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ___ Item 18 _X_

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ___ No _X_

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FORWARD-LOOKING STATEMENTS

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

When considering such forward-looking statements, you should keep in mind the factors described in "Item 3D. Risk Factors" and other cautionary statements appearing in "ITEM 5. Operating and Financial Review and Prospects" of this annual report. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

CERTAIN TERMS AND CONVENTIONS

Solely for the convenience of the reader, this annual report contains translations of amounts from Renminbi into U.S. dollars and vice versa at the rate of RMB7.80 to US$1.00, which is rounded from 7.8041, which was the noon buying rate in New York City for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York on December 29, 2006, except where we specify that a different rate has been used. You should not construe these translations as representations that the Renminbi amounts actually represent U.S. dollar amounts or could be converted into U.S. dollars at that rate or at all. See "Item 3A. Selected Consolidated Financial and Other Data--Exchange Rate Information" for information regarding the noon buying rates for U.S. dollar/Renminbi conversions from January 1, 2002 through June 27, 2007.

We prepare and publish our consolidated financial statements in Renminbi.

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

Unless the context otherwise requires or otherwise specified:

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

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

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

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

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

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

- "Macau" means the Macau Special Administrative Region of the PRC.

- "MOR" means the Ministry of Railways.

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

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

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

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

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, 2005 and 2006, and our consolidated statements of income, changes in equity and cash flows for each of the years ended December 31, 2004, 2005 and 2006 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, 2002, 2003 and 2004, and our consolidated statements of income, changes in equity and cash flows for each of the years ended December 31, 2002 and 2003 are derived from our previously published audited consolidated financial statements that are not included in this annual report.

The audited consolidated financial statements from which the selected consolidated financial data set forth below have been derived were prepared in accordance with International Financial Reporting Standards, or IFRS, and the information set forth below under "Certain US GAAP Data" have been reconciled to generally accepted accounting principles in the United States, or US GAAP as it relates to the Company, which differ in some material respects from IFRS. For a discussion of the principal differences between IFRS and US GAAP, see "Item 5G. Additional Information-Principal Differences between IFRS and US GAAP" and Note 38 to our audited consolidated financial statements included elsewhere in this annual report. See note (2) below for the explanation on the restatement of certain figures.

	YEAR ENDED DECEMBER			
	2002	2003	2004	
	RMB (RESTATED)(2)	RMB (RESTATED)(2)	RMB (RESTATED)(2)	(REST
		(IN THOUSANDS EXCEPT FOR PER		
IFRS INCOME STATEMENT DATA:				
Revenues from railroad businesses				
- Passenger	1,903,782	1,790,204	2,259,671	2,
- Freight	530,776	526,382	611,807	
Subtotal	2,434,558	2,316,586	2,871,478	3,
Revenues from other businesses	166,266	151,596	166,671	
Total revenues	2,600,824	2,468,182	3,038,149	3,
Railroad operating expenses(2)	(1,760,793)	(1,717,307)	(2,203,273)	(2,
Other businesses operating expenses	(169,112)	(149,614)	(166,155)	(
Other income	43,495	47,341	48,193	
Profit from operations (2)	714,414	648,602	716,914	
Profit attributable to shareholders of the Company (2)	598,242	544,528	600,250	
Profit from operations per share (2)	0.16	0.15	0.17	
Earnings per share for profit attributable to shareholders of the Company				
- Basic and diluted (2)	0.14	0.13	0.14	

	YEAR ENDED DECEMBER 31,			
	2002	2003	2004	20
	RMB (RESTATED)(2)	RMB (RESTATED)(2)	RMB (RESTATED)(2)	RM (RESTAT
		(IN THOUSANDS EXCEPT FOR PER SHA		
Dividends declared per share	0.10	0.10	0.105	
Earnings per ADS for profit attributable to shareholders of the Company (2)	6.90	6.28	6.92	

IFRS BALANCE SHEET DATA (AT YEAR END):				
Working capital (excluding due from and due to GRGC)	1,592,040	1,935,979	2,076,207	45
Due from GRGC	39,374	--	--	1
Due to GRGC	--	37,230	24,617	
Fixed assets (2)	5,636,979	5,830,125	5,889,074	6,34
Leasehold land payments	656,998	652,083	636,379	62
Total assets (2)	10,270,488	10,119,613	10,487,477	11,85
Equity attributable to shareholders of the Company (2)	9,257,045	9,368,018	9,499,000	9,79
Share capital, issued and outstanding, RMB1.00 per value,				
domestic shares	2,904,250	2,904,250	2,904,250	2,90
H shares	1,431,300	1,431,300	1,431,300	1,43
IFRS CASH FLOW STATEMENT DATA:				
Net cash provided by operating activities	1,157,177	798,449	1,236,579	1,38
Net cash (used in)/provided by investing activities	251,003	(375,469)	(1,000,639)	(82
Net cash (used in) financing activities	(360,643)	(433,666)	(469,044)	(49
Purchase of fixed assets and payment for construction-in-progress	553,337	339,208	310,179	1,58
Dividends paid to shareholders of the Company	(356,490)	(433,561)	(455,009)	(47
OTHER IFRS DATA:				
Railroad transportation operating income (2)	711,457	645,437	715,230	80
Other businesses operating income/ (loss)	2,957	3,165	1,684	(
CERTAIN US GAAP DATA				
Profit from operation	670,919	601,261	668,721	75
Net income	598,242	544,528	600,250	63
Earnings per share-Basic and diluted	0.14	0.13	0.14	
Earnings per ADS	6.90	6.28	6.92	
Equity	9,257,045	9,368,018	9,499,000	9,80
Fixed assets	5,636,979	5,830,125	5,889,074	6,34

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(1) Translation of amounts from Renminbi, or RMB, into United States dollars, or US$, for the convenience of the reader has been made at US$1.00 = RMB7.80, which is rounded from 7.8041, the noon buying rate in New York City on December 29, 2006. No representation is made that the RMB amounts could have been, or could be, converted into US dollars at that rate on December 29, 2006 or on any other date.

(2) As a result of the change in our accounting policy of fixed assets from the revaluation basis of accounting to cost model during 2006, as disclosed in Note 5 to our audited consolidated financial statements included elsewhere in this annual report, the related IFRS financial information for the years from 2002 to 2005 had been restated. Due to fact that the fixed assets are accounted for under the cost basis under U.S. GAAP, the respective U.S. GAAP data for the respective years are not affected.

We derive a majority of our revenue and incur most of our expenses in

Renminbi. In addition, we maintain our books and records in Renminbi and our financial statements are prepared and expressed in Renminbi. Solely for the convenience of the reader, this annual report contains translations of certain Renminbi amounts into U.S. dollars and vice versa at RMB7.80 = US$1.00, which is rounded from 7.8041, the noon buying rate in New York City on December 29, 2006. These translations should not be construed as representations that the Renminbi amounts could have been or could be converted into U.S. dollars at such rate or at all.

The noon buying rates for Renminbi in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB7.6210 = US$1.00 on June 27, 2007.

The following table sets forth information concerning the noon buying rate in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York for the Renminbi, expressed in Renminbi per U.S. dollar, for the periods indicated:

	NOON BUYING RATE		
PERIOD	AVERAGE (1)	HIGH	LOW
	(RENMINBI PER U.S. DOLLAR)		
2002	8.2772	8.2800	8.2700
2003	8.2772	8.2800	8.2765
2004	8.2768	8.2774	8.2764
2005	8.1826	8.2765	8.0702
2006	7.9723	8.0702	7.8041
January 2007	7.7876	7.8127	7.7705
February 2007	7.7502	7.7632	7.7410
March 2007	7.7369	7.7454	7.7232
April 2007	7.7247	7.7296	7.7090
May 2007	7.6773	7.6463	7.7065
June 2007 (through June 27)	7.6351	7.6680	7.6175

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

DIVIDENDS

At a meeting of the directors held on April 19, 2007, the directors proposed a final dividend of RMB0.08 per ordinary share for the year ended December 31, 2006, which was approved at our annual general meeting of shareholders held on June 28, 2007. This proposed dividend has not been reflected as a dividend payable in the financial statements, but instead as equity attributable to equity holders of the Company.

