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GUANGSHEN RAILWAY CO LTD  
Form 20-F  
June 28, 2005

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 28, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
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FORM 20-F

(Mark One)

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

or

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

For the fiscal year ended December 31, 2004

or

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

For the transition period from to

COMMISSION FILE NUMBER: 1-14362  
-----

[COMPANY NAME IN CHINESE]

(Exact name of Registrant as specified in its charter)

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

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

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

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

TITLE OF EACH CLASS  
-----

NAME OF EACH EXCHANGE ON WHICH LISTED  
-----

American Depositary Shares, each  
representing 50 Class H ordinary shares

New York Stock Exchange, Inc.

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Class H ordinary shares, nominal value  
RMB 1.00 per share

The Stock Exchange of Hong Kong Limited

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

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

Indicate the number of outstanding shares of each of the Registrant's classes of  
capital or common stock as of December 31, 2004:

Domestic shares, par value RMB1.00 per share .....  
H shares, par value RMB1.00 per share .....  
(including 243,129,050 H shares in the form of American Depositary Shares)

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

Yes  No

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

Item 17  Item 18

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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 reoccurrence of the Severe Acute Respiratory Syndrome epidemic 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 3E. 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 RMB8.30 to US\$1.00, which was the noon buying rate in the New York City for cable transfers in renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2004, 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 Data -- Exchange Rate Information" for information regarding the noon buying rates for U.S. dollar/renminbi conversions from January 1, 2000 through June 17, 2005.

We prepare and publish our consolidated financial statements in renminbi.

Various amounts and percentages set out in this document have been rounded and, accordingly, are not the exact figures and may not total.

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.

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

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- "GRGC" or "Parent Company" means Guangzhou Railway (Group) Company, our parent company.
- "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 our Parent Company.
- "ton" means metric ton; and one ton is approximately 2,205 pounds in weight.
- "Yangcheng Railway Company" means Guangzhou Railway Group Yangcheng Railway Company, a wholly-owned subsidiary of our Parent Company.

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### PART I

#### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

#### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

#### ITEM 3. KEY INFORMATION

##### ITEM 3A. SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated data relating to our consolidated balance sheets as of December 31, 2003 and 2004, and our consolidated statements of income, changes in equity and cash flows for each of the years ended December 31, 2002, 2003 and 2004 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, 2000, 2001 and 2002, and our consolidated statements of income, changes in equity and cash flows for each of the years ended December 31, 2000 and 2001 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

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accordance with International Financial Reporting Standards, or IFRS, and the information set forth below under "US GAAP data" have been reconciled to generally accepted accounting principles in the United States, or US GAAP, 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 31 to our audited consolidated financial statements included elsewhere in this annual report.

	YEAR ENDED DECEMBER 31,				
	2000	2001	2002	2003	2004
	RMB	RMB	RMB	RMB	RMB
	(IN THOUSANDS EXCEPT FOR PER SHARE DATA)				
<b>IFRS INCOME STATEMENT DATA:</b>					
Revenues(2) from railroad businesses					
- Passenger.....	1,278,213	1,471,895	1,903,782	1,790,204	2,200,000
- Freight.....	567,176	585,616	530,776	526,382	600,000
Subtotal.....	1,845,389	2,057,511	2,434,558	2,316,586	2,800,000
Revenues(2) from other businesses.....	198,352	167,064	166,266	151,596	100,000
Total revenues(2).....	2,043,741	2,224,575	2,600,824	2,468,182	3,000,000
Railroad operating expenses.....	(1,355,870)	(1,524,854)	(1,809,215)	(1,755,855)	(2,200,000)
Other businesses operating expenses...	(168,466)	(145,610)	(169,112)	(149,614)	(100,000)
Profit from operations.....	519,405	554,111	622,497	562,713	600,000
Net profit.....	492,089	533,495	557,083	511,762	500,000
Earnings per share.....	0.11	0.12	0.13	0.12	0.12
Dividends declared per share.....	0.12	0.10	0.10	0.10	0.10
Earnings per ADS .....	5.68	6.15	6.42	5.90	5.90
Diluted net income per share .....	-	-	-	-	-

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	YEAR ENDED DECEMBER 31,				
	2000	2001	2002	2003	2004
	RMB	RMB	RMB	RMB	RMB
	(IN THOUSANDS EXCEPT FOR PER SHARE DATA)				
<b>IFRS BALANCE SHEET DATA (AT PERIOD END):</b>					
Working capital (excluding due from and due to Parent Company).....	1,463,073	1,581,054	1,592,040	1,935,979	2,000,000
Due from Parent Company.....	80,604	29,499	39,374	-	-
Due to Parent Company.....	-	-	-	37,230	200,000
Fixed assets.....	7,074,907	7,031,040	6,798,280	6,952,878	6,900,000
Leasehold land payments.....	695,231	673,746	656,998	652,083	600,000
Total assets.....	10,917,564	10,997,216	11,257,594	11,073,953	11,400,000
Equity.....	10,020,683	10,120,623	10,244,151	10,322,358	10,400,000

Share capital, issued and outstanding,

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RMB1.00 per value,					
domestic shares - 2,904,250,000...	2,904,250	2,904,250	2,904,250	2,904,250	2,904,250
H shares - 1,431,300,000.....	1,431,300	1,431,300	1,431,300	1,431,300	1,431,300
 IFRS CASH FLOW STATEMENT DATA:					
Net cash provided by operating activities.....	729,189	886,016	1,157,177	798,449	1,200,000
Net cash provided by/(used in) investing activities.....	(458,087)	(430,425)	251,003	(375,469)	(1,000,000)
Net cash provided by/(used in) financing activities.....	(520,453)	(420,137)	(360,643)	(433,666)	(4,000,000)
Purchase of fixed assets and payment for construction-in-progress.....	564,759	551,508	553,337	339,208	3,000,000
Dividends paid to shareholders of the Company.....	520,266	419,957	356,490	433,561	4,000,000
 OTHER IFRS DATA:					
Railroad transportation operating income.....	489,519	532,657	625,343	560,731	6,000,000
Other businesses operating income.....	29,886	21,454	(2,846)	1,982	2,000,000
 CERTAIN US GAAP DATA					
Operating income.....	519,405	554,111	622,497	562,713	6,000,000
Net income.....	533,248	574,654	598,242	544,528	6,000,000
Earnings per share(3).....	0.12	0.13	0.14	0.13	0.13
Earnings per ADS.....	6.15	6.63	6.90	6.28	6.28
Equity.....	8,951,259	9,092,358	9,257,045	9,368,018	9,400,000
Fixed assets.....	5,816,762	5,821,317	5,636,979	5,830,125	5,800,000

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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 the noon buying rate on December 31, 2004 of US\$1.00 = RMB8.30. No representation is made that the RMB amounts could have been, or could be, converted into US dollars at that rate on December 31, 2004 or on any other date.

(2) To better conform to "International Accounting Standards (IAS) 18 -- Revenue", our revenues stated in this annual report are stated before the deduction of business tax, although our revenues as presented in previously filed annual reports were stated after the deduction of business tax.

(3) The calculation of earnings per share is based on the net profit for the period attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year.

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 RMB8.30 = US\$1.00, the noon buying rate in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2004. 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 RMB 8.30 = US\$1.00 on June 17, 2005.

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

PERIOD -----	NOON BUYING RATE	
	AVERAGE (1) -----	HIGH -----
	(RENMINBI PER U.S. DOLLAR)	
2000.....	8.2784	8.2799
2001.....	8.2770	8.2786
2002.....	8.2766	8.2800
2003.....	8.2771	8.2800
2004.....	8.2768	8.2774
January 2005.....	8.2765	8.2765
February 2005.....	8.2765	8.2765
March 2005.....	8.2765	8.2765
April 2005.....	8.2765	8.2765
May 2005.....	8.2765	8.2765
June 2005 (through June17).....	8.2765	8.2765

(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

On March 17, 2005, our board of directors approved a final dividend of RMB0.11 per share to our shareholders for the year ended December 31, 2004.

In accordance with our articles of associations, 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 will be 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. Dividends paid on our H shares for the year ended December 31, 2004 were converted at a rate of RMB1.00 = HK\$0.94.

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

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Our passenger and freight transportation businesses face intense competition from other means of road, air and water transportation. In our passenger transportation business, we

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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 compete for freight business with truck operators, shipping companies and airline companies on the basis of price, reliability, capacity, convenience, frequency of service, 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 operations, we may lose the monopoly status we currently enjoy in our service territory. Furthermore, the completion of the Wuhan-Guangzhou express railway, which is under construction, and the proposed high-speed Guangzhou-Shenzhen-Hong Kong express railway, 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, WILL 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, will 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 will adversely affect our freight transportation business.

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

Historically, our freight transportation revenue was derived mainly from the transportation of high-volume products, such as coal, iron ore, oil and steel, in which our railroad transportation services have an advantage over road transportation services, such as truck operators. As infrastructure and technology in the PRC improves, there is an increasing demand for more advanced technological products, such as computer components, which tend to be smaller and lighter. As many new technology products are compact and can be shipped by

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road or air, we face significant competition in the transportation of such low-volume, high-value

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products. Changes in freight composition will affect the usage volume and pricing of our freight transportation services and may 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.

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 were 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.

WE ARE CONTROLLED BY GUANGZHOU RAILWAY (GROUP) COMPANY, WHICH HAS INTERESTS THAT MAY CONFLICT WITH THE BEST INTERESTS OF OUR OTHER SHAREHOLDERS.

Guangzhou Railway (Group) Company, or GRGC, owns approximately 67% of our issued share capital. This ownership percentage enables GRGC to elect our entire board of

directors without the concurrence of any of our other shareholders. Accordingly, GRGC is in a position to: (1) control our policies, management and affairs; (2) subject to applicable PRC laws and regulations and provisions of our articles of association, determine the timing and amount of dividend payments and adopt amendments to certain of the provisions of our articles of association; and (3) otherwise determine the outcome of most corporate actions and, subject to the requirements of the HKSE Listing Rules, cause us to effect corporate transactions without the approval of minority shareholders.

GRGC's interests may sometimes conflict with those of some or all of our minority shareholders. We cannot assure you that GRGC, as the controlling shareholder, will always vote its shares in a way that benefits our minority shareholders. In addition to its relationship with us as our controlling shareholder, GRGC by itself or through its affiliates, such as Yang Cheng Railway Company, GEDC, and Guang Mei Shan 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 to us may conflict with our interests. We have entered into service agreements, and our transactions with GRGC and its affiliates over the past three years have been conducted on open, fair and competitive commercial terms. However, we have only 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 our Parent Company and its subsidiaries.

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 nor 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 REGULATION.

Our railroad operations and real estate ownership are subject to extensive national and local environmental laws and regulations concerning, among other things, emissions to the air, discharges to waters, disposal of 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 any violation of applicable environmental law and regulation.

RISKS RELATING TO OUR PROPOSED ACQUISITION AND A SHARE ISSUE

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

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acquisition, we have applied to the relevant PRC authorities for approval to allot no more than 2.75 billion A shares to be listed in China, or the A Share Issue. The proposed amount of the issuance represents approximately 63.43% 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, our Parent Company will own approximately 41% of our issued and outstanding common shares, all of which are A shares, while institutional and public shareholders will own approximately 59% of our issued and outstanding common shares, including A shares, H shares and ADSs. See "ITEM 5. Operating and Financial Review and Prospects--Overview--Proposed Issue of A Shares, Very Substantial Acquisition and Continuing Connected Transactions" for additional information.

OUR PROPOSED ACQUISITION MAY NOT BE COMPLETED, AND A FAILURE TO COMPLETE THIS TRANSACTION MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND RESULTS OF OPERATIONS.

The proposed Acquisition is conditioned upon the fulfillment of the following conditions:

- the formal approvals of relevant authorities or bodies in relation to the A Share Issue have been obtained;
- the A Share Issue has been completed and an amount of not less than 65% of the consideration for the Acquisition has been raised;
- the approvals of relevant government bodies responsible for the supervision and management of state-owned assets in relation to Yangcheng Railway Company's proposal on disposal of its state-owned assets have been obtained; and
- the approval of the National Development and Reform Committee in relation to the price determination for passenger and freight railway transportation services between Guangzhou and Pingshi has been obtained.

Except for the second condition listed above, which can be waived by us, none of the above conditions can be waived. If the above conditions are not fulfilled by November 15, 2006, the Acquisition Agreement will lapse and no party to the Acquisition Agreement will have any liability thereunder. We cannot assure you that the relevant PRC authorities would approve our proposed A Share Issue nor that we would be able to raise proceeds amounting to not less than 65% of the consideration for the Acquisition from such offering. Failure to complete the proposed Acquisition may have a material adverse effect on our business and operations.

WE CANNOT ASSURE YOU THAT THE PROPOSED ACQUISITION, IF CONSUMMATED, WILL BENEFIT OUR BUSINESS AND RESULTS OF OPERATIONS AS WE EXPECTED.

We cannot assure you that the proposed Acquisition, if consummated, will benefit our business and results of operations as we expect. Upon completion of the proposed Acquisition, our railway will be extended from 147 kilometers to 481.2 kilometers. The proposed Acquisition will result in greater administrative burdens and operating costs and, to the extent financed with

debt, additional interest costs. We cannot assure you that we will be able to manage or integrate the acquired business successfully. The process of combining

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the business and railway related assets of Yangcheng Railway Company into our operation 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 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.

These disruptions and difficulties, 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.

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

Upon completion of the proposed A Share Issue, GRGC's interests in our issued and outstanding common shares will decrease from 67% to no less than 41%. As a result, GRGC may lose its controlling shareholder status and may not be able to control our board of directors. Our current directors are all appointed by our GRGC. Change in our board of directors and related changes in our management may have a material adverse effect in our business and results of operations.

### RISKS RELATING TO THE RAILWAY TRANSPORTATION INDUSTRY IN CHINA

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.

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### RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

Substantially all of our assets are located in China and substantially all

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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. Although the PRC government is expected to continue its reforms, many of its economic and monetary policies are still being 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. The PBOC sets the exchange rates for renminbi in foreign exchange transactions. 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 MATERIALLY AFFECT OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The value of the renminbi fluctuates and is subject to changes in 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. We receive our revenues from through train services in Hong Kong

dollars and receive other revenues in renminbi. Fluctuations in exchange rates may adversely affect the value, translated or converted into United States dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends payable on our H shares in foreign currency terms. Our financial condition and results of operations may also be affected by changes in the value of certain currencies other than the renminbi, in which our obligations are denominated. In particular, a devaluation of the renminbi is likely to increase

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the portion of our cash flow required to satisfy our foreign currency-denominated obligations. For further information on our foreign exchange risks and certain exchange rates, see "Item 3A. Selected Financial Data -- Exchange Rate Information" and "ITEM 11. Quantitative and Qualitative Disclosure About Market Risk -- Foreign Exchange Rate Risk." We cannot assure you that any future movements in the exchange rate of renminbi against the United States dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

THE PRC LEGAL SYSTEM HAS INHERENT UNCERTAINTIES THAT 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 law 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.

ANY FUTURE OUTBREAK OF SEVERE ACUTE RESPIRATORY SYNDROME OR SIMILAR ADVERSE PUBLIC HEALTH DEVELOPMENTS IN MAINLAND CHINA MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In late 2002 and the first half of 2003, mainland China and certain other countries and regions experienced an outbreak of severe acute respiratory syndrome, or SARS. On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. However, new individual cases of SARS have been reported after that in China and other countries and regions in Asia. Any future outbreak of SARS or similar adverse public health developments, such as Avian Flu, may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, an outbreak may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business and prospects. As a result, we cannot assure you that any future outbreak of SARS or similar adverse public health developments would not have a material adverse effect on our financial condition and results of operations.

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### 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 [COMPANY NAME IN CHINESE], 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 provide consolidated services relating to railway facilities and technology. We also engage in other businesses that are ancillary to our transportation business, such as retail sales of food, beverages and

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merchandise aboard our trains and in our stations, advertising, tourism and property leasing.

We operate the sole railroad, 147 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 one regular speed rail line and two high speed rail lines, is an important component of the transportation infrastructure of southern China, and we are a leading provider of passenger and freight transportation services on the Guangzhou-Shenzhen route. Our railroad connects with the railroad from Shenzhen to Hong Kong, and we operate jointly with Kowloon-Canton Railway Corporation, or the KCR, passenger train services between Hong Kong and Guangzhou.

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-Jiujiang, Guangzhou-Maoming, Pinghu-Nantou, Pinghu-Yantian, and Kowloon-Guangzhou 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, special and regular cargo. We believe that railway transportation offers many advantages compared to other types of transportation in transporting medium and long-distance freight from southern China to other inland regions within mainland China.

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 operate high-speed passenger trains with speeds up to 200 kilometers per hour.

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### BACKGROUND AND RESTRUCTURING

The railroad system between Guangzhou and Shenzhen was part of the original "Canton-Kowloon" railroad, which began operation in 1911. In 1949, following the founding 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 our Parent Company.

In 1979, 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, a second line was completed. In 1991, Guangshen Railway Company began the construction of a high-speed rail line and purchased high-speed locomotives and passenger coaches, which can provide passenger train services at speeds of more than 160 or more kilometers per hour. Guangshen Railway Company high-speed line was the first of

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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 our Parent Company, a state-owned enterprise under the MOR of the PRC. Under PRC law, these state legal person shares are deemed to be domestic shares which may be owned by or transferred to PRC entities or persons only.

We completed our initial public offering in May 1996. In this offering, we issued a total of 1,431,300,000 class H ordinary shares, par value RMB1.00 per share, or H shares. 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. As of December 31, 2004, approximately 67% of our issued and outstanding common shares were owned by our Parent Company, and the remaining 33% were owned by public shareholders. The Parent Company currently owns all of our issued and outstanding domestic shares. Our public shareholders own only H shares or ADSs, which may not be purchased or owned by domestic investors in the PRC.

GEDC, a state-owned enterprise established in the restructuring undertaken 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 provides related services to us on a contractual basis since the 1996 restructuring. 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

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policies. As a result, GEDC no longer provides any education and hospital services to us under the contractual arrangements made upon our restructuring.

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

### SERVICE TERRITORY

Our rail line traverses the Pearl River Delta, an area which benefited early from the PRC economic reform policies that began in 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, 2004, there were 26 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 service 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

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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 of our Parent Company and the Guangdong provincial government 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 our Parent Company, the Guangdong provincial government 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 services three ports located in western Shenzhen -- Shekou, Chiwan and Mawan --

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and the other, Pingyan Railway, services 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 utilize our services on a long-term basis.

### ITEM 4B. BUSINESS OVERVIEW

#### BUSINESS OPERATIONS

Our principal businesses are railroad passenger and freight transportation, which generated 94.5% of our total revenues and 99.9% of our total operating income in 2004. In 2004, passenger transportation accounted for 74.4% of our total revenues, while freight transportation accounted for 20.1%. Our other businesses, which include the sale of food, beverages and merchandise aboard trains and in stations, accounted for 5.5% of our total revenues.

In 2004, 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 gradual implementation of CEPA and the implementation of the "Relaxed Individual Travel" program for PRC tourists from the mainland to Hong Kong and Macau, there was strong demand for passenger and freight transportation services in our service region, which provided us with excellent development opportunities.

In 2004, our total revenues were RMB3,038.1 million, representing an

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increase of 23.1% from RMB2,468.2 million in 2003. Our revenues from passenger transportation service, freight transportation service and other businesses were RMB2,259.7 million, RMB611.8 million and RMB166.7 million respectively, accounting for approximately 74.4%, 20.1% and 5.5%, respectively, of our total revenues in 2004. In 2004, our profit attributable to shareholders was RMB567.5 million, representing an increase of 10.9% from RMB511.8 million in 2003.

The table below summarizes our railroad transportation revenues and volumes of traffic in each of the five years ended December 31, 2004:

	YEAR ENDED DECEMBER 31,			
	2000	2001	2002	2003
<b>PASSENGER TRANSPORTATION</b>				
Total passenger revenues(1) (RMB millions).....	1,278.21	1,471.90	1,903.78	1,790.00
Total passengers (millions).....	34.95	38.84	39.78	37.00
Revenues(1) per passenger (RMB) (2).....	36.57	37.90	47.86	47.00
Total passenger-kilometers (millions).....	3,051.7	3,257.9	3,453.2	3,295.00
Revenues(1) per passenger-kilometer (RMB) (3)...	0.42	0.45	0.55	0.00
<b>FREIGHT TRANSPORTATION</b>				
Total freight revenues(1) (RMB millions).....	567.18	585.62	530.78	526.00
Total freight tons (millions).....	28.73	29.01	27.58	27.00
Revenues(1) per ton (RMB) (4).....	19.74	20.19	19.25	19.00
Total ton-kilometers (millions).....	2,071.6	2,082.5	1,926.0	1,978.00
Revenues(1) per ton-kilometer (RMB) (5).....	0.27	0.28	0.28	0.00

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 (1) To better conform to "International Accounting Standards (IAS) 18 -- Revenue", our revenues stated in this annual report are stated before the deduction of business tax, although our revenues as presented in previously filed annual reports were stated after the deduction of business tax.

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

On November 15, 2004, we entered into an assets purchase agreement with

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Yangcheng Railway Company to acquire the railway transportation business between Guangzhou and Pingshi and related assets. In order to finance such acquisition, we have applied to the relevant PRC authorities for approval to allot no more than 2.75 billion A shares to be listed in China. The proposed amount of the issuance represents approximately 63.43% of our existing issued share capital and approximately 38.81% of our issued share capital as enlarged by the issuance of A shares. Under PRC law, these A shares will be deemed to be domestic shares which may be owned by or transferred to PRC entities or persons only. Upon completion of the proposed issue of 2.75 billion A shares, our Parent Company will own approximately 41% of our issued and outstanding common shares, all of which are A shares, while institutional and public shareholders will own approximately 59% of our issued and outstanding common shares, including A shares, H shares and ADSs. See "ITEM 5. Operating and Financial Review and Prospects--Overview--Proposed Issue of A Shares, Very Substantial Acquisition and Continuing Connected Transactions" for additional information.

### PASSENGER TRANSPORTATION

Passenger transportation is our largest business segment, and accounted for 74.4% of our total revenues, and 78.7% of our railroad transportation revenues, in 2004. 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, 2004, we operated 117 pairs of passenger trains per day (each pair of trains meaning trains making one round-trip between two points) of which:

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- 64 pairs were high-speed express passenger trains operating between Guangzhou and Shenzhen (eight of which are standby, which means that such trains will only operate from Friday to Monday);
- two pairs were regular-speed passenger trains operating between Guangzhou and Shenzhen;
- 13 pairs were Hong Kong through-trains (including 11 pair 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
- 38 pairs were domestic long-distance passenger trains (including two pairs of long-distance passenger trains between Shenzhen and Yueyang and between Shenzhen and Beijing, respectively, and 36 pairs of domestic long-distance trains, operated by other operators but passed-through, originated or terminated on 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 2002, 2003 and 2004:

PASSENGER REVENUES (1)

PASSENGER VOLUME

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	2002	2003	2004	2002	2003	2004
	(UNAUDITED) (RMB MILLIONS)			(UNAUDITED) (MILLIONS)		
Guangzhou-Shenzhen Trains.....	1,005.8	913.4	1,152.5	17.3	16.0	20.3
Hong Kong through trains.....	344.0	322.4	436.9	2.2	2.0	2.9
Long-distance trains .....	554.0	554.4	670.3	20.3	19.8	22.9
Combined passenger operations.....	1,903.8	1,790.2	2,259.7	39.8	37.9	46.0

(1) To better conform to "International Accounting Standards (IAS) 18 -- Revenue", our revenues stated in this annual report are stated before the deduction of business tax, although our revenues as presented in previously filed annual reports were stated after the deduction of business tax.

Guangzhou-Shenzhen Trains. In 2004, our passenger transportation services on the trains between Guangzhou and Shenzhen contributed most to our railroad passenger transportation revenues.

We divide our regular-speed train services and high-speed train services into different types based on the number of stops made by the train and the class of seating. Our train fares are determined on the basis of the types of services and the transportation distance.

The number of passengers travelling on our Guangzhou-Shenzhen trains increased by 26.5% from 16.0 million in 2003 to 20.3 million in 2004. The number of passengers travelling on our high-speed passenger trains between Guangzhou and Shenzhen increased by 29.4% from 15.2 million in 2003 to 19.6 million in 2004; while the number of passengers travelling on our regular-speed passenger trains between Guangzhou and Shenzhen decreased by 25.4% from 0.9 million in 2003 to 0.6 million in 2004. The revenues from our Guangzhou-Shenzhen trains increased by 26.2% from RMB913.4 million in 2003 to RMB1,152.5 million in 2004.

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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, which KCR provide for three pairs. The through train services beyond Guangzhou to Foshan, Zhaoqing, Beijing and Shanghai are provided by Guangzhou Railway (Group) Company, Beijing Railway Administration 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 travellers. As a result of the prices for our Hong Kong through train services, which are higher than the prices charged for our domestic train services, these through train services produce higher per-passenger revenues than our other passenger train services.

In 2004, approximately 2.9 million passengers travelled on the Hong Kong through trains, representing an increase of 43.4% from approximately 2.0 million in 2003. Our revenue from the operation of the Hong Kong through trains for 2004 was RMB436.9 million, representing a 35.6% increase from RMB322.3 million for

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2003.

Domestic Long-distance Trains. As of December 31, 2004, we operated on a daily basis 38 pairs of domestic long-distance passenger trains on our rail line to cities in Guangdong, Hunan, Hubei, Jiangxi, Anhui, Liaoning, Shanxi, Fujian, Heilongjiang, Jilin, Zhejiang, Hebei, Henan, Guangxi and Shandong Provinces as well as cities to the north, such as Shanghai, Beijing and Tianjin. Since April 20, 2004, we have been operating a new "five fixed" (fixed location, fixed line, fixed time, fixed price and fixed schedule) train service from Shenzhen to Chengdu. In 2004, the number of passengers travelling on our long-distance trains were 22.9 million, representing an increase of 15.3% from 19.8 million in 2003. Revenues from our long-distance trains increased by 20.9% from RMB554.4 million in 2003 to RMB670.2 million in 2004.