In accordance with our Articles of Association, dividends for our domestic shares will be paid in Renminbi while dividends for our H shares will be calculated in Renminbi and paid in Hong Kong dollars. The exchange rate was based on the average of the closing exchange rates for Renminbi to Hong Kong dollars as announced by the People's Bank of China during the calendar week preceding the date on which the dividend is to be distributed, which is July 27, 2007.

ITEM 3B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

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

Not applicable.

ITEM 3D. RISK FACTORS

RISKS RELATING TO OUR BUSINESS

WE FACE COMPETITION, WHICH MAY ADVERSELY AFFECT OUR BUSINESS GROWTH AND RESULTS OF OPERATIONS.

Our passenger and freight transportation businesses face competition from other means of transportation, such as road, air and water transportation. In our passenger transportation business, we compete with the bus and ferry services operating within Hong Kong, Guangzhou, Shenzhen and elsewhere in our service region. We compete for passengers with bus and ferry services in terms of price, comfort, reliability, convenience, service quality, frequency of service and safety. In our freight transportation business, we primarily compete with water, truck and air transportation services operating within our service region. We increasingly compete for freight business with truck operators, shipping companies and airline companies on the basis of price, reliability, capacity, convenience, service quality, and safety. In addition, as the PRC government lifts its restrictions and control over foreign investments in China following China's entry into the World Trade Organization, or the WTO, for example, by allowing foreign participation and investment in railway freight operations, we may lose our current status of sole railway service provider we currently enjoy in our service territory. Furthermore, the completion of the Wuhan-Guangzhou and the Guangzhou-Shenzhen-Hong Kong express railways, which are both under construction and are expected to be completed around 2010, may further increase the competition we face. Increased competition against us may adversely affect our revenues and results of operations. "See Item 4B. Business Overview--Competition" for additional information regarding our competition.

ANY SIGNIFICANT DECREASE IN THE OVERALL LEVELS OF BUSINESS, INDUSTRIAL, MANUFACTURING AND TOURISM ACTIVITIES WITHIN THE PEARL RIVER DELTA REGION AND ELSEWHERE IN CHINA, MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR REVENUES AND RESULTS OF OPERATIONS.

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

CHANGES IN FREIGHT COMPOSITION IN OUR FREIGHT TRANSPORTATION BUSINESS MAY ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

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Historically, our freight transportation revenue was derived mainly from the transportation of construction materials, coal, iron ore, oil, steel and chemicals, in which our railroad transportation services have an advantage over other means of transportation, such as road transportation services. With the economic and technological development and the Restructuring of the industries' structure in our service areas, commodities, such as advanced technological products, which tend to be compact, may be chosen to be shipped by road or air. We face significant competition in the transportation of such low-volume, high-value products. For example, in 2006, the aggregate weight of goods we transported decreased by 3.7% compared with those of 2005. Changes in freight composition may affect the usage volume and pricing of our freight transportation services and adversely affect our results of operations.

OUR RAILROADS CONNECT WITH THE RAILROADS OF OTHER OPERATORS AND ANY DISRUPTION IN THE OPERATION OF THOSE RAILROADS, OR OUR COOPERATION WITH OTHER OPERATORS, COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND OPERATIONS.

Our railroads are an integral part of the PRC national railway network. Our railroads connect with the Beijing-Guangzhou line in the north, the Shenzhen-Kowloon rail line in the south, the Guangzhou-Maoming rail line in the west, and the Guangzhou-Meizhou-Shantou rail line in the east, all of which are owned and operated by other operators. See "Item 4A. History and Development of the Company - Service Territory" for additional information. Our train services use these other railroads to carry passengers and freight to locations outside 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.

ANY MATERIAL ADVERSE CHANGE TO OUR PREFERENTIAL INCOME TAX STATUS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS.

As a company located in the Shenzhen Special Economic Zone, we enjoy a preferential income tax rate of 15%, rather than the 33% income tax rate generally applicable to domestic companies in the PRC. Any material adverse change to our preferential income tax status could have a material adverse effect on our results of operations.

On March 16, 2007, the National People's Congress of the PRC promulgated the PRC Enterprise Income Tax Law, or the new EIT Law, which will take effect from January 1, 2008. According to the new EIT Law, the preferential income tax rate of 15% that is currently applicable to companies incorporated in Shenzhen (like us) and other special economic zones will be phased out in five years beginning from January 1, 2008, and after such five-year period, the applicable tax rate applicable to us will become 25%, i.e., the unified income tax rate applicable to all domestic companies in the PRC with minor exceptions. To this date, the relevant authorities have not yet issued any detailed rules implementing the new EIT Law concerning the applicable income tax rates, computation of taxable income, as well as any phase out of specific preferential tax treatments, and the related measures for the transitional periods from 2008 and onwards have not been clarified. Consequently, we are not in a position to reasonably assess the impact, if any, of the carrying values of deferred tax assets and deferred tax

liabilities resulting from the implementation of the new EIT Law. Any increase in our effective tax rate as a result of the above may adversely affect our operating results.

ANY CHANGES IN OUR RIGHT TO OWN AND OPERATE OUR BUSINESS AND ASSETS, OUR RIGHT TO PROFIT AND OUR RIGHT OF ASSET DISPOSAL AS PREVIOUSLY GRANTED BY THE MOR AND THE STATE COUNCIL OF THE PRC MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND RESULTS OF OPERATIONS.

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

GUANGZHOU RAILWAY (GROUP) COMPANY AS OUR LARGEST SHAREHOLDER AND SERVICE PROVIDER MAY HAVE INTERESTS THAT CONFLICT WITH THE BEST INTERESTS OF OUR OTHER SHAREHOLDERS AND OUR COMPANY.

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

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

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WE HAVE VERY LIMITED INSURANCE COVERAGE.

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

WE COULD INCUR SIGNIFICANT COSTS FOR VIOLATIONS OF APPLICABLE ENVIRONMENTAL LAWS AND REGULATIONS.

Our railroad operations and real estate ownership are subject to extensive national and local environmental laws and regulations concerning, among other things, gaseous emissions, wastewater discharge, disposal of solid waste and noise control. Environmental liabilities may arise from claims asserted by adjacent landowners or other third parties. We may be required to incur significant expenses to remediate any violation of applicable environmental laws and regulations. As of December 31, 2006, we had not made any provision for such liabilities.

TECHNOLOGICAL PROBLEMS ATTRIBUTABLE TO ACCIDENTS, HUMAN ERROR OR NATURAL DISASTERS COULD AFFECT THE PERFORMANCE OR PERCEPTION OF OUR RAILWAY AND RESULT IN DECREASES IN CUSTOMERS AND REVENUES, UNEXPECTED EXPENSES AND LOSS OF MARKET SHARE.

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

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

If we experience any equipment failures, delays, temporary cancellations of schedules, collisions and derailments, or any deterioration in the performance or quality of any of our services, it could result in personal injuries, damage of goods, customer claims of damages, customer refunds and loss of goodwill. These problems may lead to decreases in customers and revenues, damage to our reputation, unexpected expenses, loss of passengers and freight customers, incurrence of significant warranty and repair costs, diversion of our attention from our transportation service efforts or strained customer relations, any one of which could materially adversely affect our business. As of the date of this report, we have not experienced any such events except some minor delays, but we cannot assure you that such events will not happen in the future.

WE MAY ENCOUNTER DIFFICULTIES IN THE CONSTRUCTION OF THE FOURTH RAIL LINE OF THE GUANGZHOU-SHENZHEN RAILWAY.

The construction of large infrastructure projects such as the Fourth Rail Line involves many potential risks and uncertainties, including land acquisition problems, work stoppages, interruptions resulting from inclement weather, unforeseen engineering difficulties, environmental and geological problems and unanticipated cost increases and claims, any of which could give rise to delays or cost overruns. There can be no assurance that the construction of the Fourth Rail Line will be completed within budget and according to the planned completion schedule.

In addition, railway projects are capital-intensive infrastructure projects. In order to finance our construction of the Fourth Rail Line, we have entered into several loan agreements with certain PRC domestic banks in the year ended December 31, 2006, pursuant to which we obtained credit extensions in the aggregate amount of RMB1.86 billion. We expect that we need to obtain additional financial support for the construction of the Fourth Rail Line in the second half of 2007. See "Item 5B. Liquidity and Capital Resources" for details. However, these credit facilities may not be enough and we may still encounter capital shortages in the construction of the Fourth Rail Line. In addition, we cannot assure you that we will be able to pay off these loans out of the revenues we generate from our operation after the completion of the construction of the Fourth Rail Line.

The economic viability of these capital-intensive transportation projects will depend on the achievement of projections for ridership levels and fares, which in turn may be affected by macro-economic factors such as population growth and changes in demographic and economic conditions. Our actual passenger demand may not ultimately meet our projected estimated passenger demand.

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.

WE CAN NOT INDEPENDENTLY VALIDATE THE REVENUE OR CHARGES ALLOCATED BY THE

MOR FOR CERTAIN LONG DISTANCE PASSENGER TRAIN AND FREIGHT TRANSPORTATION BUSINESSES

As described in "Item 7B Related Party Transactions" and Note 35 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, the Company works in cooperation with the MOR and other railway companies owned and controlled by the MOR for the operation of certain long distance passenger train and freight transportation businesses within the PRC. The revenues generated from these businesses are collected by other railway companies and centrally processed and allocated by the MOR. Certain portions of the revenues collected are allocated to our Company for the use of our rail

lines or for services rendered by our Company in connection with the provision of these services. On the other hand, the Company is also allocated by the MOR certain charges for the use of the rail lines and services provided by other railway companies. Such allocations are determined by the MOR based on its standard pricing policy applied on a nationwide basis. Our Company is unable to independently validate these revenues or charges allocated by the MOR Based on any self generated source data or information. In addition, there is no established formal channel for us to lodge any query or objection to the amounts allocated.

WE MAY ENCOUNTER DIFFICULTIES FOR COMPLIANCE WITH THE SARBANES-OXLEY ACT OF 2002.

The United States Securities and Exchange Commission, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company in the United States to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the Company's internal control over financial reporting. In addition, an independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of the Company's internal control over financial reporting. These requirements first apply partially to our annual report on Form 20-F for the fiscal year ended December 31, 2006 by requiring our management to provide a report regarding the assessment of the effectiveness of our internal control over financial reporting. Our management's assessment concluded that, as of December 31, 2006, we did not maintain effective internal control over financial reporting as a result of the two identified material weaknesses. See "Item 15. Controls and Procedures." Although we have formulated plans for remedial measures to make necessary improvements to address any deficiency found, we cannot assure you that we will be able to successfully remedy all the identified deficiencies in time. If we fail to maintain the adequacy of our internal control over financial reporting and correct the material weaknesses identified by our management's assessment as of December 31, 2006, 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.

In addition, beginning with the year ended December 31, 2007, Section 404 of the Sarbanes-Oxley Act of 2002 will require our independent registered public accounting firm to provide an attestation report regarding internal control over financial reporting with our annual report on Form 20-F. As our independent registered public accounting firm performs the audit in order to provide the attestation report required by Section 404 of the Sarbanes-Oxley Act of 2002 for the year ended December 31, 2007, additional deficiencies, including deficiencies that may constitute significant deficiencies or material weaknesses, may be detected in our internal control over financial reporting. 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 documented, designed, operated or reviewed, or if the independent registered public accounting firm interprets the requirements, rules or regulations differently than we do, then they may decline to attest to our management's assessment or 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.

THE PRC NATIONAL AUDIT OFFICE IS AUDITING OUR LARGEST SHAREHOLDER AND OUR CONSTRUCTION OF THE FOURTH RAIL LINE, AND OTHER GOVERNMENTAL OR THIRD PARTIES MAY INVESTIGATE US FROM TIME TO TIME. THE OUTCOME OF THESE AUDITS OR OTHER GOVERNMENTAL OR THIRD PARTY INVESTIGATIONS MAY ADVERSELY AFFECT OUR CORPORATE IMAGE AND REPUTATION, OUR BUSINESS AND FINANCIAL CONDITION AND THE PRICES OF OUR H SHARES, A SHARES AND ADSS.

The PRC National Audit Office, or the NAO, is auditing the railway bureaus and railway companies under the control of the MOR, including GRGC, our largest shareholder, and certain railway construction projects, including our construction of the Fourth Rail Line. In addition, as part of its audit of GRGC, the NAO is also conducting an audit of our Company, which mainly focuses on our business transactions with GRGC. We cannot predict the timing of completion or the outcome of these audits. If, as a result of these audits, material irregularities are found within GRGC or our Company or in the construction of the Fourth Rail Line or GRGC, or our Company becomes the target of any negative publicity, there would be a material adverse effect on our corporate image and reputation, our business and financial condition and the prices of our H Shares, A Shares and ADSs. In addition, we or our directors and officers may be the subject of other governmental or third party investigations or similar events that, depending on their outcome, could have a material adverse effect on our business and financial condition and the prices of our H Shares, A Shares and ADSs.

RISKS RELATING TO OUR ACQUISITION

On November 15, 2004, we entered into an assets purchase agreement, or the Acquisition Agreement, with Yangcheng Railway Company to acquire the railway transportation business between Guangzhou and Pingshi and related assets, or the Acquisition. In order to finance such Acquisition, we issued 2,747,987,000 A shares which are now listed for trading on the Shanghai Stock Exchange and raised approximately RMB10.0 billion from the A Share Offering. On December 28, 2006, we paid RMB5.27 billion out of the proceeds raised from the A Share Offering to Yangcheng Railway Company. On January 1, 2007, the passenger and freight business of the Guangzhou-Pingshi Railway came under our control. Accordingly, the Company considers January 1, 2007 as the effective date of acquisition for accounting purposes.

The amount of the offering represents approximately 63.38% of our existing issued share capital and approximately 38.81% of our issued share capital as enlarged by the issuance of A shares. Upon completion of the A Share Issue, GRGC owned approximately 40.99% of our issued and outstanding common shares, all of which are A shares, while institutional and public shareholders owned approximately 59.01% of our issued and outstanding common shares, including A shares, H shares and ADSs. See "ITEM 5. Operating and Financial Review and Prospects--Overview--A Share Offering, Very Substantial Acquisition and Continuing Related Party Transactions" for additional information.

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

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

- loss of key employees or customers of the acquired business;

- possible inconsistencies in standards, controls, procedures and policies between us and the acquired business and the need to implement company-wide financial, accounting, information and other systems;

- failure to maintain the quality of services that we have historically provided;

- the need to coordinate geographically diverse organizations; and

- the diversion of management's attention from our day-to-day business as a result of the need to deal with any disruptions and difficulties and the need to add management resources to do so.

In addition, in order to ensure the success of the acquisition, we will restructure and adapt our management (including the restructuring of both management structure and managerial personnel) to reflect the expanded operations. If we are unable to implement these restructuring and adaptation efforts on an efficient basis within a short period of time, there may be a discrepancy between the scope of our operations and our management resources. These disruptions, difficulties and discrepancies between management and operations, if they occur, may cause us to fail to realize the cost savings, revenue enhancement and other benefits that we currently expect to result from the acquisition and the integration and may cause material adverse short- and long-term effects on our operating results and financial conditions.

The Company has recognized, on a preliminary basis, goodwill associated with such an acquisition amounting to approximately RMB307.2 million upon the acquisition date as at January 1, 2007. According to relevant accounting rules under U.S. GAAP, such goodwill is subject to annual impairment loss assessment. In case any assessment in the future indicates that there is impairment, a loss will be recognized.