High-Speed Trains. As of December 31, 2004, we operated on average a total of 64 pairs of inter-city high-speed passenger trains between Guangzhou and Shenzhen daily. Our high-speed trains are capable of running at 160 to 200 kilometers per hour, 33% to 67% faster than our regular-speed trains, which typically run at 120 kilometers per hour.

Our fleet of high-speed electric trains currently consists of one X-2000 high-speed passenger train, and eight leased, domestically-made "Blue Arrow" high-speed electric trains known in China as "Xin Shi Su," . The X-2000 train is an electric tilting train built in Sweden that can travel at speeds of up to 200 kilometers per hour.

MAJOR STATIONS. The following are the major train stations owned and operated by us as of December 31, 2004:

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

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connected to Lines 1 and 2 of the Guangzhou municipal subway. We believe that this connection has boosted and, with the anticipated operation of Line 3 of the subway system in the near future, will continue to promote, our passenger transportation business. As of December 31, 2004, the Guangzhou East Station handled on a daily basis 11 pairs of Hong Kong through trains, 66 pairs of Guangzhou-Shenzhen trains, 12 pairs of long-distance passenger trains between the Guangzhou East Station and other locations in China, including Beijing, Shanghai, Jiujiang, Shantou, Bengbu, Tianjin, Taiyuan, Nanchang, Wuhan, Yingtan, Harbin, Xiangfan, Qingdao, Xiamen, Shenyang and Macheng, and 17 pairs of passenger trains passing through the Guangzhou East Station. In 2004, the number of passengers travelling from Guangdong East Station was 12.3 million, while the number of passengers arriving at Guangdong East Station was 11.2 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, 2004, this station handled on a daily basis the transfer service for eight pairs of domestic long-distance passenger trains, 28 pairs of Guangzhou-Shenzhen high-speed passenger trains and two pairs of Guangzhou-Shenzhen regular-speed trains. Dongguan municipality is an area that has received substantial foreign investment. In 2004, the number of passengers travelling from Dongguan Station was 2.7 million, while the number of passengers arriving at Dongguan Station was 3.2 million.

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Shenzhen Station. Our Shenzhen Station is located in the Shenzhen Special Economic Zone, close to the Luohu Station on the Guangzhou-Kowloon rail line. As this station is connected to the Shenzhen's subway system, which commenced operations on December 28, 2004, we believe that it will have a high utilization rate. In 2002, we introduced China's first computerized ticket hall in our Shenzhen Station. As of December 31, 2004, our Shenzhen Station handled on a daily basis 66 pairs of Guangzhou-Shenzhen passenger trains (including eight backup pairs) and 18 pairs of domestic long-distance passenger trains between Shenzhen and other locations in China, including Beijing, Changsha, Shaoguan, Wuchang, Meizhou, Shantou, Maoming East, Huangchuan, Zhengzhou, Fuzhou, Hankou, Shenyang, Huaihua and Jinjiang. In 2004, the number of passengers travelling from Shenzhen Station was 13.4 million, while the number of passengers arriving at Shenzhen Station was 13.0 million.

### FREIGHT TRANSPORTATION

Revenue from our freight transportation accounted for 20.1% of our total revenues and 21.3% of our railroad transportation revenues in 2004. 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:

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- inbound freight, which is primarily freight bound for the Pearl River Delta region unloaded at freight stations and spur lines connected to ports on our rail line or in Hong Kong;
- outbound freight, which is primarily northbound freight 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 or terminate from our rail line.

The total tonnage of freight we transported in 2004 was 34.2 million tonnes, representing an increase of 24.0% from 27.6 million tonnes in 2003. Revenues from freight transportation business in 2004 were RMB611.8 million, representing an increase of 16.2% from RMB526.4 million in 2003. Our outbound freight revenues increased by 28.8% in 2004, while our inbound freight revenues increased by 20.6% in 2004.

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 inputs 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.

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The following table shows the composition of our freight volume by percentage for the three years ended December 31, 2004 (based on tons transported).

	OUTBOUND FREIGHT			INBOUND (AND PASS-THROUGH)	
	2002	2003	2004	2002	2003
	AS A PERCENTAGE OF TOTAL OUTBOUND FREIGHT			AS A PERCENTAGE OF TOTAL INBOUND (AND PASS-THROUGH) FREIGHT	
Construction materials.....	33%	30%	23%	39%	37%
Energy products.....	32%	43%	50%	14%	14%
Food products.....	6%	4%	5%	21%	21%
Chemicals.....	7%	6%	4%	10%	9%
Manufactured goods.....	7%	4%	2%	5%	3%
Containers.....	12%	10%	12%	7%	8%
Other goods.....	3%	3%	4%	4%	8%
	---	---	---	---	---
Total.....	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. Of the freight yards that we own and operate, three handled freight exceeding 1.0 million tons in 2004. Our freight yard at Huangpu Station handled approximately 2.8 million tons, while Xiayuan Station handled approximately 6.7 million tons and Shenzhen North Station handled approximately 1.6 million tons, respectively, in 2004. In 2004, revenues from the operation of

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our warehouses (including loading and unloading charges) and miscellaneous items amounted to RMB175.3 million, which accounted for 28.6% of our freight revenues for the year.

### OTHER BUSINESSES

We engage in other businesses principally related to our railroad transportation business, including:

- 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 2004 were RMB166.7 million, representing an increase of 9.9% from RMB151.6 million in 2003. Such increase was mainly due to the increase in passenger volume, which led to an increase in revenues from sales of goods, food and beverages in our train stations and on board our trains.

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The table below sets out the revenues for our other businesses, by categories of activity, in each of 2002, 2003 and 2004:

	REVENUES (1)			AS A PERCENT	
	2002	2003	2004	2002	2003
	(UNAUDITED)			(UNAUDITED)	
	(RMB MILLIONS)			(PERCENT)	
On-board and station sales.....	43.1	39.2	48.5	26%	
Station services.....	46.2	41.6	45.2	28%	
Tourism, advertising and others.....	77.0	70.8	73.0	46%	
	-----	-----	-----	-----	-----
Total.....	166.3	151.6	166.7	100%	
	=====	=====	=====	=====	=====

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 (1) To better conform to "International Accounting Standards (IAS) 18 -- Revenue", our revenues stated in this annual report are stated before the deduction of business tax, although our revenues as presented in previously filed annual reports were stated after the deduction of business tax.

### SEASONALITY OF OUR RAILWAY TRANSPORTATION BUSINESS

We do not experience any significant seasonality in our businesses. Historically, the first quarter of each year typically contributes the highest portion of our annual revenues, mainly because it coincides with the Spring Festival holidays when the Chinese people customarily travel from all over the country back to their hometowns. In addition, the New Year holidays, the Labour Day 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.

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### 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 ticket sales are made in cash.

On January 1, 2001, the MOR implemented a new settlement method for passenger transportation. This settlement method stipulates that all revenues from passenger train services (including revenues generated from luggage and parcel services) are considered passenger transportation revenues and belongs to the railway administration that operates that train. The railway administration in turn pays other railway administrations fees for the use of their rail lines, hauling services, in-station passenger services, water supply, electricity for

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electric locomotives and contact wire use fees, etc. This change in settlement method did not have a material impact on our passenger transportation revenues.

The implementation of the settlement method in 2001 changed the settlement of our revenues from all of our long-distance passenger train services, other than the Beijing-Hong Kong and Shanghai-Hong Kong trains. Since the implementation of this settlement method in 2001, the railway administrations operating the long-distance train services affected by the new settlement method pay us the following fees: (1) revenues from ticket prices 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. The settlement method implemented in 2001 did not affect 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.

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. CTS also operates bus services from Hong Kong to Guangzhou. In 2003, we established an online ticket sales system with KCR for the Hong Kong through trains.

### 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.

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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 deal directly with us or use shipping agents. In general, freight cars must be booked as part of the national ordering process which requires the booking to be made approximately one month in advance. 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 companies, including us. Prior to January 1, 2005, we charged freight transportation fees for these post

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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. Although the modifications in the settlement method will change our structure of freight transportation income, we believe that the modifications will not affect our revenues from freight transportation significantly.

### 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 region.

With respect to passenger transportation, we face competition from bus services, which are conveniently 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 and sea hovercraft passenger transportation services operating between Guangzhou and Hong Kong.

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With respect to freight transportation, we face significant competition from trucks 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, 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 compete with water transportation. Although water transportation is competitive in terms of price, we believe that water transportation subjects goods to greater risks of loss and damage due to the multiple handling processes required. In addition, our freight transportation is more competitive in terms of speed compared to water transportation. As air freight is very expensive, we consider that market to be very different from the ones in which we compete. Most long-distance freight in China is still transported by rail.

### EQUIPMENT, TRACKS AND MAINTENANCE

As of December 31, 2004, we owned 12 diesel high-speed locomotives, five high-speed electric locomotives, 18 shunting locomotives, one high-speed electric passenger train, 84 semi-high-speed passenger coaches, 41 regular-speed passenger coaches and 112 long-distance express passenger train coaches.

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

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MOR in 2002, 2003 and 2004 were approximately RMB57.3 million, RMB58.9 million and RMB65.5 million, respectively.

From September 2000, we began to lease eight "Blue Arrow" high-speed electric train-sets from Guangzhou Zhongche Railway Rolling Stock Sales and Service Company Limited, or Guangzhou Zhongche, to facilitate the development of our "As-Frequent-As-Buses" Train Project. We paid the lessor RMB104.2 million, RMB104.2 million and RMB103.2 million in 2002, 2003 and 2004, respectively, under the lease. This lease agreement is due to expire in March 2006. We plan to purchase new high-speed electric train-sets in 2005. We will decide whether to renew the lease agreement with Zhongche based on the progress of our plans to purchase new trains. We did not purchase or lease any new material equipment in 2004.

Our repair and maintenance facility, located near our Shipai passenger vehicle maintenance facility near Guangzhou East Station, services 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 seven years, and are maintained and upgraded on an ongoing basis as required. In 2002, we replaced 27 sets of wooden movable center switches with 19 sets of cement movable center switches to improve safety and stability. 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, 1042 meters of separate steel bars and 1926 pieces of separate

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wooden crossties to sustain safety and stability of our railway. In 2004, we replaced 77 kilometers of heavily 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.

### SUPPLIERS AND SERVICE PROVIDERS

We purchase our coaches and locomotives, as well as most other railway equipment, 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 also state-owned enterprises. We may also purchase equipment from foreign vendors or other domestic suppliers. We are not materially dependent upon any overseas suppliers.

We lease from our Parent Company locomotives and rolling stock that are used in our transportation operations. Our Parent Company also services 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. Our Parent Company and some of its subsidiaries, such as Yangcheng Railway Company and Guangmeishan Railway Company, have similar agreements with us to provide services and assistance with respect to our railroad operations. In addition, GEDC provides medical and

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health care services, public security, education 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 under the contractual arrangements made upon our restructuring. In 2004, the total amount of these payments we made to our Parent Company and its subsidiaries accounted for 6.62% of our railroad business operating costs for the year. See " Item 7B. Related Party Transactions."

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.

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 2003 and 2004, we paid approximately RMB89.9 million and RMB106.9 million, respectively, in electricity charges.

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Our five largest customers accounted for less than 30% of our revenue and our five largest suppliers accounted for less than 30% of our purchases in 2004.

### 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

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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 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 manages and coordinates traffic within its own jurisdiction.

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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 our Parent Company based on the quota allocations our Parent Company received 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 our Parent Company and/ or the MOR.

Since March 1996, the MOR and our Parent Company have accorded us 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 consumer demand. On October 21, 2004, we successfully launched our "As-Frequent-As-Buses" Train Project, which provides intercity express train services. As of December 31, 2004, the total number of intercity express trains running daily between Guangzhou and Shenzhen increased from 63 pairs in 2003 to 64 pairs, while the total number of regular speed passenger trains was reduced from three pairs in 2003 to two pairs. We currently have 38 pairs of long-distance trains and 13 pairs of through trains.

Where our service runs beyond our own line, clearance by and coordination with our Parent Company is necessary. To the extent that we operate long-distance services beyond our Parent Company's jurisdiction, they are subject to coordination and clearance by the MOR. In addition, in order to enable our Parent Company and the MOR to allocate freight cars and control traffic going through connection points, we are required to provide our Parent Company 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

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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 our Parent Company. 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

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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.

### 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. We pay regular fees to local authorities for the discharge of waste substances. In 2004, our environmental protection-related expenses were approximately RMB 0.49 million.

### INSURANCE

Pursuant to applicable PRC regulations, we are liable for the compensation to passengers for body injury arising from accidents to the limit of RMB 60,000/person, including transportation business liability compensation amounting to RMB 40,000/person. With respect to loss of or damage to baggage, parcels and freight, our customers may elect to purchase insurance administered by the Ministry of Railways 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 baggage and/or parcels. Similarly, freight transport customers who elect not to purchase insurance may recover up to RMB2,000 for each ton of damaged 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

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accidents on our property or relating to our operations. As a result, in the event of an accident or other event causing loss, destruction or damage to our property or facilities, causing interruption to our normal operations or causing liability for environmental damage or clean-up, we will have to cover losses and damages out of our own pockets.

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 insurances for our employees.

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### ITEM 4C. ORGANIZATIONAL STRUCTURE

The following table lists the significant subsidiaries of Guangshen Railway Company Limited as of June 15, 2005:

NAME	COUNTRY OF INCORPORATION	PERCENT HELD BY G
 DIRECTLY HELD BY THE COMPANY		
Guangzhou East Station Dongqun Trade and Commerce Service Company	PRC	
Shenzhen Fu Yuan Enterprise Development Company	PRC	
Shenzhen Guangshen Railway Civil Engineering Company	PRC	
Shenzhen Guangshen Railway Travel Service Ltd.	PRC	
Shenzhen Jian Kai Trade Company	PRC	
Shenzhen Jing Ming Industrial & Commercial Company Limited	PRC	
Shenzhen Railway Station Travel Service Company(i)	PRC	
Shenzhen Longgang Pinghu Qun Yi Railway Store Loading and Unloading Company	PRC	
Dongguan Changsheng Enterprise Company	PRC	
Shenzhen Guangshen Railway Electric Section Service Limited	PRC	
Shenzhen Railway Station Passenger Services Company Limited	PRC	
 INDIRECTLY HELD BY THE COMPANY		
Shenzhen Nantie Construction Supervision Company	PRC	
Shenzhen Guangshen Railway Economic and Trade Enterprise Company	PRC	
Shenzhen Railway Property Management Company Limited	PRC	
Shenzhen Yuezheng Enterprise Company Limited	PRC	
Shenzhen Road Multi-modal Transportation Company Limited	PRC	

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(i) Sino-foreign co-operative joint ventures.

### ITEM 4D. PROPERTY, PLANT AND EQUIPMENT

We occupy a total area of approximately 11.2 million square meters.

We own all of the buildings and facilities on our premises in Guangdong Province. We have freely transferable land use rights for terms ranging from 36.5 to 50 years, terminating between 2031 and 2045, in respect of the land upon

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which our buildings, facilities and rail line are located. Pursuant to relevant PRC regulations currently in effect, these land use rights are renewable at the end of their terms upon execution of relevant documentation and payment of applicable fees.

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

We have 26 train stations, of which the Guangzhou East Station is the largest, occupying an area of 402,400 square meters.

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For additional information regarding our property, plant and equipment, see "Item 4B. Business Overview-Equipment and Track Maintenance" and Note 13 to our audited financial statements included elsewhere in this annual report.

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### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

This discussion and analysis should be read in conjunction with our consolidated financial statements contained elsewhere in this annual report. The revenues provided in this part are set out the deduction of business tax. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards, which differ in certain material respects from United States Generally Accepted Accounting Principles. For a discussion of the differences that affect Guangshen Railway, see Note 31 to our audited consolidated financial statements.

#### OVERVIEW

Our principal businesses are railroad passenger and freight transportation between Guangzhou and Shenzhen and certain long-distance passenger transportation services. We also operate the Hong Kong through trains under a cooperative arrangement with the KCR in Hong Kong. Our key strategic focus in recent years has been the provision of high-speed passenger train services in the Guangzhou-Shenzhen corridor. In addition to our core railroad transportation business, we also engage in other businesses that complement our core businesses, including on-board and station sales, restaurant services, as well as advertising and tourism.

In 2004, there was a significant increase in both passenger travel and freight transportation in our service region due to (i) continuing economic growth in the PRC, including in the Guangdong Province and Hong Kong, (ii) the ongoing implementation of CEPA, (iii) the implementation of the "Relaxed Individual Travel" program for PRC tourists from the mainland to Hong Kong and Macau and (iv) our continuous improvement in our "As-Frequent-As-Buses" train services and seasonable increase, in our train stops and service frequency. Our

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results of operations for the full year achieved overall growth from 2003.

For the year ended December 31, 2004, our total revenues were RMB3,038.1 million, profit attributable to shareholders was RMB567.5 million, and earnings per share were RMB0.13. Railroad business revenues accounted for 93.6%, 93.9% and 94.5% of our total revenues in 2002, 2003 and 2004, respectively.

Passenger transportation business is our most important business. In 2004, we continued to enhance the operation of the Guangzhou-Shenzhen high speed passenger trains and The Canton-Kowloon through trains, improve our transportation capacity, increase the operation of standby trains during holidays, increase the frequency of stopping at intermediary stations, refurbish our passenger stations for the convenience of passengers, and enhance our service quality to attract more passengers. In 2004, the total number of passengers was 46.0 million, representing an increase of 21.5% from 2003; passenger transportation revenues were RMB2,259.7 million, representing an increase of 26.2% from 2003.

During 2004, our freight transportation business achieved overall growth due to (i) a substantial increase in demand for fuel and raw materials as a result of significant growth in the PRC economy, (ii) an increase in overall demand for transportation services, (iii) the Chinese government's large-scale crackdown on oversize and overloaded trucks on highways, (iv) the implementation of the New Road Traffic Safety Law, (v) the enhanced marketing measures in

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our freight transportation business, and (vi) the increase in our transportation capacity. We transported a total of 34.2 million tonnes of freight in 2004, representing an increase of 24.0% from 2003. Freight transportation revenues in 2004 were RMB611.8 million, representing an increase of 16.2% compared to 2003.

Revenues from our other businesses were RMB166.7 million in 2004, representing an increase of 9.9% from 2003.

In 2004, in order to enhance the management of our contracts, we implemented the Measures of Contract Management. Pursuant to certain amendments to the HKSE Listing Rules and in accordance with the relevant requirements of the U.S. Sarbanes-Oxley Act of 2002, we amended our Audit Committee Charter. To regulate the corporate actions and professional ethics of our senior management, we adopted the Code of Ethics for the Senior officers. To meet applicable securities regulations in the PRC relating to our proposed application for the issuance of A shares, we amended certain articles in our Articles of Association, and formulated the Working Regulations for Independent Directors, the Decision Making System Concerning Connected Transactions, and the System for Shareholders' General Meeting System. Such amendments and rules will take effect if the proposed issuance and listing of our A shares are completed.

### PROPOSED ISSUE OF A SHARES, VERY SUBSTANTIAL ACQUISITION AND CONTINUING CONNECTED TRANSACTIONS

On November 15, 2004, we entered into the Acquisition Agreement with Yangcheng Railway Company for the acquisition by us of the railway transportation business between Guangzhou and Pingshi, a city on the border between Guangdong Province and Hunan Province, currently operated by Yangcheng Railway Company and the assets and liabilities relating to such business. The consideration of the Acquisition will be RMB10,264,120,700, subject to certain adjustments stipulated in the Acquisition Agreement. In order to finance the Acquisition, we intend to issue and allot up to 2.75 billion A shares and use the proceeds from the A Share Issue to pay the consideration of the

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Acquisition. We have submitted relevant application documents to relevant authorities for approval of the A Share Issue. Pursuant to the HKSE Listing Rules, the Acquisition constitutes a very substantial acquisition. As Yangcheng Railway Company is a wholly-owned subsidiary of our Parent Company, the Acquisition also constitutes a connected transaction. In anticipation of the A Share Issue and the Acquisition, we entered into various agreements with each of Yangcheng Railway Company and our Parent Company in respect of certain continuing connected transactions. Such agreements will take effect upon the completion of the Acquisition and will thereafter replace all existing connected transaction agreements relating to the same categories of transactions.

We made an announcement in respect of the above matters on November 15, 2004 and also sent a circular to our shareholders on December 5, 2004. The circular contained details relating to the A Share Issue, the proposed amendments to the Articles of Association, the Acquisition and the continuing connected transactions, a letter from our independent board committee to our independent shareholders containing their recommendation, and a letter from our independent financial adviser to our independent board committee and our independent shareholders containing its advice, etc. We held our domestic shareholders' class meeting, H shares shareholders' class meeting and extraordinary general meeting on December 30, 2004 to

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approve related matters. We submitted our application proposal relating to the A Share Issue to the China Securities Regulatory Commission, or CSRC, on December 31, 2004.

The Acquisition Agreement is conditioned upon the fulfillment of, among other things, the following conditions:

1. the formal approvals of relevant authorities or bodies in relation to the A Share Issue have been obtained;
2. the A Share Issue has been completed and an amount of not less than 65% of the consideration of the Acquisition has been raised;
3. the approvals of relevant government bodies responsible for the supervision and management of state-owned assets in relation to Yangcheng Railway Company's proposal on disposal of its state-owned assets have been obtained; and
4. the approval of the National Development and Reform Committee in relation to the price determination for passenger and freight railway transportation services between Guangzhou and Pingshi has been obtained.

Save for the condition numbered 2 above, which can be waived by us, none of the above conditions can be waived. If the above conditions are not fulfilled within two years from the date of signing of the Acquisition Agreement, November 15, 2004, the Acquisition Agreement will lapse and no party will have any liability thereunder. In the event that any party rescinds the Acquisition Agreement for whatever reason after the A Share Issue has been completed, we will retain the proceeds from the A Share Issue as general working capital. See Exhibit 4.1 to this report for additional information.

As of the date of this report, none of the above conditions have been fulfilled or waived. It is difficult to estimate when the A Share Issue will be completed as it is subject to the market conditions and policies of the CSRC.

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### ITEM 5A. RESULTS OF OPERATIONS

#### PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Economic Development in the Pearl River Delta Region and the PRC. Our passenger transportation services on the trains between Guangzhou and Shenzhen contribute the majority of our passenger transportation revenue. Accordingly our results of operations relating to passenger transportation are closely and directly affected by the performance of our passenger transportation services between Guangzhou and Shenzhen, which is influenced by the economic development in the Pearl River Delta region. The level of economic activities in the Pearl River Delta region, including the economic cooperation among Hong Kong, Macau and mainland China, affects the number of business people travelling in this region. In addition, the average income levels of residents in this region and elsewhere in the PRC affects the number of the tourists departing from or arriving at our train stations. The majority of the freight we transport is large-volume, medium- to long-distance freight received from and/or transferred to other railway lines. Economic development in the PRC, including but not limited to the Pearl River Delta region, determines the market demand for such goods as coal, iron ore, steel and therefore indirectly affects the market demand of freight train transportation service.

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Economic Cooperation between Hong Kong and Mainland China. The second most important source of our passenger transportation revenue is the through trains services between Shenzhen and Hong Kong. As the prices for our Hong Kong through trains are higher than the prices charged for our domestic train services, these through trains services produce higher per-passenger revenues than our other passenger train services. Most of our passengers taking our Hong Kong through trains are from Hong Kong and Macau, and many are business travellers. The economic cooperation between Hong Kong and mainland China affects the number of our through train passengers and will impact our results of operations.

Competitive Pressure from other Means of Transportation. Sales for our passenger transportation services are also affected by the competitive pressure from other means of transportation, such as the automobile, bus, ferry and airplane services. For example, the fast growth in the number of privately owned vehicles and a higher penetration of bus services affect the number of train passengers travelling short distances; and any significant decrease in the air transportation prices affects the number of train passengers travelling long distances. Our sales of the freight transportation services are also affected by the competition from other means of transportation, such as water, truck and freight air transportation services. The Chinese government's large-scale crackdown on oversize and overloaded trucks on highways and the implementation of the New Road Traffic Safety Law in 2004 led to the increase of the cost in the truck transportation and thus enhanced our competitiveness.

PRC Policies. We enjoy certain preferential policies granted by the PRC government. For example, 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. In addition, we are allowed to be more flexible in setting the price for both the passenger transportation and the freight transportation as compared to other domestic railroad operators. Material changes in the policies of the PRC government that affect such preferential treatments will impact our results of operations.

#### REVENUES

In 2004, our total revenues were RMB3,038.1 million, representing an

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increase of 23.1% from RMB2,468.2 million in 2003. Revenues from our passenger transportation service, our freight transportation service and our other businesses accounted for 74.4%, 20.1% and 5.5%, respectively, of our total revenues in 2004. Revenues from our passenger transportation service and our freight transportation service accounted for 78.7% and 21.3%, respectively, of our revenues from our railroad transportation businesses in 2004.

Passenger transportation service. Passenger transportation remains our most important business. As of December 31, 2004, we operated 117 pairs of passenger trains daily, representing an increase of five pairs from the number in operation as of December 31, 2003. There were 64 pairs of high-speed passenger trains between Guangzhou and Shenzhen, representing an increase of one pair compared to 2003; two pairs of regular-speed passenger trains between Guangzhou and Shenzhen, representing a decrease of one pair compared to 2003; 13 pairs of Hong Kong Through Trains, representing an increase of two pairs and 38 pairs of long-distance passenger trains, an increase of three pairs compared to 2003.