GRGC HAS LOST ITS CONTROLLING SHAREHOLDER STATUS, WHICH MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND RESULTS OF OPERATIONS.

Upon completion of the A Share Offering, GRGC's interests in our issued and outstanding common shares decreased from approximately 67% to approximately 41%. As a

result, although GRGC is still the largest shareholder of our Company, GRGC has lost its controlling shareholder status and may not be able to control our board of directors. Before the A Share Offering, our executive directors were all nominated by GRGC and appointed by our shareholders' meetings. Following the A Share Offering, GRGC may not be able to exercise control over our board of directors and changes in our board of directors and related changes in our management which may have a material adverse effect on our business and results of operations. In addition, as a result of GRGC's lost of its controlling shareholder status, we may not be able to benefit from our relationship with GRGC at the same level as we did before.

RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

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

CHINA'S ECONOMIC, POLITICAL AND SOCIAL CONDITIONS, AS WELL AS GOVERNMENT POLICIES, COULD AFFECT OUR BUSINESS.

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

GOVERNMENT CONTROL OF CURRENCY CONVERSION MAY ADVERSELY AFFECT OUR OPERATIONS AND FINANCIAL RESULTS.

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

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

The value of the Renminbi fluctuates and is subject to changes in market conditions as well as China's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 7.4% appreciation of the Renminbi against the U.S. dollar. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar. We have certain US dollar-denominated assets and the appreciation of Renminbi could result in a decrease of the value of these assets. For further information on our foreign exchange risks and certain exchange rates, see "Item 3A. Selected Consolidated Financial and Other Data" and "ITEM 11. Quantitative and Qualitative Disclosures About Market Risk -- Currency Risks." We cannot assure you that any future movements in the exchange rate of Renminbi against the United Sates dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

UNCERTAINTIES WITH RESPECT TO THE PRC LEGAL SYSTEM COULD LIMIT THE LEGAL PROTECTIONS AVAILABLE TO YOU.

As PRC laws and regulations dealing with business and economic matters are relatively new and still evolving, and because of the limited volume of published judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws and regulations involve some uncertainty. In addition, because the PRC Company Law is different in certain important aspects from company laws in Hong Kong, United States and other common law countries and regions and because the PRC securities laws are still at an early state of development, you may not enjoy shareholder protections to which you may be entitled in Hong Kong, the United States or other jurisdictions.

WE FACE RISKS RELATED TO HEALTH EPIDEMICS AND OTHER OUTBREAKS.

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

ITEM 4. INFORMATION ON THE COMPANY

ITEM 4A. HISTORY AND DEVELOPMENT OF THE COMPANY

OVERVIEW

We were established as a joint stock limited company under the Company Law of the PRC on March 6, 1996. Our legal name is (Chinese Characters), and its English translation is Guangshen Railway Company Limited. Our registered office is located at No. 1052 Heping Road, Shenzhen, Guangdong Province, The People's Republic of China, 518010. Our telephone number is (86-755) 2558-7920 or 2558-8146 and our fax number is (86-755) 2559-1480.

We are mainly engaged in the railway passenger and freight transportation business between Guangzhou and Shenzhen and certain long-distance passenger transportation services. We also cooperate with Kowloon-Canton Railway Corporation, or the KCR, in Hong Kong in operating the Hong Kong Through Train passenger service. We provide consolidated services relating to railway facilities and technology. We also engage in commercial trading and other businesses that are consistent with the overall business strategy.

We are a leading provider of passenger and freight transportation services on the Guangzhou-Shenzhen route. We operate the sole railroad, which is 152 kilometers long, between Guangzhou, the capital city of Guangdong Province, and Shenzhen, one of the original special economic zones of the PRC. The Guangzhou to Shenzhen railroad, which includes two high speed rail lines and one regular speed rail line, is an important component of the transportation infrastructure of southern China.

Our railroad is an integral part of the PRC national railroad system, with links to the other parts of the national railroad system as well as local railroad systems in southern China, including the Beijing-Guangzhou, Beijing-Kowloon, Sanshui-Maoming, Pinghu-Nantou, Pinghu-Yantian, and Kowloon-Canton lines. Moreover, our railroad connects with the Huangpu and Xinsha ports in Guangzhou, and with the Yantian, Shekou, Chiwan and Mawan ports in Shenzhen. We are well equipped with various freight facilities and can effectively satisfy a wide range of different customer needs, including the transportation of whole and partial carload cargo, containers, and special and regular cargo.

On January 1, 2007, the passenger and freight business of the Guangzhou-Pingshi Railway came under our control. Following this acquisition, the operating railway distance of our Company expanded to 481.2 kilometers, running vertically through the whole Guangdong Province. In addition, by April 2007 we had substantially completed the construction of the fourth Guangzhou-Shenzhen Rail Line, or the Fourth Rail Line. The completion of the construction of the Fourth Rail Line will make Guangzhou-Shenzhen Railway the first wholly fenced high-speed railway with four parallel lines in the PRC that allows the high-speed passenger trains and regular speed passenger and freight trains to run on separate lines.

Our railroad system is currently one of the most modern railroads in the PRC. It is equipped with state-of-the-art equipment and facilities, including high-speed electric trains.

Several aspects of our technical performance have reached or are approaching international standards. Ours is one of the few rail lines in the PRC that operates high-speed passenger trains with speeds up to 200 kilometers per hour.

BACKGROUND AND RESTRUCTURING

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

In 1979, the Guangshen Railway Company, our predecessor, in conjunction with the KCR, was engaged in the joint operation of through train passenger services between Guangzhou and Hong Kong.

In 1984, to exploit the rapid growth in the Pearl River Delta, the Guangshen Railway Company, our predecessor, was formed pursuant to the approval of the State Council as a state-owned enterprise administered by the Guangzhou Railway Administration. At that time, Guangshen Railway Company had only a single-line railroad. Since then, large capital expenditures have been made to expand and upgrade its facilities and services. In 1987, construction of the second line was completed. In 1991, Guangshen Railway Company began the construction of a semi- high-speed rail line and purchased high-speed locomotives and 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 that was carried out to reorganize the railroad assets and related businesses of Guangshen Railway Company and certain of its subsidiaries. As part of the Restructuring, 2,904,250,000 state legal person shares, par value RMB1.00 per share, of Guangshen Railway were issued to GRGC, a state-owned enterprise under the MOR of the PRC.

Since April 1, 1996, we have been able to set our own prices for our high-speed train services and charge a premium over average national prices for our other passenger and freight train services. See "Item 4B. Business Overview - Regulatory Overview - Pricing" for a more detailed description of our pricing scheme.

We completed our initial public offering of class H ordinary shares, or H shares and our American depositary shares, or ADSs, in May 1996. In that offering, we issued a total of 1,431,300,000 H shares, par value RMB1.00 per share. Our H shares are listed for trading on the Stock Exchange of Hong Kong Limited and our American depositary shares, or ADSs, each representing 50 H shares, are listed for trading on the New York Stock Exchange. Our H shares or ADSs may not be purchased or owned by domestic investors in the PRC. In December 2006, we completed the initial public offering of our A shares. Our A shares (stock code: 601333) are listed for trading on the Shanghai Stock Exchange. After the A Share Offering, approximately

41% of our issued and outstanding shares are owned by GRGC, while institutional and public shareholders own approximately 59% of our issued and outstanding common shares, including A shares, H shares and ADSs.

GEDC, a state-owned enterprise established in the Restructuring in connection with our initial public offering, assumed the operations and assets of the Guangshen Railway Company that were not transferred to us in the Restructuring, such as employee housing, hospitals, schools and public security, and has been providing related services to us on a contractual basis since the 1996 Restructuring.

In March 2006, we conducted an organizational reform to streamline our organization and improve efficiency. Through this reform, we restructured, and reallocated the responsibilities of our administrative and functional departments and made the following departments the functional departments under the supervision of our general manager: the General Administrative Department, Business Management Center, Finance Department, Security Supervisory Department, General Service Center and Diversified Business Management Center. Our frontline production and operational departments were generally not affected by this Restructuring.

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

SERVICE TERRITORY

Our rail line traverses the Pearl River Delta, 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. It is currently one of the most affluent and fastest growing areas in China.

As of December 31, 2006, we had 18 stations situated on our rail line, providing passenger and freight transportation services for cities, towns and ports situated between Guangzhou and Shenzhen in the Guangzhou-Shenzhen corridor and Hong Kong (which we serve in conjunction with the KCR). In addition to our Hong Kong passenger through train services in conjunction with the KCR, we also allow Hong Kong-bound freight trains of KCR to use our Guangzhou-Shenzhen railroad.

The Guangzhou-Shenzhen 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. In Guangzhou, 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 KCR that runs to Kowloon, Hong Kong.

Westbound. Our line connects with the Guangzhou-Maoming rail line operated by Sanmao Railway Company, a joint venture railroad company of GRGC, the MOR and the Guangdong Provincial Railway Company 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 and freight transportation, which generated 96.4% of our total revenues and 103.6% of our total operating income in 2006.

In 2006, due to continuous and rapid growth in the PRC economy, the expansion of regional economic cooperation in the Pearl River Delta and its adjacent areas, the implementation of CEPA and the implementation of the "Relaxed Individual Travel" program for PRC tourists from the mainland to Hong Kong and Macau as well as the increasing integration along the Guangzhou-Shenzhen corridor, demand for passenger and freight transportation services in our service region continued to increase, which provided us with excellent development opportunities.

In 2006, we continued to optimize the operations of the Guangzhou-Shenzhen High Speed Passenger Trains and the Canton-Kowloon Through Trains and carried out a passenger flow connection scheme between long-distance trains in the Guangzhou area and Guangzhou-Shenzhen trains. We succeeded in implementing the IC Card Ticketing System and refurbished passenger stations for the convenience of passengers, and enhanced service quality to attract more passengers. In 2006, our total number of passengers was 51.9 million, representing an increase of 5.8% from 49.1 million in 2005.

In 2006, our total revenues were RMB3,594.5 million, representing an increase of 9.7% from RMB3,276.9 million in 2005. Our revenues from railroad passenger transportation service, freight transportation service and other businesses were RMB2,841.0 million, RMB624.8 million and RMB128.6 million, respectively, accounting for approximately 79.0%, 17.4% and 3.6%, respectively, of our total revenues in 2006. In 2006, our profit attributable to shareholders was RMB771.5 million, representing an increase of 19.2% from RMB647.0 million in 2005.

The table below summarizes our railroad transportation revenues and traffic volume in each of the five years ended December 31, 2002, 2003, 2004, 2005 and 2006:

	YEAR ENDED DECEMBER 31,				
	2002	2003	2004	2005	
PASSENGER TRANSPORTATION					
Total passenger revenues (RMB millions).........	1,903.78	1,790.20	2,259.67	2,511.16	2,
Total passengers (millions)....................	39.78	37.86	46.01	49.06	
Revenues per passenger (RMB)(1)................	47.86	47.28	49.11	51.19	
Total passenger-kilometers (millions)..........	3,453.20	3,295.50	4,200.20	4,539.10	4,
Revenues per passenger-kilometer (RMB)(2).......	0.55	0.54	0.54	0.55	
FREIGHT TRANSPORTATION					
Total freight revenues (RMB millions)..........	530.78	526.38	611.81	588.31	6
Total freight tonnes (millions)................	27.58	27.58	34.20	31.89	
Revenues per tonne (RMB)(3)....................	19.25	19.08	17.89	18.45	
Total tonne-kilometers (millions)..............	1,926.00	1,978.90	2,489.50	2,294.80	2,
Revenues per tonne-kilometer (RMB)(4)..........	0.28	0.27	0.25	0.26	

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(1) Revenues per passenger is calculated by dividing total passenger revenue by total passengers. Management believes that revenues per passenger is a useful measure for assessing the revenue levels of our passenger transportation business.

(2) Revenues per passenger-kilometer is calculated by dividing total passenger revenue by total passenger-kilometers. Management believes that revenues per passenger is a useful measure for assessing the revenue levels of our passenger transportation business.

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

(4) Revenues per tonne-kilometer is calculated by dividing total freight revenue by total tonne-kilometers. Management believes that revenues per tonne-kilometer is a useful measure for assessing the revenue levels of our freight transportation business.

In 2006, we consolidated our businesses other than passenger and freight transportation and disposed part of these businesses. Revenue from our other businesses was RMB128.6 million in 2006, representing a decrease of 27.5% from RMB177.5 million in 2005.

In December 2006, we completed our initial public offering of A shares. The proceeds raised from the A Share Offering are intended to be used for the acquisition of the operating assets of Guangzhou-Pingshi railway from Yangcheng Railway Company. See "ITEM 5. Operating and Financial Review and Prospects--Overview--A Share Offering, Very Substantial Acquisition and Continuing Related Party Transactions" for additional information. In addition, we succeeded in introducing a new type of domestically manufactured electric train

sets known as the "Concord". We expect to complete the construction of the Fourth Rail Line by the end of 2007.

PASSENGER TRANSPORTATION

Passenger transportation is our largest business segment, and accounted for 79.0% of our total revenues, and 82.0% of our railroad transportation revenues, in 2006. Our passenger train services can be categorized as follows:

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

- through trains between Hong Kong and Guangzhou; and

- domestic long-distance trains.

As of December 31, 2006, we operated 123 pairs of passenger trains per day (each pair of trains meaning trains making one round-trip between two points) of which:

- 67 pairs were high-speed express passenger trains operating between Guangzhou and Shenzhen (ten of which are standby, which means that such trains will only operate during public holidays and peak periods);

- two pairs were regular-speed passenger trains operating between Guangzhou and Shenzhen;

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

- 41 pairs were domestic long-distance passenger trains (including four pairs of long-distance passenger trains operated by us between Shenzhen and Yueyang, between Shenzhen and Beijing, between Shenzhen and Shanghai and between Shenzhen and Shaoguan, respectively, and 37 pairs of domestic long-distance trains, operated by other operators but originating or terminating on, or passing through, our Guangzhou-Shenzhen railroad).

The table below sets out passenger revenues and volumes for our Hong Kong Through Trains and domestic trains in each of 2004, 2005 and 2006:

	PASSENGER REVENUES	PASSENGER VOLUME	REVENUE PER

	2004	2005	2006	2004	2005	2006	2004	20
	(RMB MILLIONS)			(MILLIONS)			(RMB MI	
Guangzhou-Shenzhen Trains.......	1,152.5	1,219.8	1,341.7	20.3	21.5	22.2	56.9	56
Hong Kong Through Trains........	436.9	457.7	454.2	2.9	3.1	3.2	151.2	149
Long-distance Trains............	670.3	833.7	1,045.2	22.9	24.5	26.5	29.3	34
Combined passenger operations...	2,259.7	2,511.2	2,841.0	46.1	49.1	51.9	49.1	51

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Guangzhou-Shenzhen Trains. In 2006, our passenger transportation services on the trains between Guangzhou and Shenzhen contributed most to our railroad passenger transportation revenues.

We classify our services on Guangzhou-Shenzhen Trains into high-speed train services and regular-speed train services based on the speed of the train. Our train fares are determined on the basis of the types of services and the transportation distance. As of December 31, 2006, we operated, on average, a total of 67 pairs of inter-city high-speed passenger trains between Guangzhou and Shenzhen daily (including 10 standby trains). Our high-speed trains are capable of running at 160 to 200 kilometers per hour.