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In 2004, our total number of passengers was 46.0 million, representing an increase of 21.5% from 37.9 million in 2003. Our revenue from passenger transportation was RMB2,259.7 million, representing an increase of 26.2% from RMB1,790.2 million in 2003.

The following table sets forth our revenues from passenger transportation and the number of our passengers for the three years ended December 31, 2004:

	YEAR ENDED DECEMBER 31,			CHANGE
	2002	2003	2004	
Revenue from passenger transportation (RMB thousands).....	1,903,782	1,790,204	2,259,671	
Total passengers (thousands).....	39,776	37,861	46,012	
Revenue per passenger (RMB).....	47.86	47.28	49.11	
Total passenger-kilometers (millions).....	3,453.20	3,295.50	4,200.2	
Revenue per passenger-kilometer (RMB).....	0.55	0.54	0.54	

In 2004, we made the following adjustments to the prices of our passenger transportation services: (1) during the Spring Festival, we adjusted the passenger fares of different classes of our long-distance domestic train services; and (2) during the New Year holidays, the Spring Festival holidays, the Labour Day holidays and the National Day holidays, we increased the fares of our high-speed passenger trains and regular-speed passenger trains between Guangzhou and Shenzhen by RMB5 per trip journey.

Freight transportation. The total tonnage of freight transported by us in 2004 was 34.2 million tonnes, representing an increase of 24.0% from 27.6 million tonnes in 2003. In 2004, in order to attract more freight resources, we continued to offer price discounts for freight transportation of steel, coal, corn, beverage, container, rice and plastic as in 2003. Our revenues from freight transportation business were RMB611.8 million, representing an increase of 16.2% from RMB526.4 million in 2003.

- In 2004, our outbound freight tonnage was 8.2 million tonnes, representing

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an increase of 27.5% from 6.5 million tonnes in 2003. Our outbound freight revenues were RMB113.4 million, representing an increase of 28.8% from RMB88.0 million in 2003. The increase in outbound freight tonnages in 2004 was mainly due to (i) the economic growth in mainland China which increased the demand for energy and raw materials, such as coal, ore and petroleum imports, etc, and in turn led to greater demand for freight transportation services; (ii) the severe crackdown on oversize and overloaded trucks on highways by the PRC government in 2004, and the implementation of the Road Traffic Safety Law, which led to an increase in the costs of road transportation; as a result, part of the freight previously transported by road shifted to railway transportation; (iii) the operation of additional container trains from Dongguan to Kowloon and the "5 fixed" (fixed locations, fixed line, fixed time, fixed price and fixed schedule) freight trains, from Pinghu South to Chengdu East and other locations led to a significant increase in the number of container transported by us; and (iv) the end of the SARS epidemic, which adversely affected the freight transportation business last year.

- In 2004, our inbound and pass-through freight tonnages were 26.0 million tonnes, representing an increase of 22.9% from 21.1 million tonnes in 2003. Our inbound and pass-through freight revenues were RMB323.1 million in 2004, representing an increase of 20.6% from RMB267.8 million in 2003. The increase in inbound and pass-through

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freight tonnages was mainly due to (i) the rapid economic growth in the PRC, including the Pearl River Delta region, which created great demand for raw materials, such as steel and cement; (ii) the recovery of the Hong Kong economy, and the increased volume of Chinese exports, which led to a large increase in the demand for freight transportation; and (iii) the Chinese government's crackdown on oversize and overloaded trucks on highways, which led to a shift of part of truck freight to railway transportation.

- In 2004, our revenues from storage, loading and unloading and other miscellaneous items were RMB175.3 million, representing an increase of 2.8% from RMB170.5 million in 2003. The increase was mainly due to the significant increase in the total tonnage of freight we transported, which offset the effects of certain downward adjustments of fares for some of our customers and some categories of freight, which we implemented to attract more business.

The following table sets forth our revenues from freight transportation and the volumes of commodities we shipped for the three years ended December 31, 2004:

	YEAR ENDED DECEMBER 31,			CHANGE I
	2002	2003	2004	
Revenue(1) from freight transportation (RMB thousands).....	530,776	526,382	611,807	1
Total freight tons (thousands of tons).....	27,583	27,584	34,199	2
-Revenues from outbound freight transportation...	97,178	88,042	113,421	2
-Revenues from inbound and pass-through transportation.....	255,777	267,844	323,108	2

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-Revenues from storage, loading and unloading and other miscellaneous items.....	177,821	170,496	175,278	
Revenue(1) per ton (RMB).....	19.24	19.08	17.89	(
-Outbound freight tonnage.....	7,266	6,466	8,241	2
-Inbound and pass-through freight tonnage.....	20,317	21,118	29,958	2
Total ton-kilometers (millions).....	1,926.0	1,978.9	2,489.5	2
Revenue(1) per ton-kilometer (RMB).....	0.28	0.27	0.25	(

In 2004, we made the following adjustments to the prices of our freight transportation services: (1) in accordance with the slight increase in the national price levels for railway freight transportation, we increased the prices of our freight transportation services slightly; and (2) we offered certain price discounts to some categories of freight to maintain existing business and attract new freight business.

Other Businesses. Our other businesses mainly consist of sales of goods and food, advertising and tourism services on board and in stations. Revenues from other businesses in 2004 were RMB166.7 million, representing an increase of 9.9% from RMB151.6 million in 2003. Such increase was mainly due to the increase in passenger volume, which in turn increased revenues from sales of goods, food and beverages in our train stations and on board our trains.

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The table below sets forth a breakdown of our revenues from the different categories of other businesses for the three years ended December 31, 2004:

	YEAR ENDED DECEMBER 31	
	2002	2003
	-----	-----
	(RMB THOUSANDS)	
On-board and station sales(1).....	43,112	39,217
Station services(1).....	46,212	41,610
Tourism, advertising and others(1).....	76,942	70,769
	-----	-----
Total(1).....	166,266	151,596
	=====	=====

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(1) To better conform to "International Accounting Standards (IAS) 18 -- Revenue", our revenues stated in this annual report are stated before the deduction of business tax, although our revenues as presented in previously filed annual reports were stated after the deduction of business tax.

### OPERATING EXPENSES

In 2004, our total operating expenses were RMB2,408.0 million, representing an increase of 26.4% from RMB1,905.5 million in 2003. The following table sets forth, as a percentage of our railroad revenues, the principal operating expenses associated with our railroad businesses for 2002, 2003 and 2004:

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	YEAR ENDED DECEMBER 31,		
	2002	2003	2004
Railroad businesses revenues(1) (RMB millions).....	2,434.6	2,316.6	2,811.8
Labor and benefits.....	15%	15%	15%
Equipment leases and services.....	18%	19%	19%
Materials and supplies.....	8%	10%	10%
Repair costs, excluding materials and supplies.....	4%	4%	4%
Depreciation (and amortization of leasehold land payments)...	16%	13%	13%
General and administrative expenses.....	5%	6%	6%
Fee for social services.....	2%	3%	3%
Others.....	4%	5%	5%
Operating ratio(2).....	73%	75%	75%
Railroad businesses operating margin.....	27%	25%	25%

(1) To better conform to "International Accounting Standards (IAS) 18 -- Revenue", our revenues stated in this annual report are stated before the deduction of business tax, although our revenues as presented in previously filed annual reports were stated after the deduction of business tax.

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

Railway Operating Expenses. Our total railway operating expenses increased by 27.7% from RMB1,755.9 million in 2003 to RMB2,241.8 million in 2004, as follows:

- Business tax. Our business tax in 2004 was RMB83.7 million, representing an increase of 76.0% from RMB47.6 million in 2003. The increase was mainly due to the substantial increase in revenues from passenger and freight transportation in 2004. In addition, we were granted an exemption from business tax on our revenue from passenger transportation between May 1, 2003 and September 30, 2003 due to a special measure implemented by the PRC government in 2003 as a result of the SARS epidemic, which significantly reduced our business tax in 2003.

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- Labor and benefits. In 2004, our labor and benefits expenses amounted to RMB492.6 million, representing an increase of 41.7% from RMB347.6 million in 2003. The increase was mainly due to the increase in our passenger and freight volume, which led to a corresponding increase in the number of our employees, and related salaries and welfare expenses. Our employees' salaries and welfare expenses were lower than usual in 2003 due to the decrease in the number of employees and the average salary of our employees resulted from the impact of the SARS epidemic.

- Materials and supplies. Our materials and supplies expenses consist mainly of fuel, water and electricity expenses. In 2004, our materials and supplies expenses amounted to RMB245.5 million, representing an increase of 13.2% from RMB217.0 million in 2003. The

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increase was mainly due to: (i) increases in the prices of oil and electricity, which increased the costs of the fuels and electricity used by our locomotives and vehicles; and (ii) increased consumption of materials and supplies due to the operation of additional high-speed passenger trains between Guangzhou and Shenzhen, the Hong Kong through trains and additional passenger trains during the Spring Festival.

- Depreciation. Our depreciation expenses of fixed assets increased by 15.3% from RMB290.0 million in 2003 to RMB334.5 million in 2004, mainly due to an increase in our fixed assets.
  - Repair. Our repair expenses increased by 141.3% from RMB89.6 million in 2003 to RMB216.3 million in 2004, primarily due to (i) the replacement of worn-out high-speed rails; (ii) an increase in the number of trains and vehicles that needed overhaul; and (iii) the further refurbishment of our Guangzhou East Station, our Shenzhen Station and a number of passenger stations along our line.
  - Equipment leases and services. Our expenses on equipment leases and services mainly consist of railway line usage fees, train hauling fees and train leasing fees paid to other railway administrations. In 2004, our expenses relating to equipment leases and services amounted to RMB452.2 million, representing an increase of 3.3% from RMB437.7 million in 2003. This was mainly due to the operation of additional high-speed passenger trains and Hong Kong through trains, and the operation of additional long-distance passenger trains during peak travel seasons, such as the Spring Festival holidays and Golden Week holidays, which resulted in an increase in railway line usage fees and train hauling fees. Leasing fees paid by us to the MOR for transportation trucks also increased due to the increase in the volume of freight we transported.
  - Social services. Our social services fees in 2004 were RMB84.6 million, representing an increase of 35.3% from RMB62.6 million in 2003. The increase was mainly due to the subsidies amounting to RMB 12.19 million which was paid to GEDC pursuant to relevant PRC government policies when the hospitals and schools owned and operated by GEDC were transferred to local government in the second half of 2004. As a result, GEDC no longer provides any education and hospital services to us under the contractual arrangements made upon our restructuring.
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- General and administrative. Our general and administration expenses increased by 41.3% from RMB134.7 million in 2003 to RMB190.3 million in 2004. This was mainly due to: (i) the payment of medical insurance fees for all of our employees, and a one-time payment of medical insurance premium for our retired employees, in accordance with certain government policies implemented to reform the medical insurance system in the PRC; and (ii) an increase in our provision for bad debt associated with our deposit held by Zeng Cheng City Li Cheng Credit Cooperative, or Li Cheng, which was overdue and not recovered.
  - Other expenses. Our other expenses in 2004 were RMB126.3 million, representing an increase of 11.4% from RMB113.4 million in 2003. This was mainly due to an increase in communication services fees and various surcharges for production.

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### PROFIT FROM OPERATIONS

Our profit from operations increased by 12.0% from RMB562.7 million in 2003 to RMB630.2 million in 2004 due to the increase in our total revenues.

### TAXATION

As we are registered and established in the Shenzhen Special Economic Zone, our railroad businesses are subject to income tax at a rate of 15%. According to relevant tax regulations, our other businesses and our subsidiaries are subject to income tax at the rate of either 15% or 33%, depending on the location of incorporation. In addition, a member of our subsidiaries engaged in other businesses are Sino-foreign joint ventures which are entitled to full exemption from the PRC income tax for two years and a 50% reduction in the next three years starting from the first profit-making year, after offsetting available tax losses carried forward from prior years. Our income tax expense was RMB98.4 million in 2004, representing an effective tax rate of 14.8% (compared to 15.4% in 2003) and an increase of RMB5.0 million compared to RMB93.4 million in 2003.

### NET PROFIT

Our consolidated net profit increased by 10.9% from RMB511.8 million in 2003 to RMB567.5 million in 2004.

YEAR ENDED DECEMBER 31, 2003 COMPARED WITH YEAR ENDED DECEMBER 31, 2002

### REVENUES

In 2003, our total revenues were RMB2,468.2 million, representing a decrease of 5.1% from RMB2,600.8 million in 2002. Revenues from our passenger transportation service, our freight transportation service and our other businesses accounted for 72.6%, 21.3% and 6.1% of our total revenues in 2003 respectively. Revenues from our passenger transportation service and our freight transportation service accounted for 77.3% and 22.7%, respectively, of our revenues from our railroad transportation businesses in 2003.

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Passenger transportation service. Due to the impact from the SARS epidemic, our revenues from passenger transportation declined during the first half of 2003. We operated more trains and increased the frequency of stopping at intermediary stations to attract more passengers following the end of the SARS epidemic. We also worked on the integrated refurbishment of our passenger stations, such as Guangzhou East Station, Shenzhen Station and Dongguan Station, to improve our public image. Furthermore, we expanded our ticket network by opening more ticket offices at Guangzhou Station and other stations along the Guangzhou-Shenzhen route. We also made slight adjustments to our fares during peak periods and took other steps to improve our service quality and enhance our market efforts. In 2003, the total number of our passengers was 37.9 million, representing a decrease of 4.8% when compared to that of 2002; our passenger transportation revenues were RMB1,790.2 million, representing a decrease of 6.0% from that of 2002.

Freight transportation. During 2003, despite the impact from SARS on our freight transportation business and competition from other means of transportation such as highway and water transportation, we transported a total of 27.6 million tonnes of freight, representing an increase of 1,000 tonnes when compared to that of 2002. We believe that this increase resulted from our

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marketing efforts in our freight transportation business and our relationships with ports, mines and other corporates, which enabled us to maintain existing large volume freight and capture new freight transportation business. Our freight transportation revenues in 2003 were RMB526.4 million, representing a slight increase of 0.1% when compared to that of 2002.

- Our outbound freight revenues decreased by 9.4% from RMB97.18 million in 2002 to RMB88.04 million in 2003. This decrease in outbound freight transportation revenue was mainly due to the influence of SARS, which led to a decrease in the supply of some categories of goods (such as aero-fuel etc.) that accounted for large proportions of our outbound freight. Improvements in the road and water transportation networks and the increasing number of Chinese ports opening to countries outside China also reduced the amount of freight transported by rail. Following the end of the SARS epidemic, we enhanced marketing efforts on our freight transportation business and offered discounts to certain major customers and some categories of freight to maintain existing and attract new freight business. Following the end of the SARS epidemic, the Chinese economy recovered rapidly and demands for energy and raw material increased significantly. Increased charges for water and road transportation also contributed partly to a recovery in railway freight transportation business. All of these factors reduced the overall decrease of our outbound freight business in 2003.
- Our inbound and pass-through freight revenues increased by 4.7% from RMB255.8 million in 2002 to RMB267.8 million in 2003. This increase was mainly due to the growth in demand for railway transportation resulting from the growth of the PRC economy and increased charges for road and water transportation, which offset of the adverse influence of SARS in 2003. Furthermore, the completion of the construction of the second railway track between Beijing and Jiujiang led to a resumption of the inbound and pass-through freight previously interrupted by the construction.
- Our revenues from storage, loading and unloading and other miscellaneous freight services decreased by 4.1% from RMB177.8 million in 2002 to RMB170.5 million in 2003. This decrease was mainly due to a decrease in outbound freight, the discounts that

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we offered to certain customers and for some categories of freight to enhance the competitiveness of our freight transportation services, and reduced charges for our storage, loading and unloading services.

Other Businesses. Our other businesses mainly consist of sales of goods and food, advertising and tourism services on board our trains and in our stations. Our revenues from other businesses in 2003 were RMB151.6 million, representing a decrease of 8.8% from RMB166.3 million in 2002. This decrease was mainly due to a decrease in our passenger volume and in consumption by passengers on board our trains and in our stations due to the SARS epidemic. In addition, revenues from our leases and advertising decreased due to the refurbishment of our passenger stations such as Guangzhou East Station, Shenzhen Station and Dongguan Station.

### OPERATING EXPENSES

In 2003, our total operating expenses were RMB1,905.5 million, representing a decrease of 3.7% from RMB1,978.3 million in 2002.

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Railway Operating Expenses. Our total railway operating expenses decreased by 2.9% from RMB1,809.2 million in 2002 to RMB1,755.9 million in 2003, as follows:

- Business Tax. Our business tax in 2003 was RMB47.6 million, representing a decrease of 35.6% from RMB73.9 million in 2002. The decrease was partly due to the decrease in revenues from passenger transportation in 2003 as a result of the impact of the SARS epidemic. In addition, we were granted an exemption from business tax on our revenue from passenger transportation between May 1, 2003 and September 30, 2003 due to a special measure implemented by the PRC government in 2003 as a result of the SARS epidemic, which significantly reduced our business tax in 2003.
  - Labor and benefits. In 2003, our labor and benefits expenses amounted to RMB347.6 million, representing a decrease of 7.0% from RMB373.8 million in 2002. This decrease in our labor and benefits expenses was mainly due to a decrease in the bonuses we pay based on our results of operations. The decrease in such bonuses also led to a decrease in the overall costs of our welfare benefits.
  - Materials and supplies. Our materials and supplies expenses consist mainly of fuel, water and electricity expenses. In 2003, our material and supplies expenses amounted to RMB217.0 million, representing an increase of 13.0% from RMB192.1 million in 2002. This increase was mainly due to an increase in the prices of diesel oil and other fuels used by locomotives, which was caused by a rise in the prices of petroleum products. Our consumption of water and electricity also increased significantly because of the additional ventilation systems and disinfection equipments we installed in our stations and on board our trains and an increase in the frequency of the cleaning and disinfecting of public areas during the SARS period. In addition, the operation of the additional Hong Kong through-trains and the high-speed passenger trains between Guangzhou and Shenzhen also increased our consumption of materials, water and electricity.
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- Depreciation. In 2003, depreciation expenses relating to our fixed assets were RMB290.0 million, representing a decrease of 13.6% from RMB335.5 million in 2002. This decrease was mainly due to an extension of the estimated useful life of a portion of our fixed assets. We re-estimated the useful life and the depreciation rate of part of its fixed assets in 2003 based on the experience and maintenance program established by our management and engineering personnel, which decreased depreciation expenses relating to our fixed assets in 2003.
  - Repair. In 2003, our repair expenses were RMB89.6 million, representing a decrease of 12.5% from RMB102.4 million in 2002. This decrease was mainly due to a decrease in the repair expenses relating to our buildings in 2003. We also undertook the repair work of some locomotives and vehicles formerly outsourced to other factories. Completion of the improvement work at passenger stations along the Guangzhou Shenzhen route in 2002 also contributed to a decrease in our related expenses in 2003.
  - Equipment leases and services. Our expenses on equipment leases and services mainly consist of railway line usage fees, train hauling

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fees and train leasing fees paid to other railway administrations. In 2003, our expenses on equipment leases and services were RMB437.7 million, representing an increase of 0.9% from RMB433.9 million in 2002. This increase was mainly due to the operation of additional Hong Kong through-trains and the high-speed passenger trains between Guangzhou and Shenzhen in 2003. We also leased more trucks from the MOR in 2003, resulting in an increase in the leasing fees we paid to the MOR.

- Social services. These fees relate to services provided to our employees, including health care and education and to services relating to passenger safety and security. In 2003, our fees for social services were RMB62.6 million, representing an increase of 9.0% from RMB57.4 million in 2002. This increase was mainly due to the additional medical and sterilization services we implemented during the SARS epidemic.
- General and administrative. Our general and administration expenses were RMB134.7 million in 2003, representing an increase of 8.8% from RMB123.8 million in 2002. This increase was mainly due to a growth in payment for pensions. The pensions were calculated based on the aggregate amount of our employees' salaries for the previous year. As the aggregate amount of our employees' salaries in 2002 was higher than those in 2001, our expenses for pensions in 2003 increased.
- Other expenses. In 2003, our other expenses amounted to RMB113.4 million, representing an increase of 11.9% from RMB101.3 million in 2002.

### PROFIT FROM OPERATIONS

Our profit from operations decreased by 9.6% from RMB622.5 million in 2002 to RMB562.7 million in 2003 due to a decrease in our total revenues.

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### TAXATION

Our income tax expense was RMB93.3 million in 2003, representing an effective tax rate of 15.4% and a decrease of RMB11.0 million compared to RMB104.3 million in 2002. The main reason for the decrease is an exemption from business tax granted by the PRC government on our revenue from passenger transportation between May 1, 2003 and September 30, 2003 pursuant to a special measure implemented as a result of the SARS epidemic.

### NET PROFIT

Our consolidated net profit decreased by 8.1% from RMB557.1 million in 2002 to RMB511.8 million in 2003.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our audited consolidated financial statements have been prepared in accordance with IFRS. Our principal accounting policies are set out in Note 2 to our audited consolidated financial statements. IFRS requires that we adopt the accounting policies and estimation techniques that are most appropriate in the circumstances for the purpose of giving a true and fair view of our results and financial condition. We based our estimates and judgments on historical experience and on various other assumptions we deem reasonable under relevant

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circumstances. However, different policies, estimation techniques and assumptions in critical areas could lead to materially different results, in particular, with respect to fixed assets, receivables, provision and impairments discussed in the following paragraphs.

### FIXED ASSETS

The railway industry is capital intensive. Under IFRS, fixed assets are initially recorded at cost less accumulated depreciation and impairment loss. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use, and subsequent to the initial recognition, fixed assets are stated at cost or valuation less accumulated depreciation and impairment losses. Independent valuations, on a market value basis or depreciated replacement cost basis when there is no evidence of market value for such an item, are performed at least every five years or sooner if considered necessary by the directors. In the intervening years, the directors review the carrying values of the fixed assets and an adjustment is made where there has been a material change. Repairs and maintenance are charged to our income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Estimation of the useful lives of assets that are long-lived as well as their salvage value requires significant management judgments. Depreciation is calculated using the straight-line method to write off the cost or revalued amount, after taking into account the estimated residual value of 4% to 10% of cost, of each asset over its estimated useful life.

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Our management reassessed the estimated useful lives and depreciation rates of fixed assets periodically. The assessment was based on the experience and maintenance program established by our management and engineering personnel, current operations and potential changes in technology, personnel, estimated salvage value of the assets, and industry regulations. The estimated useful lives of our fixed assets are as follows:

Buildings	25 to 40 years
Leasehold improvements	over the lease terms
Track, bridges and service roads	55 to 100 years
Locomotives and rolling stock	20 years
Communications and signaling systems	8 to 20 years
Other machinery and equipment	7 to 25 years

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

### RECEIVABLES

Receivables are carried at original invoice amount less the provision made for impairment of these receivables. A provision for impairment of receivables is established when there is an objective evidence that we will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted

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at the market rate of interest for similar borrowers.

Other receivables are also assessed for incollectibility when the circumstances indicate that we might not be able to collect all amounts due according to the original terms of receivables.

### IMPAIRMENTS

If circumstances indicate that the net book value of an asset or investment may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognized in accordance with IFRS 36 "Impairment of Assets". We review the carrying amounts of long-lived assets periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. We test these assets for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the estimated recoverable amount. The amount of impairment loss is the difference between the carrying amount of the asset before the reduction and the estimated recoverable amount. The recoverable amount is the greater of the estimated net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for our assets are often not readily available. In determining the value in use, we discount cash flows that we expect the asset to generate to their present value. Determining cash flows that we expect an asset to generate requires significant judgment relating to the expected level of sales volume, selling prices and the amount of operating costs.

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### CONTINGENCY

An accrual for a loss contingency is established if information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred or an asset has been impaired. Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise. The estimates of whether an accrual is necessary have been developed in consultation with outside counsel, based upon an analysis of potential results.

### ACCOUNTING TREATMENT REGARDING THE DIFFERENCES BETWEEN THE SELLING PRICES AND COSTS OF EMPLOYEES' HOUSING

We had constructed and purchased new residential properties for our employees in the past to improve their living conditions. Under a housing benefit scheme implemented by the PRC government, we sold these residential properties to our employees at a price approved by the PRC government. For the purpose of preparing our consolidated financial statements for the year ended December 31, 2004, we estimated that our losses from the sales of completed staff quarters and the sales of premises under construction for which future services could be reasonably estimated was approximately RMB226.4 million. Such losses were amortized on a straight line basis over the estimated remaining average service period of our employees (15 years) from the time of such sales. During the year ended December 31, 2004, the amortization charged as deferred labour costs to our consolidated income statement was RMB15.1 million and the accumulated amortization amounted to RMB75.5 million.

As of December 31, 2004, unamortized deferred losses, which were recorded as deferred staff costs on our balance sheet, were RMB150.9 million.

### ITEM 5B. LIQUIDITY AND CAPITAL RESOURCES

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

We generated approximately RMB1,236.6 million of net cash flow from operating activities in 2004. Substantially all of our revenues were received in cash, with accounts receivable arising primarily from long-distance passenger train services provided and pass-through freight transactions originating from other railway companies whose lines connect to our railroad. Similarly, some accounts payable arise from payments for railroad transportation services that we collect on behalf of other railroad companies. Accounts receivable and payable were generally settled either quarterly or monthly between us and the other railroad companies. Most of our revenues generated from other businesses were received in cash. We also have accounts payable associated with the purchase of materials and supplies in our other businesses.

In 2004, other than operating expenses, our cash outflow mainly related to the following:

- capital expenditures of approximately RMB326.5 million as described below, representing an increase of 6.7% from RMB306.0 million in 2003; and
- payment of dividends of approximately RMB455.0 million.