The number of passengers traveling on our Guangzhou-Shenzhen trains increased by 3.3% from 21.5 million in 2005 to 22.2 million in 2006. The number of passengers traveling on our high-speed passenger trains between Guangzhou and Shenzhen increased by 5.4% from 21.1 million in 2005 to 22.2 million in 2006, while the number of passengers traveling on our regular-speed passenger trains between Guangzhou and Shenzhen decreased by 96.2% from 0.445 million in 2005 to 0.017 million in 2006. The decrease of the passengers for the regular-speed passenger trains was primarily due to our strategic shift to more high-speed passenger trains between Guangzhou and Shenzhen. The revenues from our Guangzhou-Shenzhen trains increased by 10.0% from RMB1,219.8 million in 2005 to RMB1,341.7 million in 2006. The increase in business volume of Guangzhou-Shenzhen trains was mainly due to: (1) the strong economic growth in the Pearl River Delta, which resulted in the upward flows of business persons, tourists and workers; (2) the vigorous optimization of transportation organization, the increase in the frequency of trains and the introduction of IC Card Ticketing System for the convenience of passengers; (3) the gradual improvement of the metro systems in Guangzhou and Shenzhen, which boosted the railway passenger volume and (4) the promotion of our passenger transportation service, enhancement in service quality and the improvement of boarding environment for passengers.

Through Trains. We currently operate jointly with the KCR 11 pairs of high-speed through trains between Hong Kong and Guangzhou. We provide the trains and personnel for eight pairs of these train services, while KCR provides for three pairs. The through train services beyond Guangzhou to Foshan, Zhaoqing, Beijing and Shanghai are provided by GRGC and Shanghai Railway Administration. Revenues from these through trains on the Guangzhou-Hong Kong section are shared between KCR and us, in proportion to our track mileage for the through train services, with 81.2% accruing to us and 18.8% to KCR. In addition, we share all related costs with KCR at the same rate for the through train services.

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

In 2006, approximately 3.2 million passengers traveled on the Hong Kong Through Trains, representing an increase of 4.6% from approximately 3.1 million in 2005. Despite the increase of passengers, our revenue from the operation of the Hong Kong Through Trains for

2006 was RMB454.2 million, representing a 0.8% decrease from RMB457.7 million for 2005. The decrease in revenue of Hong Kong Through Trains was mainly due to the fact that the ticket price of Hong Kong Through Trains is denominated in HK dollars and the exchange rate of HK dollars to RMB decreased by 3.6% in 2006.

Domestic Long-distance Trains. As of December 31, 2006, we operated on a daily basis 41 pairs of domestic long-distance passenger trains on our rail line to cities in Guangdong, Hunan, Hubei, Jiangxi, Anhui, Jiangsu, Liaoning, Shanxi, Fujian, Heilongjiang, Jilin, Zhejiang, Hebei, Henan, Shandong Provinces and Guangxi Autonomous Region as well as cities to the North, such as Shanghai, Beijing and Tianjin. In 2006, the number of passengers traveling on our long-distance trains were 26.5 million, representing an increase of 8.2% from 24.5 million in 2005. Revenues from our long-distance trains increased by 25.4% from RMB833.7 million in 2005 to RMB1,045.2 million in 2006. The increase in business volume of the long-distance trains was mainly due to: (1) the continuing increase in the number of business travelers and workers from the mainland as a result of the continuous and rapid economic growth in the Pearl River Delta; (2) in addition to the large-scale operation of temporary passenger trains during the Spring Festival holiday, long-distance trains from Shenzhen to Shanghai started operations in January 2006 and the operation of Shenzhen-Shaoguan trains was handed over to us in May 2006 and (3) the Shenzhen-Ji'an trains and Shenzhen-Taizhou trains that commenced operation in July 2005 were in full operation throughout 2006.

MAJOR STATIONS. The following are the major train stations owned and operated by us as of December 31, 2006:

Guangzhou East Station. Our Guangzhou East Station services our train services between Guangzhou and Shenzhen and between Guangzhou and Hong Kong and provides a hub for long-distance trains to different locations within China. Our Guangzhou East Station is connected to Lines 1 and 3 of the Guangzhou municipal subway. As of December 31, 2006, the Guangzhou East Station handled on a daily basis 12 pairs of Hong Kong Through Trains, 67 pairs of Guangzhou-Shenzhen trains, 14 pairs of long-distance passenger trains between the Guangzhou East Station and other locations in China, including Beijing, Shanghai, Jiujiang, Shantou, Hefei, Taiyuan, Nanchang, Yingtan, Harbin, Yichang, Hankou, Qingdao, Xiamen, Shenyang and Xiamen, and 5 pairs of passenger trains passing through the Guangzhou East Station. In 2006, the number of passengers traveling from Guangdong East Station was 13.2 million, while the number of passengers arriving at Guangdong East Station was 11.5 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, 2006, this station handled on a daily basis the transfer service for seven pairs of domestic long-distance passenger trains, 30 pairs of Guangzhou-Shenzhen high-speed passenger trains and 8.5 pairs of through trains.

In 2006, the number of passengers traveling from Dongguan Station was 3.062 million, while the number of passengers arriving at Dongguan Station was 3.426 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, 2006, our Shenzhen Station handled on a daily basis 66 pairs of Guangzhou-Shenzhen passenger trains (including seven backup pairs) and 20 pairs of domestic long-distance passenger trains between Shenzhen and other locations in China, including Beijing, Changsha, Shaoguan, Wuchang, Meizhou, Shantou, Maoming East, Zhengzhou, Fuzhou, Hankou, Shenyang, Huaihua, Jiujiang, Yueyang, Guilin, Ji'an, Shanghai and Taizhou. In 2006, the number of passengers traveling from Shenzhen Station was 14.8 million, while the number of passengers arriving at Shenzhen Station was 15.0 million.

FREIGHT TRANSPORTATION

Revenue from our freight transportation accounted for 17.4% of our total revenues and 18.0% of our railroad transportation revenues in 2006. Our principal market for freight is domestic long-haul freight, originating and/or terminating outside the Guangzhou-Shenzhen corridor.

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

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

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

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

The total tonnage of freight we transported in 2006 was 30.7 million tonnes, representing a decrease of 3.7% from 31.9 million tonnes in 2005. Revenues from freight transportation business in 2006 were RMB624.8 million, representing an increase of 6.2% from RMB588.3 million in 2005. This increase, despite the decrease of total tonnage transported, is primarily due to the increase of the tariff for freight transportation initiated by the MOR in 2006 and the subsequent increase of our freight tariff. Our outbound freight revenues increased by 3.9% in 2006 and our inbound freight revenues increased by 7.6% in 2006.

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

Freight Composition. We transport a broad range of goods, which can generally be classified as follows: construction materials, energy products, food products, chemicals, manufactured goods, containers and other goods. The majority of our inbound freight consists of raw materials and essential production materials for manufacturing, industrial and construction

activities, while the majority of our outbound freight consists of imported mineral ores as well as coal and goods produced or processed within our service territory, for customers throughout China and abroad.

The following table shows the composition of our freight volume by percentage for the three years ended December 31, 2004, 2005 and 2006 (based on tonnes transported):

	OUTBOUND FREIGHT			INBOUND (AND PASS-THROUGH) FREIGHT		
	2004	2005	2006	2004	2005	2006
	AS A PERCENTAGE OF TOTAL OUTBOUND FREIGHT			AS A PERCENTAGE OF TOTAL INBOUND (AND PASS-THROUGH) FREIGHT		
Construction materials.......	23%	24.4%	21.8%	44%	37.8%	42.8%
Energy products..............	50%	50.6%	53.2%	12%	10.9%	8.4%
Food products................	5%	3.0%	2.8%	20%	19.9%	18.7%
Chemicals....................	4%	3.5%	4.2%	10%	9.9%	12.4%
Manufactured goods...........	2%	1.5%	1.2%	3%	3.1%	2.8%
Containers...................	12%	11.4%	11.9%	8%	10.1%	11.1%
Other goods..................	4%	5.6%	4.9%	3%	8.3%	3.8%
Total........................	100%	100%	100%	100%	100%	100%

Freight Yards, Container Yards and Warehouses. We own freight yards, container yards and warehouses, most of which are located at our Shenzhen North, Xiayuan, Huangpu, Zhangmutou, Dongguan, Shipai, Jishan, Pinghu South and Guangzhou East Stations. In 2006, of the freight yards that we own and operate, Xiayuan Station handled freight amounting to approximately 5.5 million tonnes. In 2006, revenues from the operation of our warehouses (including loading and unloading charges) and miscellaneous items amounted to RMB148.5 million, which accounted for 23.8% of our freight revenues in 2006.