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Our capital expenditures for 2004 consisted primarily of the following projects:

1. expanding our Guangzhou-Shenzhen Line (Guangzhou to Pinghu link);
2. upgrading locomotives and passenger coaches;
3. building a Technical Support and Maintenance Depot for Passenger Vehicles at Shenzhen North Station and a passenger station, station houses and ancillary facilities for long-distance passenger travel to Buji;
4. upgrading station rooms at Shilong Station;
5. building station rooms and ancillary facilities and upgrading certain facilities at our Shenzhen Station;
6. partially renovating our Guangzhou East Station; and
7. building ancillary facilities at our Guangzhou East Station.

Funds not required for immediate use are kept in short and medium-term investments and bank deposits. We had temporary cash investments of approximately RMB1,379.3 million and cash equivalents of RMB1,169.3 million as of December 31, 2004.

As of December 31, 2004, we had an overdue time deposit in the amount of approximately RMB31.4 million held by Li Cheng, which we were unable to recover upon the expiry of the fixed deposit term in 1998. In March 1999, we instituted legal proceedings against Li Cheng to recover the deposit and the related interest. Under a court verdict dated October 12, 1999, Li Cheng was ordered to repay the deposit principal and the related interest to us. Li Cheng failed to

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comply with the court ruling, and we further applied to the court for compulsory enforcement of the court order. In July 2000, Li Cheng filed a court petition for winding up. On November 9, 2000, the court ordered the suspension of execution of the court ruling dated October 12, 1999 during the winding-up of Li Cheng. On November 23, 2000, we applied to the Guangdong Provincial Government for an allocation of funds by the government to Li Cheng for the repayment of our deposit principal. The provincial government accepted our petition and requested the municipal government to follow up on our case. In 2002, we reclassified such amount from temporary cash investment to other receivables, and accounted for 50% provision pursuant to our management's estimates. The amount of the fixed deposit remains unpaid to date. Based on our management's estimates in 2004, we have made full provision for such amount in our audited consolidated financial statements.

Except for such overdue time deposit, we have no other overdue time deposit that has not been repaid. We have not encountered any difficulty in withdrawing deposits. We have placed most of our deposits with other state-owned commercial banks in the PRC and the Railway Deposit-taking Centre.

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As of December 31, 2004, we did not have any bank loans or guarantees outstanding nor any trust deposits placed with any financial institutions in the PRC.

### CASH FLOW

Our cash and cash equivalents in 2004 decreased by approximately RMB233.1 million over 2003. The table below sets forth certain items in our consolidated cash flow statements for 2003 and 2004, and the percentage change in these items from 2003 to 2004.

	YEAR ENDED DECEMBER 31,		CHANGE
	2003	2004	FROM 2003
	(RMB THOUSANDS)		%
Net cash generated from operating activities.....	798,449	1,236,579	54.9
Net cash from/(used in) investing activities...	(375,469)	(1,000,639)	166.5
Net cash (used in) financing activities.....	(433,666)	(469,044)	8.2
	-----	-----	-----
Net increase/(decrease) of cash and cash equivalents.....	(10,686)	(233,104)	2081.4
	=====	=====	=====

Our principal source of capital was revenues generated from operating activities. In 2004, the net cash inflow from our operations was RMB1,236.6 million, representing an increase of RMB438.2 million from RMB798.4 million in 2003. The increase in net cash inflow from our operating activities was mainly due to the increase in revenues from our passenger and freight transportation businesses.

Our working capital was mainly used for temporary cash investments, capital expenditures, operating expenses and payment of taxes and dividends. In

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2004, our temporary cash investments increased by RMB751.9 million. Our expenses for the purchase of fixed assets and payments for construction-in-progress were RMB310.2 million. In addition, we paid RMB84.2 million for income taxes and approximately RMB455.0 million for dividends.

We believe that we have sufficient working capital to meet our current operational and development requirements.

### ITEM 5C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES, ETC.

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

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

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### ITEM 5D. TREND INFORMATION

The Pearl River Delta has been one of China's fastest growing economic regions. We believe that various factors, including the increasing economic cooperation within the Pearl River Delta region and its adjacent areas, the "Relaxed Individual Travel" program, the commencement of operation of the Shenzhen Subway and the opening of Disneyland in Hong Kong in 2005, will continue to increase passenger travel and freight transportation within our service region. We expect the PRC government's current economic, import and export, foreign investment and infrastructure policies to generate additional demand for transportation services generally. These policies and measures may have both positive and negative effects on our business development. They are expected to promote economic growth and create new demand for our transportation services. At the same time, however, with the improvement of highway and waterway transportation facilities, we anticipate additional competition. In 2004 and the first half of 2005, the PRC government implemented economic measures to manage the growth of the PRC economy, including imposing lending restrictions in certain sectors. Such measures are expected to slow the pace of economic growth in China, and may have an adverse impact on our business and results of operations in 2005. Due to the SARS epidemic, we experienced a significant decrease in passenger traffic in the first half of 2003. A similar outbreak of SARS or other epidemic in the future is likely to have a material adverse effect on our results of operations and financial condition.

We believe that while the PRC government is in the progress of lessening restrictions on foreign investment following China's entry into the WTO, the opening up of domestic railway transportation will be gradual and we expect competition from foreign and domestic railway to be limited in the short term. However, China's entry into the WTO may increase other Chinese coastal cities' significance in trading. As a result, part of the freight currently transferred through ports in Hong Kong and Shenzhen may be divested to other ports in the

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PRC, which will adversely affect our railway freight business. In addition, as the PRC government lifts control over foreign investments, including allowing foreign participation in railway construction, our railway monopoly position in our service region may be challenged by foreign strategic investment. We believe that we are prepared for the challenges as well as the opportunities that have arose or will arise with China's accession to the WTO.

### ITEM 5E. OFF-BALANCE SHEET ARRANGEMENTS

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

### ITEM 5F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations, capital commitments and operating lease commitments as of December 31, 2004 for the periods indicated.

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#### CONTRACTUAL OBLIGATIONS PAYMENTS DUE BY PERIOD

CONTRACTUAL OBLIGATIONS	PAYMENT DUE BY PERIOD (RMB IN THOUSANDS)				
	TOTAL	2005	2006	2007	2008
Long-Term Debt Obligations	-	-	-	-	-
Capital (Finance) Lease Obligations	-	-	-	-	-
Operating Lease Obligations	183,375	108,000	75,375	-	-
Purchase Obligations	-	-	-	-	-
Other Long-Term Liabilities Reflected on the Company's Balance Sheet under IFRS	-	-	-	-	-
<b>Total</b>	<b>183,375</b>	<b>108,000</b>	<b>75,375</b>	<b>-</b>	<b>-</b>

Based on the current progresses of our new projects, we estimate that our capital expenditures for 2005 will amount to approximately RMB1.7 billion, which consists primarily of the following projects:

1. expanding our Guangzhou-Shenzhen Line (Guangzhou to Pinghu link);
2. building ancillary facilities at our Guangzhou East Station;
3. building a Technical Support and Maintenance Depot for Passenger Vehicles at Shenzhen North Station and a passenger station, station houses and ancillary facilities for long-distance passenger travel to Buji (including the construction of the connecting line from Pinghu to Shenzhen);
4. purchasing additional locomotives;
5. upgrading ancillary facilities to station rooms at Shenzhen Station;
6. building the computerized ticketing system for our

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"As-Frequent-As-Buses" Train Project between Guangzhou and Shenzhen;  
and

7. second phase comprehensive upgrading of Shenzhen Station.

We may be unable to obtain sufficient financing to fund our substantial capital requirements, which could limit our growth potential. Our actual capital requirements may be greater. We may not be able to obtain sufficient funds on commercially acceptable terms. If adequate capital is not available, our planned capital expenditure and business prospects could be adversely affected.

### ITEM 5G. ADDITIONAL INFORMATION

#### PRINCIPAL DIFFERENCES BETWEEN IFRS AND US GAAP

Our audited consolidated financial statements conform to IFRS, which differ in certain respects from those prepared under US GAAP. A major difference between IFRS and US

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GAAP, which has a significant effect on our consolidated net profit and consolidated net assets is set out below:

#### REVALUATION OF FIXED ASSETS

In connection with the restructuring undertaken for our initial public offering, we revalued our fixed assets on March 6, 1996 and we recorded a revaluation surplus of fixed assets amounting to approximately RMB1.5 billion. We carried out a further revaluation as of September 30, 2002, which did not result in a material difference from the carrying amounts and no revaluation surplus or deficit was recorded. See Note 13 to our audited financial statements included elsewhere in this annual report.

Under IFRS, revaluation of fixed assets is permitted and depreciation is based on the revalued amount. Additional depreciation arising from the revaluation surplus was approximately RMB38.5 million for the year ended December 31, 2004 compared to approximately RMB38.5 million in 2003.

Under US GAAP, fixed assets are required to be stated at their original cost. Hence, no additional depreciation from revaluation will be recognized under US GAAP. However, a deferred tax asset related to the revaluation surplus amounting to approximately RMB223.8 million was created under US GAAP with a corresponding increase in equity since the revaluation resulted in a higher tax base which will be realized through additional depreciation for PRC tax purposes.

The effects on our consolidated net profit resulting from the significant differences between IFRS and US GAAP are summarized below:

	YEAR ENDED DECEMBER 31,		
	2002	2003	2004
	RMB	RMB	RMB
Net profit under IFRS (in thousands).....	557,083	511,762	567,484

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US GAAP adjustments:

Reversal of additional depreciation charges arising from the revaluation surplus on fixed assets (in thousands).....	48,422	38,548	38,548
Effect of US GAAP adjustment on taxation (in thousands).....	(7,263)	(5,782)	(5,782)
	-----	-----	-----
Consolidated net profit under US GAAP (in thousands).....	598,242	544,528	600,250
	=====	=====	=====
Earnings per share under US GAAP.....	0.14	0.13	0.14
	=====	=====	=====
Earnings per equivalent ADS under US GAAP.....	6.90	6.28	6.92
	=====	=====	=====

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- (1) Translated solely for the convenience of the reader into U.S. dollars at the noon buying rate prevailing on December 31, 2004 of US\$1.00 to RMB8.30.

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The effects on our consolidated net assets resulting from the significant differences between IFRS and US GAAP are summarized below:

	YEAR ENDED DECEMBER	
	2003	2004
	-----	-----
	RMB IN	RMB IN
	THOUSANDS	THOUSANDS
Consolidated net assets under IFRS.....	10,322,358	10,420,574
US GAAP adjustments:		
Reversal of the revaluation surplus on fixed assets.....	(1,492,185)	(1,492,185)
Reversal of additional depreciation charges arising from the revaluation surplus on fixed assets.....	369,432	407,980
Reversal of deferred tax assets .....	168,413	162,631
	-----	-----
Consolidated net assets under US GAAP.....	9,368,018	9,499,000
	=====	=====

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- (1) Translated solely for the convenience of the reader into U.S. dollars at the noon buying rate prevailing on December 31, 2004 of US\$1.00 to RMB8.30.

There are no significant differences between IFRS and US GAAP that would affect the classification in the balance sheet and the income statement that would not also affect our net income or shareholders' equity.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

ITEM 6A. DIRECTORS AND SENIOR MANAGEMENT

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### DIRECTORS

All of our directors were duly elected at meetings of our shareholders. All of our current directors were elected at our general shareholders' meeting held on May 12, 2005. The business address of each of our directors is No. 1052 Heping Road, Shenzhen, People's Republic of China 518010.

The table below sets forth the information relating to our directors as of June 27, 2005:

NAME	AGE	POSITION
Wu Junguang	56	Chairman of the Board of Directors
Li Kelie	57	Director and General Manager
Hu Lingling	41	Director
Wu Houhui	56	Director
Wen Weiming	42	Director
Yang Jinzhong	53	Director
Chang Loong Cheong	59	Independent Director
Deborah Kong	45	Independent Director
Wilton Chau Chi Wai	43	Independent Director

Wu Junguang, age 56, was elected the chairman of the board of directors of Guangshen Railway on June 10, 2003. Mr. Wu graduated from South China Normal University. Since 1964, Mr. Wu has served in various managerial positions including general manager of Yangcheng Railway Company and our predecessor, Guangzhou Railway Sub-administration.

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Mr. Wu has served as the general manager of our Parent Company since April 2002 and as the chairman of our Parent Company since June 2003.

Li Kelie, age 57, was elected a director and the General Manager of the Company. Mr. Li is a member of Chinese Writers' Association and a vice chairman of Guangzhou Writers' Association. Since 1994, Mr. Li has held various senior positions within Guangzhou Railway (Group) Company and its subsidiaries. Before he joined the Company, he was the Chairman and the General Manager of Sanmao Railway Company Limited. He is currently a member of the senior management of our Parent Company.

Hu Lingling, age 41, was elected a director of Guangshen Railway in 2003. Mr. Hu is an engineer and graduated from Changsha Railway Institute. Mr. Hu has served as the deputy chief engineer, the deputy stationmaster of Shaoguan Railway station of Yangcheng Railway Company, the deputy chief engineer, the deputy general manager of Yangcheng Railway Company and the director of the transportation department of our Parent Company Chronologically. Presently he serves as the deputy general manager of our Parent Company.

Wu Houhui, age 56, was elected a director of Guangshen Railway in 1999. He is a graduate of Dalian Railway College and a senior economist. Mr. Wu served in various managerial position, including the position of director of the Enterprise Management Office, at our Parent Company from 1984 to 2000. Since

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November 2001, Mr. Wu has served as the deputy chief economist of our Parent Company.

Wen Weiming, age 42, was elected a director of Guangshen Railway in 2003. Mr. Wen is an accountant and graduated from Guangzhou Railway Workers' College. He has over 10 years experience in the railway industry, and has served as the director of the accounting and finance department, the chief accountant of the diversified businesses sub-section, and the director of the finance sub-section of Yangcheng Railway Company. Since May 2001, Mr. Wen has served as the deputy director of the finance department of our Parent Company.

Yang Jinzhong, aged 53, was elected a director of Guangshen Railway in 2005. Mr. Yang is an engineer and graduated from Harbin Electrician Institute. He has over 30 years experience in the railway industry and has served in various managerial positions in Wuhan Railway Sub-administration. Since August 2000, he has served as the manager of the Transportation Business Department of Guangshen Railway and the Stationmaster of Shenzhen Station. He is currently the acting chairman of the Labour Union of the Company.

Chang Loong Cheong, age 59, was elected an independent non-executive director of Guangshen Railway in 1996. He holds a management certificate from the Hong Kong Management Association and is an independent non-executive director of Guangshen Railway. Mr. Chang is also a director of Shanghai Xinhua Iron & Steel Company Limited and Orient International (Shanghai) Limited. Mr. Chang has acted as a manager of Cathay Restaurant in Lagos, Nigeria, a member of the senior management of Island Navigation Corporation International Limited and Orient Overseas Container Line Limited in West Africa, and the general manager and a director of Noble Ascent Company Limited.

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Deborah Kong, age 45, was elected an independent non-executive director of Guangshen Railway in 1996. Ms. Kong is currently an executive director of Centennial Resources Holding Company Limited. Ms. Kong holds a bachelor of arts degree from Sydney University and a one-year master degree course of finance degree from Macquarie University in Australia. She is a member of the Standing Committee of the People's Political Consultative Conference of Shandong Province in the PRC.

Wilton Chau Chi Wai, age 43, was elected an independent non-executive director of Guangshen Railway in 2004. Mr. Chau holds a bachelor degree in applied mathematics from University of Hong Kong, a LLB degree from University of Wolverhampton and a Master of Business Administration from the University of Wales. Mr. Chau is a fellow member of the Association of Chartered Certified Accountants, a member of Singapore Institute of Arbitrators and Council member of Hong Kong Biotechnology Association. Since 1987, Mr. Chau has served several financial institutions in various senior positions overseeing investment and development in railway, road and airport infrastructure projects. Mr. Chau is currently the chairman of Qleap Venture Limited.

### SUPERVISORS

The table below sets forth the information relating to our supervisors:

NAME	AGE	POSITION	DATE FIRST ELECTED OR APPOINTED
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Yao Muming	51	Supervisor	1999
Tang Dinghong	56	Supervisor	2004
Chen Yongbao	53	Supervisor	2002
Li Zhiming	44	Supervisor	2005
Chen Yunzhong	52	Supervisor	2001
Wang Jianping	41	Supervisor	2005
Lu Ximei	49	Supervisor	2005

Yao Muming, age 51, was appointed as a Supervisor of Guangshen Railway in 1999. Mr. Yao graduated from South China Normal University and previously served as the Deputy Director of the Guangzhou and Zhuhai Animal and Plant Quarantine Bureaus. From 1997 to 2003, he was a member of the senior management of the Company. Since July 2003, Mr. Yao has been a member of the senior management of our Parent Company. Since July 2003, he has served the chairman of the supervisory board.

Tang Dinghong, age 56, was appointed as a supervisor of Guangshen Railway in 2004. Mr. Tang graduated from Zhongshan University. He started to work in the railway industry since 1969 and had served in various senior managerial positions of Guangzhou Railway (Group) Company. Mr. Tang joined us in July 2003.

Chen Yongbao, age 53, was appointed as a supervisor of Guangshen Railway in 2002. Mr. Chen graduated from Zhuzhou Railway Mechanical School. Since 1975, he has served in various managerial positions in Guangzhou Railway Company and Yangcheng Railway Company. From 1997 to 2001, Mr. Chen served in the administration supervisory position at our

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Parent Company. Since May 2001, Mr. Chen has served as the chief of the supervision department of our Parent Company.

Li Zhiming, age 44, was appointed as a supervisor of Guangshen Railway in 2005. Mr. Li graduated from the Party School of the CPC majoring in economics and management and is an accountant. Since 1981, he has served in various managerial positions in Hengyang Railway Sub-administration and Changsha Railway Company. Mr. Li is currently the director of the Finance Office of Guangzhou Railway (Group) Company Changsha Railway Office.

Chen Yunzhong, age 52, was appointed as a supervisor of Guangshen Railway in 2001. Mr. Chen graduated from Guangzhou Railway Driver's School, Guangdong Jinan University and the Central Administration Academy. He was a member of the senior management of Hainan Railway Company. Mr. Chen joined us in May 2000.

Wang Jianping, age 41, was appointed a supervisor of the Company in 2005. Mr. Wang graduated from the Party School of the CPC majoring in economics and management. Since 1983, Mr. Wang has served in various managerial positions in Guangzhou Railway Sub-administration and Guangzhou Railway (Group) Limited. Mr. Wang joined the Company in 2003 and is currently a member of our senior management.

Lu Ximei, age 49, was appointed a supervisor of the Company in 2005. Ms. Lu graduated from Changsha Railway Institute majoring in railway traffic management. Since 1972., Ms. Lu has served in various managerial positions in the passenger transportation division of Yangcheng Railway Company. Ms. Lu was appointed section chief of the Guangzhou-Hong Kong Passenger Transportation Section of the Company in January 1999.

SENIOR MANAGEMENT

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The table below sets forth information relating to our senior management:

NAME ----	AGE ---	POSITION -----	DATE FIRST ELECTED OR APPOINTED -----
Li Qingyun	41	Deputy General Manager	2000
Wu Weimin	47	Deputy General Manager	2004
Han Dong	43	Deputy General Manager	2004
Yao Xiaocong	51	Chief Accountant	1997
Guo Xiangdong	39	Company Secretary	2004

Li Qingyun, age 41, joined the Company in September 1999 and is a Deputy General Manger of the Company. Mr. Li graduated from Northern Jiaotong University majoring in railway transportation and organization and has obtained a master's degree. Before joining the Company, Mr. Li has served in various managerial positions in the technical and transportation departments under our Parent Company from 1989 to August of 1999.

Wu Weimin, age 47, joined the Company in January 2004 and is a Deputy General Manager of the Company. Mr. Wu graduated from Guangdong Radio & TV University and is an engineer. Since 1984, he had served in various managerial positions in the Material and

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Equipment Department, the Planning and Statistic Department and the Labour and Wage Department of Yangcheng Railway Company. He also had served as an engineer in the Material and Equipment Section, the Director of the Planning and Statistic Sub-department of Yangcheng Railway Company. Mr. Wu was the Director of Labour and Wage Sub-department and Director of Social Insurance Centre of Yangcheng Railway Company before joining the Company as a Deputy General Manager in January 2004.

Han Dong, age 43, joined the Company in May 2000 and is a Deputy General Manager of the Company. Mr. Han graduated from Party School of the CPC, majored in economics and management, and is an engineer. Mr. Han joined the Company in August 1985 and had served in various managerial positions in the Material and Equipment Department, the Planning and Statistic Department, Passenger and Freight Transportation Marketing Department. Mr. Han was director of each of the Passenger and Freight Management Department and Equipment and Property Department of the Company.

Yao Xiaocong, age 51, is the Chief Accountant of the Company. Mr. Yao graduated from Party School of the CPC, majored in economics and management. Since 1975, Mr. Yao has served in the Financial Accounting Department in railway departments and has acquired nearly 30-year experience in financial accounting. Mr. Yao was a member of the senior management of the Company from June 1997 to January 2004. Mr Yao was the Director of the Accounting Department of Guangzhou Railway (Group) Company before he was appointed as the Chief Accountant of the Company in August 2004.

Guo Xiangdong, age 39, is the Company Secretary and the Director of Secretariat of the Board of Directors. Mr. Guo graduated from the Central China Normal University with a Bachelor of Laws degree and is an economist. He joined

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the Company in 1991, and previously served as the Deputy Section Chief, Deputy Director and the Director of Secretariat of the Board of Directors of Guangshen Railway. Mr. Guo has been as the Company Secretary since January 2004.

There are no family relationships between any director or executive officer and any other director or executive officer. Of the members of the board of directors, our chairman, Mr. Wu Junguang, is both the chairman and the general manager of our Parent Company.

Mr. Li Kelie is a member of the senior management of our Parent Company. Mr. Wu Houhui is the director of Guangmeishan Railway Company, Sanmao Railway Company and Shichang Railway Company. Mr. Hu Lingling is a director of Nanhai Saiyanqiao Railway Freight Yard and Storage Company, Sanmao Railway Company and Guangdong Railway Youth Travel Service Co., Ltd.. Mr. Wen Weiming is a supervisor of Guangzhou Railway Engineering (Group) Company and Guangdong Railway Youth Travel Service Co., Ltd.. The lines operated by Guangmeishan Railway Company, Sanmao Railway Company and Shichang Railway Company are local railroads. Guangzhou Tiecheng Industrial Company is our joint venture partner. We are currently involved in certain litigation proceedings relating to this joint venture. See "Item 8A.7 Legal Proceedings" for additional information. We have business relationships relating to railroad transportation with Guangmeishan Railway Company and Sanmao Railway Company.

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### ITEM 6B. BOARD COMPENSATION

#### DIRECTORS AND SENIOR MANAGEMENT

Total remuneration of our directors, supervisors and senior officers during 2004 included wages and bonuses. Directors or supervisors who are also officers and employees of Guangshen Railway receive certain other benefits in kind from our Parent Company, GEDC or us, such as subsidized or free health care services, housing and transportation, as customarily provided by companies in the PRC to their employees. 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 under the contractual arrangements made upon our restructuring.

The aggregate amount of cash remuneration paid by Guangshen Railway in 2004 to all individuals who are currently our directors, supervisors and senior officers was approximately RMB2.76 million, of which approximately RMB1.74 million was paid to directors and supervisors and approximately HK\$0.31 million was paid to the three independent non-executive directors.

The aggregate amount of cash remuneration we paid during the year ended December 31, 2004 for pension and retirement benefits to all individuals who are currently our directors, supervisors and senior officers was approximately RMB155,000.

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

As of December 31, 2004, there was no record of interests or short positions (including the interests or short positions which were taken or deemed to have under the provisions of the Hong Kong Securities and Futures Ordinance) held by our directors or supervisors in our shares, debentures or other securities, or securities of any of our associated corporation (within the meaning of the Hong Kong Securities and Futures Ordinance) in the register required to be kept under section 352 of the Hong Kong Securities and Futures

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Ordinance. We had not received notification of any interests or short positions from any of our directors or supervisors required to be made to us and the Hong Kong Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the HKSE Listing Rules. We have not granted any of our directors or supervisors, or any of their respective spouses or children under the age of 18, any right to subscribe for any of our shares or debentures.

### SERVICE CONTRACTS OF OUR DIRECTORS AND SUPERVISORS

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

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### CONTRACTS ENTERED INTO BY OUR DIRECTORS AND SUPERVISORS

None of our directors or supervisors had any direct or indirect material interests in any contract of significance subsisting during the year ended on December 31, 2004 or at December 31, 2004 to which we or any of our subsidiaries was a party.

### REMUNERATION OF OUR DIRECTORS AND SUPERVISORS

The level of remuneration of our directors and supervisors was determined by reference to various factors, including the going rates of remuneration in Shenzhen, where we are located, and the job nature of each of our directors and supervisors. The remuneration standard for our directors and supervisors is determined by our shareholders.

### ITEM 6C. BOARD PRACTICES

#### BOARD OF DIRECTORS

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

#### SUPERVISORY COMMITTEE

We have a supervisory committee consisting of five to seven supervisors. Supervisors serve a term of three years. Upon the expiration of their terms of office, they may be re-appointed to serve consecutive terms. The supervisory committee is presided over by a chairman who may be elected or removed with the consent of two-thirds or more of the members of the supervisory committee. The term of office of the chairman is three years, renewable upon re-election. Our supervisory committee was appointed at the general shareholders' meeting held on May 12, 2005 and consists of five representatives of the shareholders who may be elected or removed by our shareholders and two representative of our employees who may be elected or removed by our employees. Members of our supervisory committee may also observe meetings of the board of directors. The current members of our supervisory committee are: Yao Muming, Tang Dinghong, Chen Yongbao, Li Zhiming, Chen Yunzhong, Wang Jianping and Lu Ximei. The term of this

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supervisory committee will expire in 2008. Our supervisory committee held four meetings during the year ended December 31, 2004, at which resolutions concerning identified key issues were passed and notified to our board of directors. Our supervisors attended all meetings of our board of directors and other important meetings concerning our operation during the year ended December 31, 2004. Our supervisory committee had carefully reviewed the report of our directors, the financial report and proposed profit distribution presented by our board of directors at the annual general meeting held on May 12, 2005.

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Supervisors attend board meetings as non-voting members. The supervisory committee is responsible to our shareholders and has the follow duties and responsibilities:

- to supervise our handling of our financial matters;
- to supervise our directors, general manager, deputy general manager and other senior officers for compliance with laws, administrative regulations or our articles of association;
- to regulate any acts of directors, the general manager, deputy general manager and other senior officers that are detrimental to the interests of Guangshen Railway;
- to verify such financial information as financial reports, business reports and profit distribution plans submitted by the board of directors to the general shareholders' meeting, and arrange certified public accounts and auditors to verify issues;
- to convene interim general shareholders' meetings as requested; and
- to initiate legal proceedings against directors on behalf of Guangshen Railway.

### AUDIT COMMITTEE

We have an audit committee consisting of three independent non-executive directors. The current members of our audit committee, appointed by the board of directors, are: Mr. Chang Loong Cheong, Ms. Deborah Kong and Mr. Wilton Chau Chi Wai. Mr. Chang, Ms. Kong and Mr. Chau are "independent directors" of our Company as defined in Section 303A.02 of the New York Stock Exchange's Listed Company Manual. The audit committee must convene at least four meetings each year, and may invite the executive directors, persons in charge of the financial and audit departments and our independent auditors. The audit committee must convene at least one meeting with the auditors each year without any executive directors present. The duties of our audit committee include:

- reviewing the reports prepared by the board of directors, the annual and interim reports on our results of operations, the annual financial report and public announcements of our results of operations;
- reviewing our financial reports and the reports prepared by our independent auditor and its supporting documents, including the review of our internal controls and disclosure controls and procedures, and to discuss with the auditor our annual audit plan and solutions to problems in the previous year;
- reviewing and approving the selection of and remuneration paid to

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our independent auditor; and

- reviewing audit matters specifically identified by the board of directors, and determining whether such projects are in compliance with industrial practices and

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market rules, and performing statutory duties and safeguarding our interests and the interests of our shareholders.

ITEM 6D. EMPLOYEES

As of December 31, 2002, 2003 and 2004, we had approximately 9,258, 9,029 and 8,964 employees, respectively. The following chart sets forth the number of our employees by function as of December 31, 2004:

FUNCTION	EMPLOYEES
Passenger transportation personnel (1).....	1,525
Coordination personnel (2).....	972
Freight transportation personnel (3).....	414
Mechanical personnel (4).....	433
Power and water supply personnel (5).....	478
Vehicle personnel (6).....	685
Maintenance personnel (7).....	876
Power service personnel (8).....	428
Transportation supporting personnel (9).....	542
Diversified businesses and other supporting personnel (10).....	1,168
Technical and administrative personnel (11)....	1,166
Other personnel (12).....	277
Total.....	8,964

- 
- (1) Passenger transportation personnel means those people that provide station boarding and train services.
  - (2) Coordination personnel means those people responsible for train coordination.
  - (3) Freight transportation personnel means those people responsible for organization of freight transportation.
  - (4) Mechanical personnel means those people responsible for train operation and overhaul.
  - (5) Power and water supply personnel means those people responsible for contact network operation and overhaul as well as power and water consumption maintenance.
  - (6) Vehicle personnel means those people responsible for vehicle operation and overhaul.
  - (7) Maintenance personnel means those people responsible for station track and railroad switch maintenance.

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- (8) Power service personnel means those people responsible for signal equipment maintenance.
- (9) Transportation supporting personnel means the supporting personnel of trains, machinery, works, power and vehicle organizations.
- (10) Diversified businesses and other supporting personnel means all personnel involved in diversified businesses.
- (11) Technical and administrative personnel means all managerial personnel other than the personnel of diversified businesses.
- (12) Other personnel means all personnel who have been sick, studying or retired for a long time.

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All of our employees are located in Guangzhou, Shenzhen and the area adjacent to our Guangzhou-Shenzhen line. The number of our employees decreased by 65 in 2004, which we consider is a normal change occurred in the ordinary course of our business.

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

We have implemented a salary policy which links our employees' salaries with results of operations, labor efficiency and individual performance. Employees' salaries distribution is subject to macro-control and is based on their performance records and reviews. We paid approximately RMB492.6 million in salaries and benefits for our railroad businesses in 2004.

Pursuant to applicable government policies and regulations, we set aside statutory fund for our employees and also maintain various insurance policies for the benefits of our employees as set forth in the following table:

	AS A PERCENTAGE OF THE AGGREGATE SALARIES OF IN 2004	
EMPLOYEE BENEFITS	EMPLOYEES RESIDING IN GUANGZHOU AREA OR ALONG THE GUANGZHOU-SHENZHEN ROUTE	EMPLOYEES R SHEN
-----	-----	-----
Housing Fund.....	7%	
Retirement Insurance .....	18%	
Supplemental Retirement Insurance.....	5%	
Basic Medical Insurance.....	8%	
Supplemental Medical Insurance.....	1%	
Child-bearing Medical Insurance.....	0.4%	
Other Welfare Contributions.....	6%	

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Details of our statutory welfare fund and retirement benefits are set out in Notes 22 and 23 to the financial statement.

### ITEM 6E. SHARE OWNERSHIP

As of June 27, 2005, none of our directors, supervisors or senior management own any interest in any shares or options to purchase our shares.

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### ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

#### ITEM 7A. MAJOR SHAREHOLDERS

We are a joint stock company organized under the laws of the PRC in March 1996. The Parent Company, a state-owned enterprise under the administration of the MOR owns 67% of our outstanding common shares. The Parent Company is the sole shareholder of all of our domestic shares in the form of state legal person shares and is entitled to exercise all rights as our controlling shareholder according to the relevant laws, rules and regulations. The Parent Company has substantial influence over our operations, not only in its capacity as controlling shareholder, but also because of its role as an administrative agent of the MOR that controls and coordinates railway operations in Guangdong Province, Hunan Province and Hainan Province. As an instrumentality of the MOR, our Parent Company performs direct regulatory oversight functions with respect to us, including determining and enforcing technical standards and implementing special transportation directives.

The following table sets forth information regarding ownership of our issued and outstanding capital stock as of December 31, 2004. Note that it includes all persons who are known by us to own, either as beneficial owners or holders of record, five percent or more of our capital stock.

TITLE OF CLASS -----	IDENTITY OF PERSON OR GROUP -----	AMOUNT OWNED ----- (THOUSAND SHARES)	PERCENT OF TOTAL CAPITAL
Common Shares (Domestic Shares)	The Parent Company	2,904,250	

The following table sets forth all persons who are known by us to own, as holders of record, five percent or more of our issued and outstanding H shares as of December 31, 2004.

TITLE OF CLASS -----	IDENTITY OF PERSON OR GROUP -----	AMOUNT OWNED ----- (THOUSAND SHARES)	PERCENT OF TOTAL CAPITAL
Common Shares (H Shares)	Sumitomo Life Insurance Company (1)	128,916	3.0%
Common Shares (H Shares)	Sumitomo Mitsui Asset Management Company, Limited	128,916	3.0%
Common Shares (H Shares)	Mondrian Investment Partners	71,818.5	1.7%

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Ltd (formerly known as  
Delaware International  
Advisers Limited)

- 
- (1) As at December 31, 2004, Sumitomo Life Insurance Company was deemed to be interested in 128,916,000 H Shares (representing 9.01% of the total H Shares of the Company or 2.97% of the total share capital of the Company) held by Sumitomo Mitsui Asset Management Company, Limited, a controlled corporation of Sumitomo Life Insurance Company.

As of the date of this report, we are not aware of any arrangement that may at a subsequent date result in a change of control of Guangshen Railway.

As an owner of at least 30% of our issued and outstanding shares, our Parent Company is deemed a controlling shareholder (defined in Item 10 below), and therefore may not exercise our

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voting rights with respect to various matters in a manner prejudicial to the interests of our other shareholders. See "Item 10B. Memorandum and Articles of Association -- Restrictions on Controlling Shareholders". In accordance with our articles of association, each share of our capital stock has one vote and the shares of the same class have the same rights. Other than the restrictions noted in the first sentence of this paragraph, the voting rights of our major holders of domestic shares are identical to those of any other holders of our domestic shares, and the voting rights of our major holders of H shares are identical to those of our other holders of H shares. Holders of domestic shares and H shares are deemed to be shareholders of different classes for some matters, which may affect their respective interests. Holders of H shares and domestic shares are entitled to the same voting rights.

### ITEM 7B. RELATED PARTY TRANSACTIONS

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

The Parent Company and GEDC on the one hand and us on the other have agreed to certain mutual indemnities arising from or in respect of the various assets and liabilities transferred to or retained by the parties. The purpose of the indemnities is to ensure that none of Guangshen Railway, our Parent Company or GEDC will bear liabilities that it has not agreed to assume, even in cases where third parties have not consented to the division of liabilities among them and continue to make claims against an entity that has not assumed the relevant liability. The Parent Company and GEDC have agreed to indemnify Guangshen

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Railway against any claims arising from facts or events prior to the restructuring as well as any claims against Guangshen Railway in respect of assets and liabilities retained by them in the restructuring.

As a result of the restructuring, GEDC, Yangcheng Railway and our Parent Company (together with some of its subsidiaries) continue to provide social services to Guangshen Railway on a contractual basis. These services include medical care for our employees and their family members, kindergarten, elementary and secondary school education for the children of employees, room and board for our employees traveling on business, employee housing management and maintenance and public security in our stations and on-board our trains. GEDC provides most of these services through its facilities in Shenzhen. The Parent Company and Yangcheng Railway provide to Guangshen Railway in Guangzhou other services, including health care, employee training and childcare. For the services rendered, Guangshen Railway pays our Parent Company, Yangcheng Railway or GEDC, as the case may be, reasonable, arms-length fees.

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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 under the contractual arrangements made upon our restructuring.

Some transactions between Guangshen Railway and our Parent Company and its subsidiaries have continued after the restructuring, in the form of a cross-provision of goods and services. The principal goods and services provided by our Parent Company and some of its subsidiaries (including Yangcheng Railway and GEDC) to Guangshen Railway include the following:

- locomotives, railcars and operating personnel;
- leasing of passenger coaches;
- maintenance services for locomotives and passenger coaches;
- railroad transportation related services;
- fuel for the operation of locomotives;
- railway related materials;
- overhaul and emergency repair of our track and bridges;
- medical and health care services, which were terminated in August, 2004;
- public security;
- educational services, which were terminated in August, 2004; and
- employee housing.

The aggregate costs to us of these goods and services in 2002, 2003 and 2004 were RMB153.4 million, RMB167.2 million and RMB214.5 million, respectively.

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

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Under an agreement with Yangcheng Railway, Yangcheng Railway and Guangshen Railway provide each other and their passengers with services at Guangzhou Station, including, among other things, passenger boarding, ticket collection and on-board water supply.

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

- prices for railroad transportation-related services are determined in accordance with the actual costs incurred in providing these services plus a profit margin of 8% of aggregate chargeable costs (fuel expenses, asset depreciation and water utility fees are not counted as chargeable costs for purposes of this calculation), which amount, Guangshen Railway believes, is consistent with that which would be charged in an arm's-length transaction;

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- the rental amounts for the high-speed passenger coaches leased to Guangshen Railway by our Parent Company equal 6% of our Parent Company's purchase price for the coaches, approximating our Parent Company's depreciation expenses for the coaches; Guangshen Railway also bears all costs of maintenance and overhaul of these coaches;
- the prices for social and related services provided by Yangcheng Railway (i.e., educational) and GEDC (i.e., security, medical, educational and housing) are determined based on the actual cost of providing these services;
- the prices for social and related services provided by our Parent Company are determined on the following basis:
  - medical services : in accordance with the relevant local standards, subject to a 20% discount (except in respect of medicine and registration fees);
  - educational services : in accordance with the standards set by our Parent Company;
  - child care services : in accordance with the actual cost incurred for providing such services;
  - newspaper supply services : at an agreed cost of approximately RMB25 per year per copy of newspaper supplied, which cost may change based on cost changes to our Parent Company;

The medical services and educational services were terminated in the second half of 2004 when the hospitals and schools were transferred by GEDC to local government.

- the prices for the supply of railroad transportation related materials are determined in accordance with the relevant regulations issued by our Parent Company (which regulations are applicable to other railroads under the jurisdiction of our Parent Company);
- the prices for the provision of overhaul and large scale maintenance

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

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

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Beginning from 2001, we implemented the measures for the settlement of railway networks promulgated by the MOR. As such measures are more rational and scientific than the past measures, the implementation of such measures does not have a material impact on our revenues from and cost for our passenger and freight transportation business but has a certain positive impact on our results of operations.

The agreement with Yangcheng Railway was revised on March 6, 1996 and provides for a 10-year lease period starting from 1996. The lease with the MOR is renewable annually. Substantially all the above transactions will continue in the future, although not necessarily on the same terms.

The chart below sets forth a breakdown by category of the material transactions between our Parent Company and its affiliates and us in 2002, 2003 and 2004.

DESCRIPTION OF TRANSACTION -----	2002 ----	(RM)
Lease of locomotives and related services from Yangcheng Railway(i).....	42,047	
Provision of trains and related services from Guangmeishan Railway Company, a subsidiary of our Parent Company(ii).....	4,864	
Purchase of materials and supplies from Guangzhou Railway Material Supply Company, a subsidiary of our Parent Company(iii).....	33,074	
Social services (employee housing, health care, educational and public security services and other ancillary services) provided by our Parent Company and affiliates (including GEDC) (ii).....	66,744	
Operating lease rentals paid to the MOR(i).....	57,298	
Provision of trains and related services by the Ministry of Railway(i).....	211,667	
Train use fees and related service fees paid to Guangzhou Railway (Group) Passenger Transportation Company, a subsidiary of our Parent Company(i).....	6,681	
Interest expenses paid to our Parent Company(iv).....	2,443	
Interest received from the MOR' Railroad Deposit-taking Center(v).....	3,239	
Interest received from Pingnan Railway, an affiliate of our Parent Company(iv)...	806	
Interest received from Guangmeishan Railway Company(iv).....	1,884	

(i) The lease agreement with Yang Cheng Railway Company was revised on March 6, 1996 and provides for a 10-year lease period starting from 1996. The lease with MOR is based on the uniform rate set by MOR and is renewable annually.

(ii) The services are provided at the contractual prices based on cost and reasonable margin.

(iii) The prices are based on market price.

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- (iv) The interest was resulted from the long-distance transportation services, which was calculated based on the average balances due from/to related parties on a quarterly basis, at the prevailing interest rates of six-month bank loans.
- (v) See Note 10(b) and 24(b) to our audited consolidated financial statements included elsewhere in this annual report.

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As of December 31, 2004, we had the following material balances with our related parties:

	31 December,		
	2002	2003	
	-----	-----	-----
	RMB in thousands		
Temporary cash investments in the MOR's Railroad Deposit-taking Center(i)	168,000	168,000	168
Bank deposits in the MOR's railroad Deposit-taking Center	206,452	321,985	862
Due from Parent Company(ii)	39,374	-	
Due to Parent Company	-	(37,230)	(24)
Due from related parties	267,885	199,921	56
- Trading balance(iii)	54,425	10,608	36
- Non-trading balance(ii)	213,460	189,313	19
Due to related parties	(158,199)	(120,605)	(172)
- Trading balance(iii)	(125,847)	(60,128)	(83)
- Non-trading balance(iv)	(32,352)	(60,477)	(88)

- (i) See Note 10(b) to our audited consolidated financial statements included elsewhere in this annual report.
- (ii) As of 31 December, 2004, the balance with the Parent Company, which is non-trading in nature, and the non-trading balance due from related parties mainly represented the Company's payment on behalf of related parties, who were required to make settlements to the Parent Company in respect of their provision of long-distance transportation services. Interests arose from the balance due from the related parties are disclosed in Notes 24(a)(iv) to our audited consolidated financial statements included elsewhere in this annual report.
- (iii) The balances with related parties, which are of trading in nature, all aged within one year.
- (iv) As of 31 December, 2004, the non-trading balance due to related parties mainly represented the Company's collection of railroad revenue on behalf of the related parties.

As of 31 December, 2004, the balances with the MOR, the Parent Company and related parties are unsecured, non-interest bearing and repayable on demand, except for those disclosed in Notes 10(b) and 24(a) to the audited financial

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statements included elsewhere in this annual report and bank deposits in MOR's railroad Deposit-taking centre. These balances resulted from transactions between our related parties and us in the ordinary course of business. The balances with our Parent Company are all non-trading in nature. The balances with our related parties, which are trading in nature, are all due within one year.

Our related party transactions have been carried out on usual terms according to the conditions and waiver granted by The Stock Exchange of Hong Kong Limited and the contracts entered into between our related parties and us. Except for the Acquisition Agreement and connected transaction agreements as discussed in "ITEM 5. Operating and Financial Review and Prospects--Overview--Proposed Issue of A Shares, Very Substantial Acquisition and Continuing Connected Transactions", no new related party transaction were entered into in 2004. Our independent non-executive directors confirmed that, except for the proposed Acquisition as contemplated in the Acquisition Agreement, these transactions (which are "connected transactions" as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) entered into by us during 2004 were entered into in the ordinary and usual course of our business on normal commercial terms or on terms that were fair and reasonable so far as our shareholders were concerned, or in accordance with the terms of an agreement governing such transactions or, where there was no such agreement, on terms no less favorable than those offered to (or from) independent third parties.

### ITEM 7C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

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### ITEM 8. FINANCIAL INFORMATION

#### ITEM 8A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

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

See pages F-1 to F-41 following ITEM 19.

##### ITEM 8A.7 LEGAL PROCEEDINGS

As of December 31, 2004, our interest in an associated company, Guangzhou Tiecheng Enterprise Company Limited, or Tiecheng, amounted to approximately RMB140 million. In 1996, Tiecheng and a Hong Kong incorporated company jointly established Guangzhou Guantian Real Estate Company Limited, or Guangzhou Guantian, a sino-foreign cooperative joint venture to develop certain properties near a railway station owned and operated by us.

On October 27, 2000, Guangzhou Guantian together with Guangzhou Guanhua Real Estate Company Limited, or Guangzhou Guanhua, and Guangzhou Guanyi Real Estate Company Limited, or Guangzhou Guanyi, agreed to act as joint guarantors, or, collectively, the Guarantors, of certain payables of Guangdong Guangcheng Real Estate Company Limited, or Guangdong Guancheng, owned to an independent third party. The Guarantors, Guangdong Guancheng were related companies with a common chairman. Guangdong Guancheng failed to repay these payables, and the Guarantors were found liable under a court verdict made on November 4, 2001 to pay the independent third party an amount of approximately RMB257 million plus interest.

On December 15, 2003, Guangzhou Guantian applied to the High People's

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Court of Guangdong Province, or the Court, to discharge the aforesaid guarantee, which application was heard by the court on March 18, 2004. The Court has yet to complete the procedures for its reassessment of the previous court verdict. If Guangzhou Guantian were held responsible for the guarantee, we may need to provide for impairment on our interest in Tiecheng. However, based on counsel's advice, the directors are of the opinion that the guarantee arrangement is invalid under the relevant PRC rules and regulations. Accordingly, the directors consider that the chance of Guangzhou Guantian to settle the above claim is remote and no provision for impairment on the interests in Tiecheng was made in the accounts. In order to avoid any loss arising from any of the above legal proceedings, we have obtained a letter of undertakings from our Parent Company, whereby our Parent Company undertakes that it shall resolve or assume any loss arising from the above legal proceedings so as to ensure that our interests in the investment in Tiecheng will not be affected by the above legal proceedings.

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

### ITEM 8A.8 DIVIDEND DISTRIBUTIONS

We make decisions concerning the payment of dividends on an annual basis. Any dividends are paid at the discretion of our board of directors, which makes a recommendation in this regard that must be confirmed at our annual general shareholders' meeting. Our articles of

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association permit us to distribute dividends from profits more than once a year. The amount of these interim dividends cannot exceed 50% of our distributable income as stated in our interim profit statements. In accordance with our articles of association, the amounts available for the purpose of paying dividends will be deemed to be the lesser of:

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

See "Item 10E. Taxation" for a discussion of the tax consequences related to the receipt of dividends.

Our articles of association prohibit us from distributing dividends without first making up for cumulative losses from prior periods (determined in accordance with PRC accounting standards) and making all tax and other payments required by law. Further, prior to the payment of dividends, our profits are subject to deductions such as allocations to a statutory common reserve fund and into a public welfare fund. The common reserve fund may be used to make up losses or be converted into share capital or reinvested.

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

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On March 17, 2005, the Board proposed a final dividend distribution of RMB0.11 per share to our shareholders for the year ended December 31, 2004. The final dividend payment has been approved by the shareholders at our 2004 annual general meeting held on May 12, 2005.

### ITEM 8B. SIGNIFICANT CHANGES

Other than events already mentioned in this annual report, there have been no significant changes since December 31, 2004.

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### ITEM 9. THE OFFER AND LISTING

#### ITEM 9A. THE OFFER AND LISTING DETAILS

##### PRICE RANGE OF OUR H SHARES AND ADSS

As of December 31, 2004 and June 17, 2005, there were 1,431.3 million H shares issued and outstanding. As of December 31, 2004 and June 17, 2005, there were, respectively, 4,233,001 and 3,877,621 ADSs outstanding held by 183 and 185 registered holders. Since a percentage of the ADSs are held by nominees, these numbers may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depository for the ADSs is JPMorgan Chase Bank.

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

CALENDAR PERIOD -----	NEW YORK STOCK EXCHANGE -----		STOCK EXCHA -----
	HIGH ----	LOW ---	HIGH ----
	(US\$ PER ADS) -----		(HK\$ P -----
1999.....	7.625	4.8125	1.19
2000.....	7.625	4.5625	1.23
2001.....	10.48	6.19	1.76
2002.....	10.24	8.05	1.58
2003			
January to March.....	9.4	8.69	1.47
April to June.....	9.68	8.20	1.48
July to September.....	13.7	9.15	2.125
October to December.....	14.84	12.88	2.25
2004			
January to March.....	17.25	13.95	2.65
April to June.....	15.54	11.77	2.45
July to September.....	14.70	13.23	2.325
October to December.....	20.62	13.60	3.25

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2005			
January.....	20.20	17.91	3.20
February.....	19.80	18.45	3.125
March.....	18.92	17.76	3.05
April.....	18.63	15.35	2.925
May.....	17.94	16.20	2.825
June (through June 17th ).....	17.42	16.42	2.775

During the year ended December 31, 2004, we did not purchase, sell or redeem any of our shares.

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### ITEM 9B. PLAN OF DISTRIBUTION

Not applicable.

### ITEM 9C. MARKETS

Our H shares are listed on the Stock Exchange of Hong Kong under the stock code "0525" and American Depositary Shares representing our H shares are listed on the New York Stock Exchange under the stock code "GSH".

### ITEM 9D. SELLING SHAREHOLDERS

Not applicable.

### ITEM 9E. DILUTION

Not applicable.

### ITEM 9F. EXPENSES OF THE ISSUE

Not applicable.

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### ITEM 10. ADDITIONAL INFORMATION

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

### ITEM 10A. SHARE CAPITAL

As of December 31, 2004, our share capital consisted of:

TYPE OF SHARE CAPITAL	NUMBER OF SHARES ( '000)	PERCENTAGE OF SHARE (%)
State-owned legal person shares	2,904,250	66.99
H Shares	1,431,300	33.01
	-----	-----
Total	4,335,550	100.00

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Domestic shares may only be subscribed for and owned by legal or natural persons in the PRC, and must be subscribed for and traded in renminbi. Transfers of domestic shares are subject to restrictions set forth under PRC rules and regulations, which are not applicable to H shares, and also to restrictions on transfers of shares owned by the PRC government, and by our directors or employees. Domestic shares and H shares are also distinguished by differences in administration and procedure, including provisions relating to notices and financial reports to be sent to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and appointment of dividend receiving agents.

### RESTRICTIONS ON TRANSFERABILITY

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

- relevant transfer fees are paid, if any;
- the instrument of transfer only involves H shares;
- the stamp duty chargeable on the instrument of transfer has been paid;
- the relevant share certificate and, upon the reasonable request of the board of directors, any evidence in relation to the right of the transferor to transfer the shares have been submitted;
- if the shares are being transferred to joint owners, the maximum number of joint owners does not exceed four; and

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

### DIVIDENDS

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

- PRC accounting standards and regulations,
- international accounting standards; and
- the accounting standards of the countries in which our shares are listed.

The articles of association allow for distributions of cash dividends or shares. Dividends may only be distributed, however, after allowance has been made for:

- making up losses, if any, for prior years;
- allocations to the statutory common reserve fund;

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- allocations to the statutory public welfare fund; and
- allocations to a discretionary common reserve if approved by the shareholders.

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

### VOTING RIGHTS AND SHAREHOLDER MEETINGS

General shareholders' meetings can be annual general shareholders' meetings or extraordinary general meetings. Shareholders' meetings shall be convened by the board of directors. The board of directors shall convene an annual shareholders' meeting within six months of the end of each financial year. The shareholders provide us with principal authority at general meetings. We exercise our functions and powers in compliance with our articles of association and our by-laws.

We shall not enter into any contract with any person other than a director, supervisor, general manager or other senior officer of Guangshen Railway whereby the management and administration of the whole or any substantial part of any business of Guangshen Railway is to be handed over to such person without the prior approval of the shareholders in a general meeting.

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

- the number of directors falls short of the number stipulated in our by-laws or is below two-thirds of the number required in our articles of association;
- our accrued losses amount to one-third of our total share capital;
- shareholders holding not less than 10% of our issued shares carrying the right to vote make a request in writing to convene an extraordinary general meeting; or
- the board of directors considers it necessary or the supervisory committee proposes to convene such a meeting.