OTHER BUSINESSES

We engage in other businesses principally related to our railroad transportation business. Revenue from our other businesses accounted for 3.6% of our total revenues in 2006. Our other businesses include:

- sales of food, beverages, newspapers, magazines and other merchandise aboard our trains and in our stations;

- services in our stations, including operating restaurants, operating a travel agency and a hotel in our Shenzhen Station, providing kiosks and advertising boards in our stations for commercial advertising and leasing space to independent retailers; and

- other businesses, principally railroad-related construction.

Revenues from our other businesses in 2006 were RMB128.6 million, representing a decrease of 27.5% from RMB177.5 million in 2005. The substantial decrease in revenues from other businesses was due to our disposal of some of our other businesses in 2006.

The table below sets out the revenues for our other businesses, by categories of activity, in each of 2004, 2005 and 2006:

	REVENUES			AS A PERCENTAGE OF TOTAL REVENUES FROM OTHER BUSINESSES		
	2004	2005	2006	2004	2005	2006
	(RMB MILLIONS)					
On-board and station sales	48.5	29.2	33.8	29%	16.5%	26.3%
Station services	45.2	39.4	29.8	27%	22.1%	23.2%
Tourism, advertising and others ...	73.0	108.9	64.9	44%	61.4%	50.5%
Total	166.7	177.5	128.6	100%	100%	100%

SEASONALITY OF OUR RAILWAY TRANSPORTATION BUSINESS

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

SALES

PASSENGER TRANSPORTATION

Our passenger tickets are currently sold primarily at ticket counters located in our train stations. Additionally, our tickets are sold in Hong Kong and major cities in the Guangdong Province through ticket agents, travel agents and hotels, at our usual prices plus nominal commissions. Substantially all of our tickets are sold in cash.

Hong Kong Through Train tickets are sold in Guangdong Province through our own ticket outlets, as well as through various hotels and travel agents. In Hong Kong, these tickets are sold exclusively by the KCR. As KCR's sales network for these tickets is relatively limited, KCR has engaged the China Travel Service (HK) Ltd., or CTS, as the primary agent for such sales on a non-exclusive basis. In 2003, we established an online ticket sales system with KCR for the Hong Kong Through Trains.

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

The current settlement method stipulated by the MOR for passenger transportation provides that all revenues from passenger train services (including revenues generated from luggage and parcel services) are considered passenger transportation revenues and belong to the railway administration that operates that train. The railway administration in turn pays other railway administrations the fees for the use of their rail lines, hauling services, in-station passenger services, water supply, electricity for electric locomotives and contact wire use fees, etc. Under this settlement method, the railway administrations operating the long-distance train services are required to pay us the following fees: (1) the portion of the revenues from the sale of

tickets that are higher than the PRC national railway standards due to our special pricing standards; and (2) other fees including those for railroad line usage, in-station passenger service, haulage service, power supply for electric locomotives, usage fees of contact wires and water supply. This settlement method does not apply to the settlement of our revenues from the passenger trains between Guangzhou and Shenzhen, between Beijing and Hong Kong, between Shanghai and Hong Kong, between Zhaoqing and Hong Kong and the Hong Kong Through Trains. See "-Regulatory Overview-Pricing"

FREIGHT TRANSPORTATION

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

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

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

In January 2005, the MOR modified the settlement method on the income from railway freight transportation. Pursuant to the new settlement methods, starting from January 1, 2005, all freight transportation fees relating to post parcels and luggage, containers and special goods shall be collected by Zhongtie Parcels Courier Company Limited, Zhongtie Container Transportation Company Limited and Zhongtie Special Goods Transportation Company Limited, or collectively the Professional Transportation Companies. The Professional Transportation Companies shall pay railway usage fees to relevant railway administration and companies, including us. Prior to January 1, 2005, we charged freight transportation fees for these post parcels and luggage based on the categories of goods and distance of transportation; while after January 1, 2005, we collect railway usage fees from the Professional Transportation Companies. In order to make itemized revenue from freight match freight volume, and remain comparable with previous years, these railway usage fees have been recorded, as appropriate, as revenues generated from freight dispatch, as well as freight reception and transit, based on the freight dispatched or received and transited. The modifications in the settlement method have not had a material effect on our revenues from freight transportation.

COMPETITION

We are the sole railway service provider on the Guangzhou-Shenzhen corridor; therefore,

we do not face any direct competition from other railway service providers within our service territory. However, in areas where our railroad connects with lines of other railway companies, such as in the Guangzhou area, where our railroad connects with the Beijing-Guangzhou Line, and in the Dongguan area, where our railroad connects with the Guangzhou-Meizhou-Shantou Line, we face competition from the railway companies operating in these areas. We also face competition from the providers of a variety of other means of transportation within our service territory.

With respect to passenger transportation, we face competition from bus services, which are available between Guangzhou and Hong Kong and between Guangzhou and Shenzhen. Bus fares are lower than the fares for our high-speed passenger train services. Furthermore, buses can offer added convenience to passengers by departing from or arriving at locations outside their central terminals, such as hotels. However, train services generally offer greater speed, safety and reliability than bus services. In addition, since the implementation of our "As-Frequent-As-Buses" Train Project in October 2001, our high-speed train services and through train services have enabled us to compete more effectively with bus operators in terms of speed and frequency. We also compete to a lesser extent with commercial air passenger transportation services and ferry services operating between Guangzhou and Hong Kong.

With respect to freight transportation, we face increasing competition from truck transportation in the medium- and short-distance freight transportation market as the expressway and highway networks in our service region and neighboring areas have increasingly improved. By comparison, in the long-distance freight transportation market, especially in the areas where water transportation is not well developed, we offer many advantages compared to truck transportation due to the higher cost of truck transportation, susceptibility of truck transportation to traffic conditions and a scarcity of heavy duty trucks. Our freight transportation also competes with water transportation as the waterway networks have increasingly improved. Supported by its more extensive network, railway freight transportation is more competitive in terms of speed and safety compared to water transportation, especially in those areas that are far from coasts and main waterways. As air freight is very expensive and attracts a different group of customers, we consider that we do not 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, 2006, we owned 12 diesel high-speed locomotives, five high-speed electric locomotives, 18 shunting locomotives, one high-speed electric passenger train, 147 semi-high-speed passenger coaches, 41 regular-speed passenger coaches and 112 long-distance express passenger train coaches. We also leased eight "Blue Arrow" high-speed electric train-sets from Guangzhou Zhongche Railway Rolling Stock Sales and Services Company Limited, or Guangzhou Zhongche.

The freight cars we use are all leased from the MOR, to which we pay uniform rental fees and depreciation fees based on the national standards set by the MOR. The amounts of such usage fees and depreciation charges we paid to the MOR in 2004, 2005 and 2006 were approximately RMB65.5 million, RMB50.8 million and RMB40.8 million, respectively.