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

Where we convene an annual general meeting, shareholders holding not less than five percent of our total shares shall be entitled to submit new motions in writing to us. We shall include in the agenda of the meeting all items in the

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motion that fall within the scope of the general shareholders' meeting. An extraordinary shareholders' meeting shall not decide on matters that are not specified in the notice.

Based on the written replies received by us 20 days before a general shareholders' meeting, we shall calculate the number of voting shares represented by shareholders who have indicated their intention to attend the meeting. Where the number of voting shares represented by those shareholders reaches half of our total number of shares, we may convene the general shareholders' meeting. Otherwise, we shall, within five days, inform the shareholders again of the motions to be considered, the date and the venue of the meeting by way of a public announcement. After making the announcement, the general shareholders' meeting may be convened.

A notice of meeting of shareholders shall:

- be in writing;
- specify the place, day and the time of the meeting;
- state the motions to be discussed at the meeting;

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- provide such information and explanations as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate Guangshen Railway with another entity, to repurchase the shares of Guangshen Railway, to reorganize its share capital or to restructure Guangshen Railway in any other way, the terms of the proposed transaction must be provided in detail, together with copies of the proposed agreement, if any, and the cause and effect of the proposal must be properly explained;
- contain disclosure of the nature and extent, if any, of material interests of any director, supervisor, general manager or other senior officer of Guangshen Railway in the transaction proposed and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of shareholders of the same class;
- contain the text of any special resolution proposed to be moved at the meeting;
- contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him or her and that a proxy need not also be a shareholder; and
- state the time within which and the address to which the relevant instruments appointing the proxies for the meeting are to be delivered.

Notice of general meetings of shareholders shall be served on each shareholder whether or not entitled to vote at that meeting, by personal delivery or prepaid mail to the address of the shareholder as shown in the share register. For the benefit of holders of domestic shares, notice of general meetings of shareholders may also be given by way of public announcement by publication in one or more newspapers specified by the securities regulatory authorities on any day within 45 to 50 days prior to the meeting. This public

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announcement shall be deemed receipt by each holder of domestic shares of notice of the relevant meeting. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by any person entitled to receive notice shall not invalidate the meeting and the resolutions adopted. Where we convene an annual general meeting, we shall include in the notice of the meeting any resolutions submitted by shareholders (including proxies) who hold five percent or more of the total number of shares, provided that these resolutions fall within the scope of a general shareholders' meeting.

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

- work reports of the board of directors and the supervisory committee;
- profit distribution proposals and loss recovery proposals formulated by the board of directors;
- appointment and removal of members of the board of directors and the supervisory committee, their remuneration and methods of payment;

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- our annual financial budget, final accounts, balance sheet, profit and loss account and other financial statements; and
- matters other than those that are required by laws, administrative regulations or our articles of association to be adopted by way of special resolution.

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

- increase or reduction of our share capital and the issuance of shares of any class, warrants and other similar securities;
- issuance of company debentures;
- division, merger, dissolution and liquidation of Guangshen Railway;
- amendment to our articles of association; and
- any other matter that, according to an ordinary resolution of the shareholders meeting, may have a significant impact on Guangshen Railway and requires adoption by way of a special resolution.

Shareholders have the right to attend general meetings of shareholders and to exercise their voting rights, in person or by proxy, in relation to the amount of voting shares they represent. Each share carries the right to one vote.

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

- by the chairman of the meeting;
- by at least two shareholders who possess the right to vote, present in person or by proxy; or
- by one or more shareholders (including proxies) representing either

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separately or in aggregate, not less than one-tenth of all shares having the right to vote at the meeting.

Unless a poll is demanded, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favor of or against that resolution, that the resolution has been carried. A demand for a poll may be withdrawn. A poll demanded on the election of the chairman, or on a question of adjournment, shall be taken. A poll demanded on any other question shall be taken at such time

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as the chairman of the meeting directs, and any business other than that on which the poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. On a poll taken at a meeting, a shareholder entitled to two or more votes need not cast all his or her votes in the same way. In the case of a tie, the chairman of the meeting shall be entitled to one additional vote.

### BOARD OF DIRECTORS

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

Our directors' compensation is determined by resolutions approved at the general shareholders' meeting. Our directors have no power to decide their own compensations.

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

### LIQUIDATION RIGHTS

In the event of the termination or liquidation of Guangshen Railway, ordinary shareholders of Guangshen Railway shall have the right to participate in the distribution of surplus assets of Guangshen Railway in accordance with the number of shares held by those shareholders.

### LIABILITY OF SHAREHOLDERS

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

### INCREASES IN SHARE CAPITAL AND PREEMPTIVE RIGHTS

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

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approved by relevant PRC authorities.

### REDUCTION OF SHARE CAPITAL AND PURCHASE BY US OF OUR SHARES

We may reduce our registered share capital. In the following circumstances, we may repurchase shares, that we issued in the market, subject to a resolution passed in accordance with the provisions of our articles of association and approval by the securities regulatory authorities:

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- to cancel shares by way of reduction of capital;
- to merge with another company that holds our shares; or
- other circumstances permitted by laws and regulations.

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

- under a general offer;
- on a stock exchange; or
- by off-market contract.

We may, with the prior approval of shareholders in general meeting obtained in accordance with our articles of association, repurchase our shares by an off-market contract, and we may rescind or vary such a contract or waive any of our rights under the contract with the prior approval of shareholders obtained in the same manner. A contract to repurchase shares includes (without limitation) an agreement to become obliged to repurchase and an agreement to acquire the right to repurchase our shares. We shall not assign a contract to repurchase our own shares or any rights provided thereunder.

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

Unless we are in the process of liquidation:

- where we repurchase our shares at par value, the amount of the total par value shall be deducted from our distributable profits or out of the proceeds of a new issue of shares made for that purpose; and
- where Guangshen Railway repurchases its shares at a premium, an amount equivalent to their total par value shall be deducted from our distributable profits or the proceeds of a fresh issue of shares made for that purpose. Payment of the portion in excess of their face value shall be effected as follows:
  - if the shares being repurchased were issued at par value, payment shall be made out of our distributable profits; and
  - if the shares being repurchased were issued at a premium, payment shall be made out of our distributable profits or out of proceeds of a new issue of shares made for that purpose,

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provided that the amount paid out of the proceeds of the new issue may not exceed the lesser of the aggregate of

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premiums received by us on the issue of the shares repurchased or the current balance of our capital common reserve account (inclusive of the premiums from the fresh issue).

Payment by us in consideration for:

- the acquisition of rights to repurchase our shares; the variation of any contract to repurchase our shares; or
- the release of any of our obligations under any contract to repurchase our shares; shall be made out of our distributable profits.

### RESTRICTIONS ON CONTROLLING SHAREHOLDERS

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

- to relieve a director or supervisor of his or her duty to act honestly in our best interests;
- to approve the expropriation, by a director or supervisor (for his or her own benefit or for the benefit of another person), in any guise, of our assets, including without limitation opportunities advantageous to us; or
- to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of the individual rights of other shareholders, including without limitation rights to distributions and voting rights, save and except where it was done pursuant to a restructuring submitted to and approved by our shareholders in accordance with our articles of association.

"Controlling shareholder" means a person or a group of persons who satisfies one or more of the following conditions:

- he or she alone or the group acting in concert has the power to elect more than half the board of directors;
- he or she alone or acting in concert with others has the power to exercise or to control the exercise of 30% or more of our voting rights;
- he or she alone or acting in concert with others holds 30% or more of our issued and outstanding shares; or
- he or she alone or acting in concert with others in any other manner controls us in fact.

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### CHANGING RIGHTS OF A CLASS OF SHAREHOLDERS

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

### DUTIES OF DIRECTORS, SUPERVISORS AND OTHER SENIOR OFFICERS IN INTERESTED TRANSACTIONS

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

Unless the interested director, supervisor or other senior officer discloses his or her interests and the contract or transaction is approved by the board of directors at a meeting in which the interested director, supervisor or other senior officer is not counted in the quorum and refrains from voting, a contract or transaction in which that director, supervisor or other senior officer is materially interested is voidable by us except as against a bona fide party to the contract or transaction acting without notice of the breach of duty by the interested director or supervisor or other senior officer.

We shall not make a loan to or provide any guarantees in connection with a loan to a director, supervisor or other senior officer of Guangshen Railway or any of their respective associates. However, the following transactions are not subject to this prohibition:

- the provision by us of a loan or a guarantee of a loan to one of our subsidiaries;
- the provision by us of a loan or a guarantee in connection with a loan or any other funds to any of our directors, supervisors or other senior officers to pay expenditures incurred or to be incurred on our behalf by him or her or for the purpose of enabling him or her to perform his or her duties properly, in accordance with the terms of a service contract approved by the shareholders at a general meeting; and
- the provision by us of a loan or a guarantee in connection with a loan to any of our directors, supervisors or other senior officers or their respective associates in the ordinary course of our business on normal commercial terms, provided that the ordinary course of business includes the lending of money or the giving of guarantees.

### RECENT AMENDMENTS TO OUR ARTICLES OF ASSOCIATION

In connection with our proposed Acquisition and A Share Issue, we made a conditional amendment to our articles of association in December 2004 to meet applicable PRC regulatory

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requirements, in particular, the Mandatory Provisions for the Articles of Association of Companies to be Listed Outside China. The proposed amendment to our articles of association was furnished to the SEC as Exhibit 1.1 -- Appendix IX IX to the Form 6-K filed on December 8, 2004. The proposed amendment will take effect only if our proposed A Share Issue is completed. In May 2004, we made further amendments to our then effective articles of association, which changed the number of our directors from ten to nine. This amendment to our article of association was furnished to the SEC as Exhibit 1.1 to the Form 6-K filed on May 13, 2005.

### ITEM 10C. MATERIAL CONTRACTS

Except for the Acquisition Agreement and the connected transaction agreements we entered into with Yangcheng Railway Company as discussed in "ITEM 5. Operating and Financial Review and Prospects (pound)-Overview (pound)-Proposed Issue of A Shares, Very Substantial Acquisition and Continuing Connected Transactions", all other material contracts we entered into during the fiscal year of 2003 and 2004 were all made in the ordinary course of business.

### ITEM 10D. EXCHANGE CONTROLS

The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of renminbi into foreign exchange and through restrictions on foreign trade. Effective January 1, 1994, the dual foreign exchange system in China was abolished in accordance with the notice of the People's Bank of China concerning future reform of the foreign currency control system issued December 1993. The conversion of renminbi into U.S. dollars in China currently must be based on the People's Bank of China rate. The People's Bank of China rate is set based on the previous day's Chinese interbank foreign exchange market rate and with reference to current exchange rates on the world financial markets.

Any future devaluation of the renminbi against the U.S. dollar (whether due to a decrease in the foreign currency reserves held by the PRC government or any other reason) will have an adverse effect upon the U.S. dollar equivalent and Hong Kong dollar equivalent of our net income and increase the effective cost of foreign equipment and the amount of foreign currency expenses and liabilities. We have no plans to hedge our currency exposure in the future. No assurance can be given that the Hong Kong dollar to U.S. dollar exchange rate link will be maintained in the future, or, therefore, that the Hong Kong dollar revenues of Guangshen Railway will insulate Guangshen Railway from changes in the renminbi-U.S. dollar and renminbi-HK dollar exchange rates. Furthermore, any change in exchange rates that has a negative effect on the market for the H shares in either the United States or Hong Kong is likely to result in a similar negative effect on the other market.

We have been, and will continue to be, affected by changes in exchange rates in connection with our ability to meet our foreign currency obligations and will be affected by such changes in connection with our ability to pay dividends on H shares in Hong Kong dollars and on ADSs in U.S. dollars. As of December 31, 2004, we maintained the equivalent of approximately RMB934.8 million in U.S. dollar or Hong Kong dollar-denominated balances for purposes of satisfying our foreign currency obligations (e.g., to purchase foreign equipment) and

paying dividends to our overseas shareholders. See Note 32 to our audited consolidated financial statements. Guangshen Railway believes that it

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has or will be able to obtain sufficient foreign exchange to continue to satisfy these obligations. Guangshen Railway does not engage in any financial contract or other arrangement to hedge its currency exposure.

We are not aware of any other PRC laws, decrees or regulations that restrict the export or import of capital or that affect the remittance of dividends, interest or other payments to non-resident holders.

### ITEM 10E. TAXATION

#### PRC TAXATION

##### TAX BASIS OF ASSETS

As of June 30, 1995, our assets were valued in conjunction with the restructuring. This valuation, which was confirmed by the State Assets Administration Bureau, establishes the tax basis for these assets.

##### INCOME TAX

Since January 1, 1994, income tax payable by PRC domestic enterprises, including state-owned enterprises and joint stock companies, has been governed by the PRC Enterprise Income Tax Provisional Regulations and its implementation measures, or EIT regulations, which provide for an income tax rate of 33%, unless a lower rate is provided by law, administrative regulations or State Council regulations. Guangshen Railway is generally subject to tax at a rate of 33% pursuant to the EIT Regulations. However, as a result of our incorporation in the Shenzhen Special Economic Zone, our corporate income tax rate is reduced to 15%. Pursuant to an approval from the Shenzhen Local Tax Bureau dated November 12, 1997, Guangshen Railway was also entitled to a 50% further reduction of income tax arising from our high-speed train services in 1997, 1998 and 1999. To the extent that Guangshen Railway engages in other businesses through subsidiaries, those other companies are subject to corporate income tax rates of either 15% or 33% (applicable to places other than Shenzhen), depending mainly on their places of incorporation.

##### VALUE ADDED TAX

Pursuant to the Provisional Regulations of the PRC Concerning Value Added Tax effective from January 1, 1994 and the related implementing rules, our passenger and freight transportation businesses are not subject to value added tax, while our other businesses, such as retail sales of food, beverages and merchandise aboard our trains and in our stations, and some of the businesses conducted by our subsidiaries are subject to value added tax at the rate of either 6% or 17%, depending on the scale and nature of the businesses.

##### BUSINESS TAX

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax effective from January 1, 1994 and its implementing rules, business tax is imposed on enterprises that

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provide transportation services in the PRC. Business tax is levied at a rate of 3% on the transport of passengers and goods in or out of the PRC.

##### TAX ON DIVIDENDS

For an Individual Investor. According to the Provisional Regulations of

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

Amendments to the Individual Income Tax Law of the PRC were promulgated on October 31, 1993 and became effective on January 1, 1994. These amendments stipulate that any provisions of prior administrative regulations concerning individual income tax that contradict the amendments shall be superseded by the amendments. The amendments and the amended Individual Income Tax Law may be interpreted as meaning that foreign individuals will be subject to a withholding tax on dividends received from a company in the PRC at a rate of 20% unless such income is specifically exempted from individual income tax by the financial authority of the State Council.

However, in a letter dated July 26, 1994 to the State Commission for Restructuring the Economic System, the State Securities Commission and the China Securities Regulatory Commission regarding "Relevant Tax Issues on Dividends Received by Foreigners Who Hold Shares of Listed PRC Companies," the State Tax Bureau reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. As long as this letter is in effect, foreign individual investors will not be subject to the 20% withholding tax on dividends received from such a company.

For an Enterprise. When a foreign enterprise with no establishment or office in the PRC receives dividends from a company in the PRC, the foreign enterprise is normally subject to PRC withholding tax of 20% under the Income Tax Law of the PRC Concerning Enterprises with Foreign Investment and Foreign Enterprises. With respect to dividends paid by a company incorporated in the Shenzhen Special Economic Zone (such as Guangshen Railway), the withholding tax rate is 10%. However, according to the Tax Notice, a foreign enterprise without an establishment in the PRC receiving a dividend payment on overseas shares, such as H shares or ADSs, will not be subject to withholding tax on the dividend payment.

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### CAPITAL GAINS TAX

For An Individual Investor. Although the Provisions of Implementation of Individual Income Tax Law of the PRC, issued on January 28, 1994, stipulate that gains realized on the sale of shares by an individual would be subject to income tax at a rate of 20% and empower the Ministry of Finance to draft detailed rules on the mechanism of collecting this tax, the Tax Notice provides that gains realized by holders (both individuals and enterprises) of H shares or ADSs will not be subject to income tax.

For An Enterprise. A foreign enterprise with no establishment or office in the PRC is generally subject to a 20% tax on capital gains from the sale of

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shares in a company in the PRC. However, we believe that the tax exemption on capital gains enjoyed by foreign enterprises pursuant to the Tax Notice continues to be valid.

### TAX TREATIES

Foreign enterprises with no establishment in the PRC and individuals not resident in the PRC and who are resident in countries that have entered into double taxation treaties with the PRC may be entitled to a reduction of any withholding tax imposed on the payment of dividends from a PRC company. The PRC currently has double taxation treaties with a number of countries, including Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

The Agreement Between the Government of the United States of America and the PRC Government for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, together with related protocols, referred to herein as the US-PRC tax treaty, currently limit the rate of PRC withholding tax upon dividends paid by Guangshen Railway to a United States holder who is a United States resident for purposes of the US-PRC tax treaty to 10%. It is uncertain if the US-PRC tax treaty exempts from PRC tax the capital gains of a U.S. holder arising from the sale or disposition of H shares or ADSs. U.S. holders are advised to consult their tax advisors with respect to these matters.

### UNITED STATES FEDERAL INCOME TAXATION

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

- tax-exempt entities;
  - certain insurance companies;
  - broker-dealers;
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- traders in securities that elect to mark to market;
  - U.S. holders liable for alternative minimum tax;
  - U.S. holders that own 10% or more of our voting stock;
  - U.S. holders that hold the H shares or ADSs as part of a straddle or a hedging or conversion transaction; or
  - U.S. holders whose functional currency is not the U.S. dollar.

This discussion is based on the Code, its legislative history, final, temporary and proposed United States Treasury regulations promulgated thereunder, published rulings and court decisions as in effect on the date hereof, all of which are subject to change, or changes in interpretation, possibly with retroactive effect. In addition, this discussion is based in part

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upon representations of the depository and the assumption that each obligation in the deposit agreement and any related agreements will be performed according to its terms.

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

- a citizen or resident of the United States for United States federal income tax purposes;
- a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to United States federal income tax without regard to its source; or
- a trust:
  - subject to the primary supervision of a United States court and the control of one or more United States persons; or
  - that has elected to be treated as a United States person under applicable United States Treasury regulations.

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

This discussion does not address any aspects of United States taxation other than federal income taxation.

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WE URGE YOU TO CONSULT YOUR TAX ADVISORS REGARDING THE UNITED STATES FEDERAL, STATE, LOCAL AND NON-UNITED STATES TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE H SHARES OR ADSS.

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

### DISTRIBUTIONS ON THE H SHARES OR ADSS

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

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

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

but does not include an otherwise qualified foreign corporation that is a PFIC. We believe that we will be a qualified foreign corporation so long as we are not a PFIC and we are considered eligible for the benefits of the Agreement between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, or the Treaty. Our status as a qualified foreign corporation, however, may change.

Distributions that exceed our current and accumulated earnings and profits will be treated as a return of capital to you to the extent of your basis in the H shares or ADSs and thereafter as capital gain. Any dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from United States corporations. The amount of any distribution of property other than cash will be the fair market value of such property on the date of such distribution.

If we make a distribution paid in HK dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/U.S. dollar rate on the date such distribution is received by you or by the depository, regardless of whether you or the depository convert the distribution into U.S. dollars. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in your income to

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the date you or the depository convert the distribution into U.S. dollars will be treated as United States source ordinary income or loss for foreign tax credit limitation purposes.

Subject to various limitations, any PRC tax withheld from distributions in accordance with PRC law, as limited by the Treaty, will be deductible or creditable against your United States federal income tax liability. For foreign tax credit limitation purposes, dividends paid on the H shares or ADSs will be foreign source income, and for taxable years beginning on or before December 31, 2006, generally will be treated as "passive income" or, in the case of some U.S. holders, "financial services income." For taxable years beginning after December 31, 2006, such dividends generally will be treated as "passive category income" or, in the case of some U.S. holders, "general category income." You may not be able to claim a foreign tax credit (and instead may claim a deduction) for non-United States taxes imposed on dividends paid on the H Shares or ADSs if you (i) have held the H Shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss with respect to such shares, or (ii) are obligated to make payments related to the dividends (for example, pursuant to a short sale).

### SALE, EXCHANGE OR OTHER DISPOSITION

Upon a sale, exchange or other disposition of the H shares or ADSs, you will recognize a capital gain or loss for United States federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H shares or ADSs. Any gain or loss will generally be United States source gain or loss for foreign tax credit limitation purposes. Capital gain of certain

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non-corporate U.S. holders, including individuals, is generally taxed at a maximum rate of 15% where the property has been held more than one year. Your ability to deduct capital losses is subject to limitations.

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

### PFIC RULES

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

- 75% or more of its gross income consists of passive income, such as dividends, interest, rents and royalties; or
- 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income.

We believe that we will not meet either of the PFIC tests in the current or subsequent taxable years and therefore will not be treated as a PFIC for such periods. However, there can be no assurance that we will not be a PFIC in the current or subsequent taxable years.

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If we were a PFIC in any taxable year that you held the H shares or ADSs, you generally would be subject to special rules with respect to "excess distributions" made by us on the H shares or ADSs and with respect to gain from your disposition of the H shares or ADSs. An "excess distribution" generally is defined as the excess of the distributions you receive with respect to the H shares or ADSs in any taxable year over 125% of the average annual distributions you have received from us during the shorter of the three preceding years, or your holding period for the H shares or ADSs. Generally, you would be required to allocate any excess distribution or gain from the disposition of the H shares or ADSs ratably over your holding period for the H shares or ADSs. The portion of the excess distribution or gain allocated to a prior taxable year, other than a year prior to the first year in which we became a PFIC, would be taxed at the highest United States federal income tax rate on ordinary income in effect for such taxable year, and you would be subject to an interest charge on the resulting tax liability, determined as if the tax liability had been due with respect to such particular taxable years. The portion of the excess distribution or gain that is not allocated to prior taxable years, together with the portion allocated to the years prior to the first year in which we became a PFIC, would be included in your gross income for the taxable year of the excess distribution or disposition and taxed as ordinary income.

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

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to the extent of the net amount of previously included income as a result of the mark-to-market election. The New York Stock Exchange on which the ADSs are traded is a qualified exchange for United States federal income tax purposes.

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

If you own the H shares or ADSs during any year that we are a PFIC, you must file Internal Revenue Service, or IRS, Form 8621. We encourage you to consult your own tax advisor concerning the United States federal income tax consequences of holding the H shares or ADSs that would arise if we were considered a PFIC.

### BACKUP WITHHOLDING AND INFORMATION REPORTING

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

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shares or ADSs or the proceeds of any sale, exchange or transfer of the H shares or ADSs, unless you

- are a corporation or fall within various other exempt categories, and, when required, demonstrate this fact; or
- provide a correct taxpayer identification number on a properly completed IRS Form W-9 or a substitute form, certify that you are exempt from backup withholding and otherwise comply with applicable requirements of the backup withholding rules.

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

### HONG KONG TAXATION

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

### DIVIDENDS

No tax will be payable by you in Hong Kong in respect of dividends paid by us.

### TAXATION OF CAPITAL GAINS

No capital gain tax is generally imposed in Hong Kong in respect of capital gains from the sale of property (such as the H Shares). However, if trading gains from the sale of property by persons as part of profit making are regarded as carrying on a trade, profession or business in Hong Kong, where such

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gains are derived from or arise in Hong Kong from such trade, profession or business, such trading gains will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5% on corporations and at a maximum rate of 16% on individuals. Amendments to increase the Hong Kong profits tax to 17.5% for corporations and 15.5% for individuals have been proposed by the Financial Secretary. However, as of the date of this annual report, such proposals have not yet been adopted. Gains from sales of the H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares realized by persons carrying on a business of trading or dealing in Hong Kong in securities.

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

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### HONG KONG STAMP DUTY

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

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

### HONG KONG ESTATE DUTY

Estate duty is levied on the value of property situated in Hong Kong passing or deemed passing on the death of a person. H shares are regarded as property situated in Hong Kong for estate duty purposes. Currently, for persons dying on or after April 1, 1998, Hong Kong estate duty is imposed on the principal value of a deceased's estate at graduated rates from 5% to 15%. No estate duty is payable where the principal value of the dutiable estate does not exceed HK\$7.5 million; the maximum rate of 15% applies where the principal value exceeds HK\$10.5 million.

### ITEM 10F. DIVIDENDS AND PAYING AGENTS

Not applicable.

### ITEM 10G. STATEMENT BY EXPERTS

Not applicable.

### ITEM 10H. DOCUMENTS ON DISPLAY

We filed with SEC in Washington, D.C. a registration statement on Form F-1 (Registration No.333-3382) under the Securities Act in connection with our

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global offering of American depository shares in May 1996. The registration statement contains exhibits and schedules. For further information with respect to Guangshen Railway and our American depository shares, please refer to the registration statement and to the exhibits and schedules filed with the registration statement.

Additionally, we are subject to the informational requirements of the Exchange Act, and, in accordance with the Exchange Act, we file annual reports on Form 20-F within six months of our fiscal year end, and we will submit other reports and information under cover of Form 6-K with the SEC. You may review a copy of the registration statement and other information without charge at the public reference facilities maintained by the SEC at Room 1024, Judiciary

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Plaza, 450 Fifth Street, N.W., Washington, D.C. You may also inspect the registration statement and its exhibits and schedules at the office of the New York Stock Exchange, 11 Wall Street, New York, New York 10005. You may also get copies, upon payment of a prescribed fee, of all or a portion of the registration statement from the SEC's public reference room or by calling the SEC on 1-800-SEC-0330 or visiting the SEC's website at [www.sec.gov](http://www.sec.gov).

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

### ITEM 10I. SUBSIDIARY INFORMATION

Not applicable.

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### ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following paragraphs describe the various market risks to which we were exposed as of December 31, 2004.

#### CURRENCY RISKS

As approved by the PRC foreign exchange administration, Hong Kong dollar-denominated income from our through train service may be deposited by us in Hong Kong dollars up to an amount equal to US\$ 18.5 million and need not be converted into renminbi. If necessary, we had U.S. dollar denominated payment of Hong Kong dollar-denominated and U.S. dollar-denominated dividends on our H shares and ADSs, respectively, in excess of the foregoing limit have to be made after reconverting renminbi at the then applicable People's Bank of China rate into the relevant foreign currency. Some of our vendor contracts and equipment leases for the provision of equipment, parts and services, particularly with respect to the high-speed project, are paid by us in foreign currencies. As of December 31, 2004, U.S. dollar denominated time deposits with maturities of more than three months in an amount equivalent to RMB830.5 million, and Hong Kong dollar denominated time deposits with maturation of more than three months in an amount equivalent to RMB83.0 million. Our cash, bank deposits and time deposits with maturities of no more than three months consist of deposits denominated in U.S. dollar in a amount equivalent to RMB8.7 million, and deposits denominated in Hong Kong dollar in a amount equivalent to RMB12.6 million. While our foreign currency deposits are relatively stable, they are insufficient to pay all dividends and operating expenses, therefore, we bear the risk of exchange rate

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

### INTEREST RATE RISKS

Funds that we do not need in the short term are generally kept as temporary cash deposits in state-owned commercial banks and in the MOR Deposit-Taking Center in the form of demand or time deposits. We do not hold any market risk-sensitive instruments for trading purposes. As of December 31, 2004, we had no loans outstanding. Accordingly, we are not exposed to any material interest rate risks.

As of December 31, 2004, our balances denominated in Hong Kong dollars and U.S. dollars were translated into renminbi at the applicable market exchange rates as of that date and amounted to approximately RMB934.8 million. If the applicable market exchange rates were to change by 10%, this would result in a change in fair value of approximately RMB93.5 million in these balances. For the year ended December 31, 2004, the interest income derived from our cash balances at banks and temporary cash investments amounted to approximately RMB47.0 million. A 10% change in interest rates would have resulted in a change in interest income of

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approximately RMB4.7 million.

Except as described above and in Notes 26 and 27 to our audited consolidated financial statements herein, our management believes that as of the end of December 31, 2004, at present and in our normal course of business, we are not subject to any other market-related risks.

### CREDIT RISKS

See "ITEM 8A.7 Legal Proceedings" for a discussion of our potential loss in our interests in Tiecheng resulting from a litigation. See "Item 5B. Liquidity and Capital Resources" for a discussion of the overdue time deposit held by Li Cheng.

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### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

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None.

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

None.

### ITEM 15. CONTROLS AND PROCEDURES

#### DISCLOSURE CONTROLS AND PROCEDURES

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

#### INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### HOME COUNTRY PRACTICES

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

- according to our Audit Committee Charter, the members of our audit committee, who are all non-executive independent directors, shall meet at least four times a year pursuant to the schedule determined by our audit committee.
- we do not have a nominating committee or a corporate governance committee similar to that required for U.S. domestic companies;
- we do not have a compensation committee similar to that required for U.S. domestic companies. Under the Corporate Governance Code implemented by the HKSE in January 2005, there is a mandatory requirement for a company listed on the HKSE to have a remuneration committee composed of a majority of independent non-executive directors;

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- we do not have formal corporate governance guidelines similar to those required for U.S. domestic companies. However, in accordance with applicable PRC laws and regulations and the HKSE Listing Rules, we have adopted the Articles of Association, the General Meeting System, the Working Ordinance for the Board of Directors, the Working Ordinance for the Board of Supervisors, the Working Ordinance for the General Manager, the Capital Management Measures, the Investment Management Measures, the Code of Ethics for Senior Officers and the Audit Committee Charter that contain provisions addressing (1) director qualification standards and

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responsibilities; (2) key board committee responsibilities; (3) director access to management and, as necessary and appropriate, independent advisors; (4) director compensation; (5) management succession; and (6) director orientation and continuing education;

- as a company listed on the HKSE, we are required to comply with applicable corporate governance and other related requirements of the HKSE Listing Rules, including the Corporate Governance Code, unless an exemption is available.
- we have not adopted a code of business conduct and ethics for our directors, officers and employees similar to that required for U.S. domestic companies. We have implemented code of business conduct and ethics for senior management, including our General Manager, Deputy General Manager, Chief Accountant, Chief Engineer and Company Secretary. In addition, our directors are required to comply with the Model Code for Securities Transactions by Directors of Listed Companies set out in the HKSE Listing Rules, which sets out standards with which directors are required to comply with respect to transactions involving our securities.

### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Wilton Chau Chi Wai is an "audit committee financial expert" as defined in Item 16A of Form 20-F. Mr. Chau and each of the other members of the Audit Committee is an "independent director" as defined in Section 303A.02 of the New York Stock Exchange's Listed Company Manual.

### ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our Chief Executive Officer, President, Chief Financial Officer and other senior officers on April 20, 2004. A copy of this code of ethics was filed with the SEC as Exhibit 11.1 to the annual report on Form 20-F for the fiscal year ended December 31, 2003.

### ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Resolutions to appoint PricewaterhouseCoopers (certified public accountants in Hong Kong), or PwC, as our international auditors for 2004 have been approved at the annual general meeting of Guangshen Railway held on June 10, 2004.

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PwC was our international auditors for 2003 and 2002.

The following table presents the aggregate fees for professional services and other services rendered by PwC to us in 2004 and 2003.

	2004	2003
	----	----
	(RMB MILLIONS)	
Audit Fees	2.0	2.0
Audit-related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-

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Total	---	---
	2.0	2.0
	===	===

Other than the audits performed on our financial statements, PwC did not provide any services to us in 2004 and 2003. The Audit Committee Charter, which was adopted by our board of directors on August 12, 2004 based on the applicable guidelines set forth in the HKSE Listing Rules and U.S. Sarbanes-Oxley Act of 2002, provides that our audit committee is responsible for, among other matters, supervising the audit of our Company, including the assessment and evaluation of the nature, quality and scope of work and the fees of our external auditors. Pursuant to paragraph (c) (7) (i) (A) of Rule 2-01 of Regulation S-X, the engagement of PwC to perform these audit services were approved by our audit committee and our board of directors.

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

Not applicable.

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

During the year ended December 31, 2004, there was no purchase, sale or redemption of our equity securities by us, or any of our subsidiaries.

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PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 to F-47 following ITEM 19.

ITEM 19. EXHIBITS

(a) See pages F-1 to F-47 following this item.

(b) Index of Exhibits

Documents filed as exhibits to this annual report:

Exhibit Number -----	Description -----
1.1	Articles of Association
4.1	Railway Business Related Assets Purchase Agreement dated November 15, 2004 between Guangshen Railway Company Limited and Guangzhou Railway Group Yangcheng Railway Company
4.2	Land Lease Agreement dated November 15, 2004 between Guangshen

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Railway Company Limited and Guangzhou Railway (Group) Company

- 4.3 Comprehensive Services Agreement dated November 15, 2004 between Guangshen Railway Company Limited and Guangzhou Railway (Group) Company
- 4.4 Comprehensive Services Agreement dated November 15, 2004 between Guangshen Railway Company Limited and Guangzhou Railway Group Yangcheng Railway Company
- 7.1 Statements explaining how certain ratios are calculated in this annual report
- 8.1 List of significant subsidiaries of Guangshen Railway Company Limited as of December 31, 2004
- 12.1 Section 302 principal executive officers' and principal financial officer's certifications

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- 13.1 Certifications of principal executive officers and principal financial officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002.

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### INDEX TO FINANCIAL STATEMENTS

#### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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[PRICEWATERHOUSECOOPERS LOGO]

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and changes in shareholders'

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equity present fairly, in all material respects, the financial position of Guangshen Railway Company Limited (the "Company") and its subsidiaries (established in the People's Republic of China) at 31 December, 2003 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended 31 December, 2004, in conformity with International Financial Reporting Standards. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with International Standards on Auditing issued by the International Federation of Accountants and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

International Financial Reporting Standards vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 31 to the consolidated financial statements.

PRICEWATERHOUSECOOPERS

Hong Kong  
June 27, 2005

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED 31 DECEMBER, 2002, 2003 AND 2004

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

		Years ended 31 December,		
	Notes	2002	2003	2004
		RMB	RMB	RMB
Revenues from railroad businesses				
Passenger		1,903,782	1,790,204	2,259,671
Freight		530,776	526,382	611,807
		2,434,558	2,316,586	2,871,478
Sub-total				
Revenues from other businesses		166,266	151,596	166,671
		2,600,824	2,468,182	3,038,149
Total revenues				
Operating expenses				
Railroad businesses				

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Business tax		(73,923)	(47,569)	(83,732)
Labour and benefits		(373,781)	(347,649)	(492,581)
Equipment leases and services		(433,918)	(437,739)	(452,204)
Materials and supplies		(192,141)	(216,993)	(245,534)
Repair costs, excluding materials and supplies		(102,377)	(89,640)	(216,294)
Depreciation		(335,508)	(290,014)	(334,501)
Amortisation of leasehold land payments		(15,131)	(15,602)	(15,704)
Fees for social services		(57,385)	(62,579)	(84,643)
General and administrative expenses	4	(123,800)	(134,688)	(190,290)
Others		(101,251)	(113,382)	(126,338)
		-----	-----	-----
Sub-total		(1,809,215)	(1,755,855)	(2,241,821)
		-----	-----	-----
Other businesses				
Business tax		(9,373)	(7,226)	(7,840)
Materials and supplies		(124,602)	(112,677)	(95,637)
General and administrative expenses	4	(35,137)	(29,711)	(62,678)
		-----	-----	-----
Sub-total		(169,112)	(149,614)	(166,155)
		-----	-----	-----
Total operating expenses		(1,978,327)	(1,905,469)	(2,407,976)
		-----	-----	-----
Profit from operations		622,497	562,713	630,173
Other income	5	6,575	17,586	5,809
Interest income, net	6	32,712	27,287	41,248
Share of losses of associates	16	(323)	(2,508)	(12,119)
		-----	-----	-----
Profit before tax		661,461	605,078	665,111
Income tax expense	7	(104,265)	(93,348)	(98,373)
Minority interests		(113)	32	746
		-----	-----	-----
Profit attributable to shareholders		557,083	511,762	567,484
		=====	=====	=====
Dividends		433,555	455,233	476,911
Earnings per share				
- Basic	8	RMB0.13	RMB0.12	RMB0.13
		=====	=====	=====
- Diluted	8	N/A	N/A	N/A
		=====	=====	=====
Earnings per equivalent ADS				
- Basic	8	RMB6.42	RMB5.90	RMB6.54
		=====	=====	=====
- Diluted	8	N/A	N/A	N/A
		=====	=====	=====

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

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 \*Translation of amounts from Renminbi ("RMB") into United States dollars ("US\$") for the convenience of the reader has been made at the Noon Buying Rate on 31 December, 2004 of US\$1.00=RMB8.3 as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on 31 December, 2004.

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF 31 DECEMBER, 2003 AND 2004

(Amounts in thousands)

		31 December	
	Notes	2003	2004
	-----	-----	-----
		RMB	RMB
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		1,402,359	1,169,255
Temporary cash investments	10	627,440	1,379,309
Interest receivables		25,497	10,513
Trade receivables, net	11	80,614	106,652
Materials and supplies, at cost		38,692	60,602
Prepayments and other receivables, net	12	223,463	206,060
Due from related parties		199,921	56,064
		-----	-----
Total current assets		2,597,986	2,988,455
Fixed assets			
Construction-in-progress	13	6,952,878	6,973,279
Leasehold land payments	14	390,393	345,313
Interests in associates	15	652,083	636,379
Interests in associates	16	140,494	128,346
Available-for-sale investments	17	167,962	167,962
Deferred tax assets	18	6,154	18,406
Deferred staff costs	19	166,003	150,911
		-----	-----
Total assets		11,073,953	11,409,051
		=====	=====
<b>LIABILITIES AND EQUITY</b>			

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Current liabilities			
Trade payables		34,625	56,272
Payables for construction of fixed assets		148,258	164,591
Accrued expenses and other payables	20	358,287	518,808
Due to Parent Company		37,230	24,617
Due to related parties		120,605	172,121
Dividend payable		232	456
		-----	-----
Total current liabilities		699,237	936,865
		-----	-----
Minority interests		52,358	51,612
		-----	-----
Commitments and contingencies	28,30	-	-
		-----	-----
Equity			
Common stock, par value RMB1.00 per share, 4,335,550 shares authorized and outstanding	21	4,335,550	4,335,550
Additional paid-in capital		3,984,135	3,970,100
Dedicated capital		1,368,627	1,369,711
Retained earnings		634,046	745,213
		-----	-----
Total equity		10,322,358	10,420,574
		-----	-----
Total liabilities and equity		11,073,953	11,409,051
		=====	=====

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

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 \*Translation of amounts from Renminbi ("RMB") into United States dollars ("US\$") for the convenience of the reader has been made at the Noon Buying Rate on 31 December, 2004 of US\$1.00=RMB8.3 as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on 31 December, 2004.

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER, 2002, 2003 AND 2004

(Amounts in thousands)

	Year ended 31 December		
	2002	2003	2004
	-----	-----	-----
	RMB	RMB	RMB

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CASH FLOWS FROM OPERATING ACTIVITIES:

Profit attributable to shareholders	557,083	511,762	567,
Adjustments for:			
Minority interests	113	(32)	(
Income tax expense	104,265	93,348	98,
Depreciation	337,797	291,653	336,
Amortisation of leasehold land payments	15,131	15,602	15,
Loss on disposals of fixed assets	29,339	16,935	
Amortisation of deferred staff costs	15,092	15,092	15,
Share of losses of associates	323	2,508	12,
Provision for doubtful accounts	4,598	172	18,
Interest expense	4,064	2,359	1,
Interest income	(36,920)	(29,755)	(42,
Decrease / (increase) in current assets			
Trade receivables	24,064	(28,621)	(26,
Materials and supplies	86	(4,587)	(21,
Prepayments and other receivables	87,676	17,320	3,
Due from Parent Company	(9,875)	-	
Due from associated companies			
Due from related parties	8,128	66,179	143,
Increase / (decrease) in current liabilities			
Trade payables	(27,314)	(7,109)	21,
Due to Parent Company	-	(13,821)	(12,
Due to related parties	99,549	(37,594)	51,
Accrued expenses and other payables	48,529	(10,924)	139,
Interest paid	(4,064)	(2,359)	(1,
Tax paid	(100,487)	(99,679)	(84,
	-----	-----	-----
Net cash provided by operating activities	1,157,177	798,449	1,236,
	-----	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of fixed assets and payments for construction-in-progress, net of related payables	(553,337)	(339,208)	(310,
Proceeds from sale of fixed assets	12,369	1,105	4,
Increase in interests in associates	(4,761)	(374)	
Decrease / (increase) in temporary cash investments	777,898	(60,101)	(751,
Purchase of available-for-sale investments	(14,108)	-	
Interest received	32,942	23,109	57,
	-----	-----	-----
Net cash from (used in) investing activities	251,003	(375,469)	(1,000,
	-----	-----	-----

CASH FLOWS FROM FINANCING ACTIVITIES:

Share issuance costs	-	-	(14,
Dividends paid to Company's shareholders	(356,490)	(433,561)	(455,
Dividends paid to minority interests	(4,153)	(105)	
	-----	-----	-----
Net cash used in financing activities	(360,643)	(433,666)	(469,
	-----	-----	-----

Net increase / (decrease) in cash and cash equivalents	1,047,537	(10,686)	(233,
Cash and cash equivalents, beginning of year	365,508	1,413,045	1,402,
	-----	-----	-----
Cash and cash equivalents, end of year*	1,413,045	1,402,359	1,169,
	=====	=====	=====

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\* Analysis of the balances of cash and cash equivalents

	Year ended 31 December,			
	2002	2003	2004	2004
	RMB	RMB	RMB	US\$*
Cash and bank deposits	1,413,045	1,402,359	1,169,255	140,874

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

\*Translation of amounts from Renminbi ("RMB") into United States dollars ("US\$") for the convenience of the reader has been made at the Noon Buying Rate on 31 December, 2004 of US\$1.00=RMB8.3 as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on 31 December, 2004.

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER, 2002, 2003 AND 2004

(Amounts in thousands)

	Note	Dedicated capital					Re ea
		Share capital/ common stock	Additional paid-in Capital	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	
		RMB	RMB	RMB	RMB	RMB	
Balances at 1 January, 2002		4,335,550	3,984,135	432,108	424,568	341,659	6
Profit attributable to shareholders		-	-	-	-	-	5
Appropriation from retained earnings	22	-	-	59,301	29,734	-	(
Dividends relating to 2001		-	-	-	-	-	(4
Balances at 1 January, 2003		4,335,550	3,984,135	491,409	454,302	341,659	6
Profit attributable to shareholders		-	-	-	-	-	5
Appropriation from retained earnings	22	-	-	54,165	27,092	-	(

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Dividends relating to 2002	-	-	-	-	-	(4)
Balances at 1 January, 2004	4,335,550	3,984,135	545,574	481,394	341,659	6
Profit attributable to shareholders	-	-	-	-	-	5
Share issuance costs	-	(14,035)	-	-	-	
Appropriation from retained earnings	22	-	59,771	29,900	-	(
Dividends relating to 2003	9	-	-	-	-	(4
Balances at 31 December, 2004	4,335,550	3,970,100	605,345	511,294	341,659	6

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

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Guangshen Railway Company Limited (the "Company") was established as a joint stock limited company in the People's Republic of China (the "PRC") on 6 March, 1996 to take over and operate certain railroad and other businesses (the "Businesses").

Prior to the formation of the Company, the Businesses were carried on by the Company's predecessor, Guangshen Railway Company (the "Predecessor"), and certain of its subsidiaries, and in certain cases, by Guangzhou Railway (Group) Company (the "Parent Company") and certain of its subsidiaries, which were all under the common control and jurisdiction of the PRC Ministry of Railways (the "MOR"). The Predecessor was controlled by and under the administration of the Parent Company. Pursuant to a restructuring agreement entered into among the Parent Company, the Predecessor and the Company on 8 March, 1996 and with effect from 6 March, 1996 (the "Restructuring Agreement"), the Company issued to the Parent Company 100% of its equity interest in the form of 2,904,250,000 ordinary shares (the "State-owned Domestic Shares") in exchange for the assets and liabilities of the Businesses (the "Restructuring").

In May 1996, the Company issued 1,431,300,000 shares, represented by 217,812,000 H Shares ("H Shares") and 24,269,760 American Depositary Shares ("ADSs", one ADS represents 50 H Shares) in a global public offering for cash of approximately RMB4,214,000,000 to finance the capital expenditures and working capital requirements of the Company and its subsidiaries (the "Group").

The principal activities of the Group are railroad passenger and freight transportation. The Group also operates certain other businesses, principally services in the stations and sales of food, beverages and merchandise aboard the trains and in the stations.

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The directors of the Company considered Guangzhou Railway (Group) Company, a state-owned enterprise established in the PRC, to be the ultimate holding company.

The Group conducts its operations in the PRC and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of North American and Western European companies. These include risks associated with, among others, the political, economic and legal environments, foreign currency exchange, government regulation of the railway system, development and competition in the transportation industry, insurance, entry by the PRC with the World Trade Organisation (the "WTO"), and the ability to obtain sufficient financing. These are described further in the following paragraphs:

(a) Political environment

The operating results of the Group may be adversely affected by changes in the political and social conditions in the PRC and by changes in governmental policies with respect to laws and regulations, inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. While the PRC's government is expected to continue its economic reform policies, many of the reforms are new or experimental and may be refined or changed. It is also possible that a change in the PRC's leadership could lead to changes in economic policy.

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES (CONT'D)

(b) Economic environment

The economy of the PRC differs significantly from the economies in the North America and Western Europe in many respects, including its structure, levels of development and capital reinvestment, growth rate, government involvement, resource allocation, self-sufficiency, rate of inflation and balance of payments position. The adoption of economic reform policies since 1978 has resulted in a gradual reduction in the role of state economic plans in the allocation of resources, pricing and management of such assets, and increased emphasis on the utilization of market forces, and rapid growth in the PRC's economy. However, such growth has been uneven among various regions of the country and among various sectors of the economy.

The central government has from time to time adopted various measures designed to stabilize the economy, regulate growth and contain inflation. All such economic events and measures could adversely affect the results of operations and expansion plans of the Group.

(c) Legal environment

The PRC legal system is based on written statutes under which prior court decisions may be cited as authority but do not have binding precedential effect. The PRC's legal system is relatively new, and the government is still in the process of developing a comprehensive system of laws, a

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process that has been ongoing since 1979. Considerable progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. Such legislation has significantly enhanced the protection afforded to foreign investors. However, experience with respect to the implementation, interpretation and enforcement of such laws is limited.

(d) Foreign currency exchange

A major portion of the Company's revenues is denominated in RMB. A portion of such revenues will need to be converted into other currencies to meet foreign currency obligations such as payment of any dividends declared. The existing foreign exchange limitations under PRC law could affect the Group's ability to obtain foreign exchange through debt financing, or to obtain foreign exchange for capital expenditures or for distribution of dividends on H shares and ADSs.

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES (CONT'D)

(e) Government regulation of the railway system

The PRC's national railway system is principally state-owned and operated as a single unified system, and is subject to operational and regulatory control by the MOR and, with respect to price setting for transport services, by the State Council of the PRC (the "State Council"). Prior to the Restructuring, the Company operated substantially within this system in which the MOR exercised overall authority over transportation operations, equipment and materials procurement, engineering and construction, revenue and expenditure controls, as well as other aspects of railroad operations.

In connection with the Restructuring, the Company was granted special flexibility and autonomy in areas such as obtaining freight cars, scheduling services and determining the mix of passenger seat classes within its own line, routing trains through bottlenecks and dispatching empty freight cars to destinations beyond its rail line. In addition, in February 1996, the State Council granted the Company, with effect from 1 April, 1996, increased flexibility and autonomy with respect to the setting of passenger fares and freight tariffs. This regulatory flexibility and autonomy allows the Company a greater degree of control over its operations and the ability to adjust its services to meet market demand. Further, in preparation for the offering in 1996, the Company received legal clarification and confirmation of its asset ownership, corporate powers and relationships with service providers and other entities in the national railway system.

Although the operating flexibility and autonomy were granted to the Company without a fixed time limit, there can be no assurance that these will not be changed in the future or that other railway operators will not be granted similar treatment. Apart from the special dispensations granted in connection with the Restructuring, the Company, as a part of the

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national railway system, is generally subject to industry regulation by the MOR and must coordinate as required with other entities in the railway system.

PRC government regulation has a significant impact on the Group's businesses. The price of railway transportation in particular is an important factor and has a substantial impact on the Group's business income. The regulatory framework with respect to the pricing of railway services may limit the Group's flexibility to respond to market conditions, competition or changes in the Group's cost structure.

(f) Development and competition in the transportation industry

As the industrial structure in the PRC is increasingly upgraded, advanced technological products, such as computer components, will gradually replace traditional industrial products as the principal goods in the Group's freight transportation business. These changes will affect the variety, volume and price of the Group's freight transportation and could have an adverse effect on the Group's results of operations.

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES (CONT'D)

(f) Development and competition in the transportation industry (Cont'd)

Intensifying competition from other forms of transportation may affect the Group's profitability and growth. With the gradual implementation of the PRC government's policies of supporting infrastructure industries, the railway transportation sector, particularly the passenger transportation business, is facing increasing competition from other means of surface, air and water transportation. The Group, in particular, faces significant competition from bus services operating in the Pearl River Delta.

(g) Insurance

The Company does not currently maintain any insurance coverage with third party carriers against third party liabilities. Pursuant to applicable PRC regulations and the practice of national railway companies, the Company is liable for (i) personal injury to or death of our passengers in the case of accidents for up to RMB20 per passenger and (ii) personal injury to or death of passengers for fault for up to RMB60 per passenger. With respect to loss of or damage to baggage, parcels and freight, the Company's 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 RMB0.03 for each 10-kilogram of damaged baggage and/or parcels. Similarly, freight transport customers who elect not to purchase insurance may recover up to RMB0.1 for each ton of damaged freight.

Consistent with what it believes to be the customary practice among railway operators in the PRC, the Company does not maintain insurance coverage for its property and facilities (other than for its automobiles), for business interruption or for environmental damage arising from

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accidents on Company property or relating to Company operations. As a consequence, in the event of an accident or other event causing loss, destruction or damage to the Company's property or facilities, causing interruption to the Company's normal operations or causing liability for environmental damage or clean-up, the Company will be reliant on its own resources to cover losses and damages.

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

#### 1. ORGANISATION AND PRINCIPAL ACTIVITIES (CONT'D)

##### (g) Insurance (Con'd)

Before November of 2004, the Company does not maintain medical insurance or disability insurance with any third party insurance carriers. The Company adopted internal rules to provide for medical and disability benefits to its employees, consistent with MOR regulations and practices and relevant regulations of the Shenzhen municipality. The Company entered into service agreements with the Parent Company and Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company ("GEDC"), a wholly-owned subsidiary of the Parent Company, pursuant to which the health care facilities owned by these entities provide medical services to the Company's employees and their families. After November of 2004, with the medical insurance reform, the Company entered the social insurance system organized by the government. Under the new medical insurance system, the Group's contributions to the medical insurance for the Group's employees in the PRC are made monthly to a government agency. The government agency is responsible for the medical liabilities relating to these employees. The Group accounts for these contributions on an accrual basis and the costs of the benefits are recognised as an expense in the period in which they are incurred.