From September 2000, we began to lease eight "Blue Arrow" high-speed electric train-sets from Guangzhou Zhongche to facilitate the development of our "As-Frequent-As-Buses" Train Project. We paid the lessor RMB103.2 million, RMB99.6 million and RMB106.6 million in 2004, 2005 and 2006, respectively, under the lease. We have various lease agreements for different train-sets expired between June 2006 and December 2006. We entered into an agreement for the purchase of twenty sets of Electric Multiple Units trains, or the EMUs, on August 9, 2005 with Bombardier Sifang Power (Qingdao) Transportation Ltd and Bombardier Sweden Transportation Ltd. These 20 sets of EMUs were originally scheduled to be delivered to us in the second half of 2007 to be used in the operation of the Guangzhou-Shenzhen high-speed passenger trains. Ten of them were delivered to us earlier than expected, which permitted us to start operations in April 2007, which are known as the "Concord". Each EMU has the speed of 200 km/h and we believe that the introduction of EMUs will strengthen our capability to deliver "safety, speed, comfort and quality" in transport services and increase our efficiency and competitiveness. Given that it was anticipated that the EMUs would be delivered to us at later times in 2007, we renewed the lease agreement for another year with Guangzhou Zhongche on June 22, 2006. The total rent for the eight Blue Arrows is RMB8.99 million per month. The term of renewal is 12 months and the rent is settled monthly.

Our repair and maintenance facility, located near our Shipai passenger vehicle maintenance facility near Guangzhou East Station, provides services for the high-speed passenger coaches and locomotives we own or lease. This facility currently performs general maintenance and routine repairs on our equipment. Major repairs and overhauls are performed by manufacturers or qualified railway administrations or plants.

We believe that our existing tracks and equipment meet the needs of our current business and operations. Most of the rails and ties on our main lines have been installed within the last nine years, and are maintained and upgraded on an ongoing basis as required. In 2003, we replaced a whole section of steel rail amounting to 38 kilometers, 29 sets of wooden moveable center switches with 23 sets of cement moveable center switches, 1,042 meters of separate steel bars and 1,926 pieces of separate wooden crossties to sustain safety and stability of our railway. In 2004, we replaced 77 kilometers of worn-out tracks and upgraded 88 kilometers of electrified catenary network. In addition to that, we upgraded some power projects in the Shenzhen North Station to accommodate changes to our train routes and speed acceleration projects. In 2005, we replaced 23,203 pieces of various types of ties, 2.45 kilometers of high-speed wire rod rail, 566 pieces of mainline rails and receiving and dispatching rail, 344 sets of receiving and dispatching center switches and 1.56 kilometers of signal cable.

In addition, we also screened certain ballast beds. In 2006 and early 2007, as part of our Fourth Rail Line construction, we made improvement to 24.6 kilometers of railroad.

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

In 2007, we continued the construction of the Fourth Rail Line. By April 18, 2007, we had substantially completed the construction. The completion of the construction will allow the high-speed passenger trains and regular speed passenger and freight trains to run on separate lines, thus improving the transportation capacity of high-speed passenger trains, domestic long-distance trains and freight trains.

SUPPLIERS AND SERVICE PROVIDERS

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

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

Under the Rules Governing the Listing of Securities on the Hong Kong Exchange, or the HKSE Listing Rules, transactions between us and our connected persons constitute connected transactions and such transactions are normally subject to reporting, announcement and/or shareholders' approval unless otherwise waived by the Stock Exchange of Hong Kong. Under certain waivers granted by the Stock Exchange of Hong Kong in connection with our original listing of H shares in May 1996, our independent non-executive directors review and certify annually that these contracts are entered into on normal commercial terms that are fair and reasonable to us. The above transactions are exempted from the strict compliance of the requirements under the HKSE Listing Rules in relation to connected transactions, subject to certain conditions set forth in the waiver letter issued by the Stock Exchange of Hong Kong. On January 13, 2006, we entered into a provisional comprehensive services agreement with GRGC, or the GRGC Provisional Comprehensive Services Agreement, and a comprehensive services agreement with GEDC, or the GEDC Comprehensive Service Agreements, both of which became effective on March 3, 2006 after being approved by our shareholders' general meeting.

On April 19, 2007, we and GEDC entered into a supplemental agreement to the GEDC Comprehensive Services Agreement that shortened the term of the GEDC Comprehensive Services Agreement to December 31, 2007 and increased the annual cap on related party transactions from RMB76.4 million to RMB139.7 million.

In 2006, the total amount of the payments we made to GRGC and its subsidiaries accounted for 15% of our railroad business operating costs for the year. In addition, project management fee of RMB9.3 million was paid to GRGC for managing the construction of the Fourth Rail Line. See "Item 7B. Related Party Transactions."

The electricity we use, including electricity used for our lines, is supplied through various entities under the jurisdiction of the Guangdong provincial power bureau on normal commercial terms. In 2005 and 2006, we paid approximately RMB125.5 million and RMB130.7 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 2006.

REGULATORY OVERVIEW

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

NATIONAL RAILWAY SYSTEM

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

Prior to March 18, 2005, the MOR divided the national railway system into 15 regions, each overseen and operated by a separate railway administration, or group companies. Ten of these 15 administrations were further subdivided on a geographical basis into 41 railway sub-administrations, or general companies. On March 18, 2005, the MOR issued a notice under which all general companies were dissolved and three new group companies were established.

As a result, the number of group companies increased to 18. Group companies are directly responsible for passenger and freight transportation as well as the coordination and supervision of operations carried out by train stations.

TRANSPORT OPERATIONS

The transport operations of the PRC national railway system are organized under the centralized control and management of the MOR. In order to promote efficient utilization of the railroad network nationwide, the MOR directly manages and coordinates traffic flow on national trunk lines and through any connection points, where two rail lines operated by different companies connect to each other, in the system. Based on route capacity, available equipment and national priorities, the MOR allocates to the 18 group companies authority to make routings on trunk lines, allocates numbers and types of freight cars to the group companies and specifies requirements to dispatch empty freight cars to designated locations in order to facilitate freight car circulation within the national railway system. Within the allocations set by the MOR, each group company and administration manages and coordinates traffic within its own jurisdiction.

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

Since March 1996, the MOR and GRGC have provided us with substantially greater latitude in our transportation operations. In particular, we were granted sufficient autonomy over passenger services on our own line, including autonomy over speed, frequency and train car mix. Pursuant to this authority, we have implemented a strategy of scheduling more high-speed trains, running shorter passenger trains more frequently, and adjusting the train schedules on our line to meet passenger demand. On October 21, 2001, we successfully launched our "As-Frequent-As-Buses" Train Project, which provides intercity express train services. As of December 31, 2006, the total number of intercity express trains running daily between Guangzhou and Shenzhen was 67 pairs including ten standby trains. We currently have 41 pairs of long-distance trains and 13 pairs of through trains.

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

PRICING

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

Pursuant to relevant approvals from the MOR and other relevant PRC government authorities, we have broad discretion to adjust and determine our service price. With respect to our freight transportation services within our own lines, we may set our prices within a range between 50% to 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% to 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 KCR, our business partner and the prices for our Hong Kong Through Trains are higher than the prices we charge for our domestic train services.

ENVIRONMENTAL PROTECTION

We believe that we are in material compliance with all applicable PRC national and local environmental protection laws and regulations. We have not been fined or cited for any activities that have caused environmental damages. We have six wastewater treatment facilities used for purposes of treating wastewater generated from cleaning of special cargo freight cars, locomotives, coaches and from residential use of our employees. We pay regular fees to local authorities for the discharge of waste substances. In 2006, our environmental protection-related expenses were approximately RMB1.1 million as compared to RMB1.7 million in 2005.

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 RMB60,000/person, including transportation business liability compensation amounting to RMB40,000/person. 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 RMB15 for each kilogram of damaged or lost baggage and/or parcels. Similarly, freight transport customers who elect not to purchase insurance may recover up to RMB2,000 for each tonne of damaged or lost freight if insured by weight.

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

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clean-up, we will have to cover losses and damages out of our own pockets. See "Item 3D. Risk Factor - Risks Relating to Our Business - we have very limited insurance coverage".

We maintain retirement insurances and medical insurances for our employees in accordance with applicable insurance laws and regulations in Guangzhou and Shenzhen, as applicable. In addition, we have taken out work-related personal injury insurance policies and child-bearing insurance for our