##### (h) Entry by the PRC with the WTO

Entry by the PRC with the WTO, may increase competition for the Group's business. With the PRC's entry into the WTO, other Chinese coastal cities' significance in trading will be enhanced. Part of the freight currently transferred through ports in Hong Kong and Shenzhen will be shipped to other ports in the PRC, which will adversely affect the Group's railway freight business. In addition, as the PRC government lifts control over foreign investments, including allowing foreign participation in railway construction, the Company's railway monopoly position in its region may be challenged by foreign strategic investment, and potential competitors may arise in the Pearl River Delta.

##### (i) Ability to obtain sufficient financing

The Company may be unable to obtain sufficient financing to fund its substantial capital requirements, which could limit its growth potential. The Company estimates that it will require approximately RMB3,360,692 for capital expenditures in 2005, mainly for financing the construction of its fourth track between Guangzhou and Shenzhen, the improvement of eastern station of Guangzhou, the purchase of additional locomotives and trains. The Company's actual capital requirements may be greater. The Company may

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not be able to obtain sufficient funds on commercially acceptable terms. If adequate capital is not available, the Company's planned capital expenditure and business prospects could be adversely affected.

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

#### 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Group are as follows:

##### (a) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory accounts in the PRC, which have been prepared in accordance with generally accepted principles and relevant financial regulations in the PRC ("PRC GAAP"). In preparing these financial statements, appropriate adjustments have been made to the Group's statutory accounts to conform with IFRS. Differences arising from the adjustments are not incorporated in the accounting records of the Group.

The principal adjustments made to conform to IFRS include the following:

- Additional depreciation charges on fixed assets;
- Write-down of reclaimed rails to realisable value;
- Difference in the recognition policy on housing benefits to the employees;
- Reversal of amortisation of deferred renovation expenses;
- Difference in depreciation charges on fixed assets resulting from reclassification;
- Recognition of government grants by deducting the carrying value of fixed assets; and
- Recording of the share issuance costs to the reserves.

The financial statements have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain fixed assets are stated at valuation less accumulated depreciation and impairment losses.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and

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actions, actual results ultimately may differ from those estimates.

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

#### 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

##### (a) Basis of presentation (Cont'd)

In 2003, there was a change of accounting estimate in respect of the useful lives of certain fixed assets. The financial effects of the change of accounting estimate were reported in the previous year's consolidated financial statements.

The consolidated financial statements reflect certain reclassification and additional disclosures to conform more closely to presentations customary in filings with the Securities and Exchange Commission of the United States of America.

Differences between IFRS and generally accepted accounting principles in the United States of America ("US GAAP") as applicable to the group are set forth in Note 31.

Translation of amounts from RMB into US\$ for the convenience of the reader has been made at the Noon Buying Rate on 31 December, 2004 of US\$1.00=RMB8.3 as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on 31 December, 2004.

##### (b) Group accounting

The consolidated financial statements include those of the Company and its subsidiaries and also incorporate the Group's interest in associates on the basis as set out in Note 2(c) and 2(d) below. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated income statement, respectively.

All significant intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated on consolidation; unrealised losses are also eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

##### (c) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

#### 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

##### (d) Associates

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control.

Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

##### (e) Foreign currency transactions

The Group maintains its books and records in RMB.

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement in the period in which they arise. Translation differences on monetary assets measured at fair value are recognised in foreign exchange gains and losses.

The Group did not enter into any hedge contracts during any of the periods presented.

No foreign currency exchange gains or losses were capitalised for any periods presented.

##### (f) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, temporary cash investments, trade receivables and payables, other receivables and payables and available-for-sale investments. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

The Group had no derivative financial instruments in any of the years presented.

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## GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

#### 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

##### (g) Fixed assets

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

Subsequent to the initial recognition, fixed assets are stated at cost or valuation less accumulated depreciation and impairment losses (see Note 13). Independent valuations, on a market value basis or depreciated replacement cost basis when there is no evidence of market value for such an item, are performed at least every five years or sooner if considered necessary by the directors. In the intervening years, the directors review the carrying values of the fixed assets and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve.

Decreases in valuation of fixed assets are first offset against increases from earlier valuations in respect of the same asset and are thereafter charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged. Upon the disposal of the fixed assets, the relevant portion of the realised revaluation reserve of previous valuations is transferred from the revaluation reserve to retained earnings and is shown as a movement in reserves.

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

Buildings	25 to 40 years
Leasehold improvements	over the lease terms
Track, bridges and service roads	55 to 100 years
Locomotives and rolling stock	20 years
Communications and signaling systems	8 to 20 years
Other machinery and equipment	7 to 25 years

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

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## GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

#### 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

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(g) Fixed assets (Cont'd)

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement. When revalued assets are sold, the amounts included in fair value and other reserves are transferred to retained earnings.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

(h) Construction-in-progress

Construction-in-progress represents plant and facilities, including railroad stations and maintenance facilities under construction and machinery pending for installation. This includes the costs of construction and acquisition. No depreciation is provided on construction in progress until the asset is completed and ready for use.

(i) Leasehold land payments

All land in the PRC is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land for its rail line, stations and other businesses. The premium paid for such leasehold land payments represents pre-paid lease payments, which are amortised over the lease terms of 36.5 to 50 years using the straight-line method.

(j) Impairment of long lived assets

Fixed assets and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(k) Available-for-sale investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for sale investments; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet

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date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. All purchases and sales of available-for-sale investments are recognised on the date that the transaction is effective. Cost of purchase includes transaction costs. Available-for-sale investments are not subsequently fair-valued because they do not have quoted market prices in active markets and whose fair values cannot be reliably measured. These investments are carried at cost, and are subject to review for impairments.

(l) Deferred staff costs

The Group have finalised a scheme for selling staff quarters to its staff in 2000. Under the scheme, the Group sold certain staff quarters to their employees at preferential prices as housing benefits to the employees. The total housing benefits, which represented the difference between the net book value of the staff quarters sold and the proceeds collected from the employees, are expected to benefit the Group over 15 years, which is the estimated remaining average service lives of the employees participating in the scheme. Upon the sales of staff quarters to the employees, the housing benefits incurred are recorded as deferred staff costs and amortised over the remaining average service lives of the employees participating in the scheme.

(m) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(n) Materials and supplies

Materials and supplies consist mainly of items for repair and maintenance of track, and are stated at lower of cost and net realisable value. Materials and supplies are expensed when used.

(o) Receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(p) Temporary cash investments

Temporary cash investments represent short-term deposits with original

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maturities ranging from three months to one year, which are held for investment purpose and are stated at amortised cost.

(q) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other financial institutions, other short-term highly liquid investments with original maturities of three months or less.

(r) Income tax expense

The Group provides for income tax expense on the basis of the results for the year as adjusted for items which are not assessable or deductible for income tax purposes. Taxation of the Group is determined in accordance with the relevant tax rules and regulations applicable to enterprises established/incorporated in the PRC.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(s) Employee benefits

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff are to be made monthly to a government agency based on 26% of the standard salary set by the provincial government, of which 18% is borne by the Company or its subsidiaries and the remainder 8% is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Group accounts for these contributions on an accrual basis and charges the related contributions to income in the year to which the contributions relate.

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(t) Government grants

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

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straight-line basis over the useful lives of the fixed assets.

(u) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(v) Revenue recognition

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

(i) Rendering of services and sales of goods

Railroad revenues are recognised when services are performed. Revenues from other businesses include sales aboard the trains and in the stations of food, beverages and other merchandise and revenues from operating restaurants in major stations. Revenues from operating restaurants are recognised when services are rendered.

Sales aboard the trains and in the stations of food, beverages and merchandise are recognised upon delivery, when the significant risks and rewards of ownership of these goods have been transferred to the buyers.

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

(iii) Dividend income

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

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(w) Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Company's shareholders.

(x) Segments

Business segments: for management purposes the Group is organised into railroad transportation and other business operations. The divisions are

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the basis upon which the Group reports their primary segment information. Financial information on business segments is presented in Note 3.

Inter-segment transactions: segment revenues, segment expenses and segment performance include transfers between business segments. Those transfers are eliminated on consolidation.

(y) Comparatives

Certain amounts reported in previous years have been reclassified to conform with current year presentation.

### 3. SEGMENTAL INFORMATION

(a) Business segments

The Group conducts the majority of its business activities in railroad and other business operations (see Note 1). These segments are determined primarily because the senior management makes key operating decisions and assesses performance of the segments separately. The accounting policies of the Group's segments are the same as those described in the principal accounting policies in Note 2. The Group evaluates performance based on profit from operations. Segment assets consist primarily of fixed assets, materials and supplies, receivables and operating cash, and mainly exclude deferred tax assets and interests in associates. Segment liabilities comprise operating liabilities and exclude taxes payable. Capital expenditure comprises additions to fixed assets (see Note 13) and construction-in-progress (see Note 14).

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## GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

### 3. SEGMENTAL INFORMATION

(a) Business segments (Cont'd)

An analysis by business segment is as follows:

	Railroad businesses			Other busine	
	2004	2003	2002	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenues					
- External	2,871,478	2,316,586	2,434,558	166,671	151,596
- Inter-segment	-	-	-	58,727	52,172
	2,871,478	2,316,586	2,434,558	225,398	203,768
	=====	=====	=====	=====	=====
Segment result	629,657	560,731	625,343	516	1,982
Other income	5,175	16,809	1,411	634	777

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Interest income	41,850	29,349	36,281	534	406																																															
Finance costs	-	-	-	-	-																																															
Share of losses of associates	(12,119)	(2,508)	(323)	-	-																																															
Income tax expense																																																				
Minority interests																																																				
Profit attributable to shareholders																																																				
Other information																																																				
Segment assets	11,046,722	10,082,637	10,147,098	215,577	844,668																																															
Deferred tax assets	-	-	-	-	-																																															
Interests in associates	128,346	140,494	139,972	-	-																																															
Total assets																																																				
Segment liabilities	757,510	429,123	678,303	103,477	220,620																																															
Taxes payable	-	-	-	-	-																																															
Total liabilities																																																				
Capital expenditure	315,035	298,890	526,700	11,477	7,103																																															
Non-cash expenses - Depreciation	334,501	290,014	335,508	1,588	1,639																																															
- Amortisation of leasehold land payments	15,704	15,602	15,131	-	-																																															
- Provision for doubtful accounts	18,668	123	4,257	82	49																																															
- Amortisation of deferred staff costs	15,092	15,092	15,092	-	-																																															
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2"></th> <th colspan="3">Consolidation</th> <th colspan="2">Total</th> </tr> <tr> <th>2004</th> <th>2003</th> <th>2002</th> <th>2004</th> <th>2003</th> </tr> <tr> <th></th> <th>RMB'000</th> <th>RMB'000</th> <th>RMB'000</th> <th>RMB'000</th> <th>RMB'000</th> </tr> </thead> <tbody> <tr> <td>Revenues</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>- External</td> <td>-</td> <td>-</td> <td>-</td> <td>3,038,149</td> <td>2,468,182</td> </tr> <tr> <td>- Inter-segment</td> <td>(58,727)</td> <td>(52,172)</td> <td>(75,188)</td> <td>-</td> <td>-</td> </tr> <tr> <td></td> <td>(58,727)</td> <td>(52,172)</td> <td>(75,188)</td> <td>3,038,149</td> <td>2,468,182</td> </tr> <tr> <td></td> <td>=====</td> <td>=====</td> <td>=====</td> <td>=====</td> <td>=====</td> </tr> </tbody> </table>							Consolidation			Total		2004	2003	2002	2004	2003		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	Revenues						- External	-	-	-	3,038,149	2,468,182	- Inter-segment	(58,727)	(52,172)	(75,188)	-	-		(58,727)	(52,172)	(75,188)	3,038,149	2,468,182		=====	=====	=====	=====	=====
	Consolidation			Total																																																
	2004	2003	2002	2004	2003																																															
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000																																															
Revenues																																																				
- External	-	-	-	3,038,149	2,468,182																																															
- Inter-segment	(58,727)	(52,172)	(75,188)	-	-																																															
	(58,727)	(52,172)	(75,188)	3,038,149	2,468,182																																															
	=====	=====	=====	=====	=====																																															
Segment result	-	-	-	630,173	562,713																																															
Other income	-	-	-	5,809	17,586																																															
Interest income	-	-	-	42,384	29,755																																															

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Finance costs	-	-	-	(1,136)	(2,468)
Share of losses of associates	-	-	-	(12,119)	(2,508)
Income tax expense				(98,373)	(93,348)
Minority interests				746	32
				-----	-----
Profit attributable to shareholders				567,484	511,762
				=====	=====
Other information					
Segment assets	-	-	-	11,262,299	10,927,305
Deferred tax assets	-	-	-	18,406	6,154
Interests in associates	-	-	-	128,346	140,494
				-----	-----
Total assets				11,409,051	11,073,953
				=====	=====
Segment liabilities	-	-	-	860,987	649,743
Taxes payable	-	-	-	75,878	49,494
				-----	-----
Total liabilities				936,865	699,237
				=====	=====
Capital expenditure	-	-	-	326,512	305,993
				=====	=====
Non-cash expenses - Depreciation	-	-	-	336,089	291,653
				=====	=====
- Amortisation of leasehold land payments	-	-	-	15,704	15,602
				=====	=====
- Provision for doubtful accounts	-	-	-	18,750	172
				=====	=====
- Amortisation of deferred staff costs	-	-	-	15,092	15,092
				=====	=====

For the years ended 31 December, 2002, 2003 and 2004, no revenues from a single customer accounted for 10 percent or more of the Group's total revenues.

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

3. SEGMENTAL INFORMATION (CONT'D)

(b) Geographic segments

For the year ended 31 December, 2004, all of the Group's business

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operations are conducted in the PRC.

### 4. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December,		
	2002	2003	2004
	RMB	RMB	RMB
Wages and bonus	16,226	14,936	46,043
Retirement and employee benefits	49,722	58,778	100,659
Utility expenses	195	219	138
Office expenses	15,538	15,414	15,131
Construction duty, land use fees and other duties	3,761	3,539	1,683
Depreciation	1,625	1,693	1,589
Amortisation of deferred staff costs	15,092	15,091	15,092
Provision for doubtful accounts	4,598	172	18,750
Others	52,180	54,557	53,883
	-----	-----	-----
	158,937	164,399	252,968
	=====	=====	=====
Attributable to:			
Railroad businesses	123,800	134,688	190,290
Other businesses	35,137	29,711	62,678
	-----	-----	-----
	158,937	164,399	252,968
	=====	=====	=====

### 5. OTHER INCOME

	Year ended 31 December,		
	2002	2003	2004
	RMB	RMB	RMB
Exchange losses /(gain)	799	(1,356)	(363)
Others	5,776	18,942	6,172
	-----	-----	-----
	6,575	17,586	5,809
	=====	=====	=====

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

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6. INTEREST INCOME, NET

	Year ended 31 December,		
	2002	2003	2004
	RMB	RMB	RMB
Finance costs	(4,208)	(2,468)	(1,136)
Interest income	36,920	29,755	42,384
	32,712	27,287	41,248
	=====	=====	=====

7. INCOME TAX EXPENSE

Enterprises established in Shenzhen Special Economic Zone are subject to income tax at a reduced rate of 15% as compared with the standard income tax rate for PRC companies of 33%. The Shenzhen Municipal Tax Bureau confirmed in 1996 that the Company is subject to a reduced income tax rate of 15% starting from the same year. The income tax rate of the Company for the year ended 31 December, 2004 is 15%.

According to the relevant income tax laws, other businesses of the Group are subject to income tax rates of 15% or 33%, depending mainly on their places of incorporation/establishment. Furthermore, certain subsidiaries engaged in other businesses are Sino-foreign joint ventures which are entitled to full exemption from the PRC income tax for two years and a 50% reduction in the next three years starting from the first profit-making year, after offsetting available tax losses carried forward from prior years.

Save as described above, the directors of the Company are not being informed of any change in the enterprise income tax treatment applicable to the Group.

Details of taxation charged to the consolidated income statement during the year were as follows:

	Year ended 31 December,		
	2002	2003	2004
	RMB	RMB	RMB
Provision for PRC income tax	106,649	91,925	110,625
Deferred tax benefits resulting from recognition of bad debts aging over three years	-	-	(9,404)
Deferred tax (benefit) / charge resulting from provision for doubtful accounts	(1,173)	316	(2,813)
Deferred tax (benefit) / charge resulting from loss on the disposals of fixed assets	(1,211)	1,107	(35)
	104,265	93,348	98,373
	=====	=====	=====

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

7. INCOME TAX EXPENSE (CONT'D)

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

	2002 ----- Percentage	2003 ----- Percentage
Weighted average statutory tax rate	15.0%	15.0%
Tax effect of expenses that are not deductible in determining taxable profit:		
- Amortisation of deferred staff costs	0.3%	0.4%
- Share of loss of associate	-	-
- Entertainment expenses over deductible limits		
Effect of different tax rates for certain subsidiaries	0.4%	-
Deferred tax benefits resulting from recognition of bad debts aging over three years	----	----
Effective income tax rate	15.7% =====	15.4% =====

8. EARNINGS PER SHARE AND PER EQUIVALENT ADS

The calculation of basic earnings per share and per equivalent ADS were based on the profit attributable to shareholders for the year attributable to ordinary shareholders of RMB567,484 (2003: RMB511,762), divided by the weighted average number of ordinary shares and equivalent ADS outstanding during the year of 4,335,550,000 and 86,711,000 respectively (2003: 4,335,550,000 and 86,711,000 respectively). No diluted earnings per share and per equivalent ADS were presented as there were no dilutive potential ordinary shares as of year end.

9. DIVIDENDS

	2003 ----- RMB'000	2004 ----- RMB'000
Final, proposed, of RMB0.11 (2003: RMB0.105) per ordinary share	455,233 =====	476,911 =====

At a meeting held on 17 March, 2005, the directors proposed a final dividend of RMB0.11 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31, December 2005.

## GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

## 10. TEMPORARY CASH INVESTMENTS

	Note	31 December,	
		2003	2004
		RMB	RMB
Time deposits with maturities over three months in banks	(a)	459,440	1,211,309
Time deposits with maturities over three months in the MOR's Railway Deposits-taking Center	(b)	168,000	168,000
		627,440	1,379,309
		=====	=====

- (a) Time deposits with maturities over three months in banks consist of short-term deposits denominated in RMB, Hong Kong dollars ("HK\$"), and US dollars ("USD") (2003: RMB and USD) with original maturities ranging from six months to one year, placed with banks in the PRC. The annual interest rate of RMB deposits ranged from 1.71% to 2.07% in 2004 (2003: 1.98%), the annual interest rate of HK\$ deposit was 1.2% (2003: 1.13%), and the annual interest rates of USD deposits were LIBOR plus a floating rate ranging from -0.2% to 0% (2003: LIBOR plus a floating rate ranging from -0.2% to 0%). Total interest earned from such deposits amounted to approximately RMB 15,015 for the year (2003: approximately RMB 11,868).
- (b) Time deposits with maturities over three months in the MOR's Railroad Deposit-taking Center consist of short-term deposits denominated in RMB (2003: RMB) with original maturities of one year (2003: one year). The annual interest rate of RMB deposits was 1.98% in 2004 (2003: 1.98%). Total interest earned from such deposits amounted to approximately RMB 3,098 (2003: approximately RMB 3,326) for the year (see Note 24(b)).

## GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

## 11. TRADE RECEIVABLES, NET

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	31 December,	
	2003	2004
	RMB	RMB
Trade receivables	96,037	122,075
Less: Provision for doubtful accounts	(15,423)	(15,423)
	80,614	106,652
	=====	=====

The credit terms of trade receivables are within one year. The aging analysis of trade receivables, net was as follows:

	31 December,	
	2003	2004
	RMB	RMB
Within 1 year	75,674	99,297
Over 1 year but within 2 years	4,719	7,332
Over 2 years but within 3 years	221	23
	80,614	106,652
	=====	=====

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers, who are widely dispersed. Due to this factor, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Group's trade receivables.

Movements of provision for doubtful accounts:

	Year ended 31 December,	
	2003	2004
	RMB	RMB
At beginning of year	15,959	15,423
Reversal during the year	(536)	-
	15,423	15,423
	=====	=====

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(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

### 12. PREPAYMENTS AND OTHER RECEIVABLES, NET

	31 December,	
	2003	2004
	RMB	RMB
Other receivables	157,690	200,555
Less: Provision for doubtful accounts	(38,288)	(57,038)
Other receivables, net	119,402	143,517
Prepayments	104,061	62,543
	-----	-----
	223,463	206,060
	=====	=====

Movements of provision for doubtful accounts:

	Year ended 31 December,	
	2003	2004
	RMB	RMB
At beginning of year	39,898	38,288
Addition of provision during the year	172	18,750
Reversal during the year	(1,782)	-
	-----	-----
At end of year	38,288	57,038
	=====	=====

As of 31 December, 2004 and 2003, the Company had fixed deposit with the principal amount of approximately RMB31.365 million in Zeng Cheng City Li Cheng Credit Cooperative ("Li Cheng"). The Company had not been able to recover the principal from Li Cheng upon the expiry of the fixed deposit term. In March 1999, the Company instituted legal proceedings against Li Cheng to recover the deposit and the related interest. According to the court verdict dated 12 October, 1999, Li Cheng was required to repay the deposit principal and the related interest to the Company. As Li Cheng failed to execute the court ruling, the Company further applied to the court for compulsory enforcement of the court order. In July 2000, Li Cheng filed a petition to the court for winding up. On 9 November, 2000, the court ordered the suspension of execution of the court ruling dated 12 October, 1999, while Li Cheng was undergoing a winding-up. On 23 November, 2000, the Company applied to the Guangdong Provincial Government for allocation of special funds by the government to Li Cheng for repayment of the Company's deposit principal. The provincial government accepted the petition and requested the municipal government to follow up on the case. In 2002, the Company reclassified such amount from temporary cash investment and accounted for 50% provision pursuant to management's estimates. As of the date of this

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report, the fixed deposit has not yet been collected. Based on the management's current estimates, the Company accounted for full provision in 2004.

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

#### 13. FIXED ASSETS, NET

	Buildings	Leasehold improvement	Track, bridges and service roads	Locomotives and rolling stock	Communications and signalling systems
	RMB	RMB	RMB	RMB	RMB
Cost/valuation					
At 1 January, 2003	1,941,156	38,500	4,245,546	1,026,205	297,106
Additions	260	-	-	21,679	916
Transfer from					
construction-in-progress	209,479	-	123,832	-	720
Government grants	(17,000)	-	-	-	-
Reclassification	(154,024)	-	(37,113)	-	5,936
Disposals	(92,503)	-	(16,560)	(4,992)	(4,600)
	-----	-----	-----	-----	-----
At 31 December, 2003	1,887,368	38,500	4,315,705	1,042,892	300,078
Additions	22,644			15,232	3,379
Transfer from					
construction-in-progress	229,261		26,851		17,905
Reclassification*	171,753		(21,878)		21,992
Disposals	(15,216)		(3,600)		(1,260)
	-----	-----	-----	-----	-----
At 31 December, 2004	2,295,810	38,500	4,317,078	1,058,124	342,094
	-----	-----	-----	-----	-----
Representing:					
At cost	457,122	38,500	187,339	37,781	68,116
At 2002 professional valuation	1,838,688	-	4,129,739	1,020,343	273,978
	-----	-----	-----	-----	-----
	2,295,810	38,500	4,317,078	1,058,124	342,094
	-----	-----	-----	-----	-----
Accumulated depreciation					
At 1 January, 2003	376,192	13,475	1,037,553	271,152	178,397
Charges for the year	54,399	7,700	46,476	47,648	34,144
Reclassification*	-	-	(16,682)	-	563
Disposals	(921)	-	(2,550)	(4,992)	(4,417)
	-----	-----	-----	-----	-----
At 31 December, 2003	429,670	21,175	1,064,797	313,808	208,687

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Charges for the year	75,363	7,700	51,103	44,126	35,609
Reclassification	9,226	-	77	-	777
Disposals	(1,915)	-	(3,240)	-	(1,248)
	-----	-----	-----	-----	-----
At 31 December, 2004	512,344	28,875	1,112,737	357,934	243,825
	-----	-----	-----	-----	-----
Net book value					
At 31 December, 2004	1,783,466	9,625	3,204,341	700,190	98,269
	=====	=====	=====	=====	=====
At 1 January, 2004	1,457,698	17,325	3,250,908	729,084	91,391
	=====	=====	=====	=====	=====

Had the fixed assets been carried at cost less accumulated depreciation, the carrying amounts at 31 December, 2004 would have been:

Cost	1,595,705	38,500	3,667,016	1,038,319	316,272
Accumulated depreciation	265,812	28,875	736,830	314,177	222,916
	-----	-----	-----	-----	-----
	1,329,893	9,625	2,930,186	724,142	93,356
	=====	=====	=====	=====	=====

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

13. FIXED ASSETS, NET (CONT'D)

- \* During the year ended 31 December, 2004, based on the construction completion reports, the directors reclassified certain fixed assets to appropriate categories. Accordingly, the carrying amounts of the aforesaid fixed assets are depreciated over their remaining useful lives under the respective categories.

On 6 March, 1996, the fixed assets of the Group were revalued by Vigers Hong Kong Limited (the "Valuer"), a qualified independent valuer in Hong Kong, using a replacement cost approach and open market value approach. The replacement cost approach considers the cost to replace in new condition the assets appraised for similar assets, and includes purchase price, delivery charge and installation cost. The purchase price is based on the open market value. The Valuer assumed that the assets will be used for the purposes for which they are presently used and did not consider alternative uses. The total revalued amount based on the aforesaid 1996 revaluation was RMB 5,318,202,000. The revaluation surplus of fixed assets amounting to approximately RMB1,492,185,000 was recorded by the Group as of 6 March, 1996, and depreciation on the increment to fixed assets commenced on that date. Upon the Restructuring, the revaluation surplus was converted to shares allotted to the Parent Company.

On 30 September, 2002, the fixed assets were revalued by Pan-China (Schinda) Certified Public Accountants, a qualified independent valuer registered in

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the PRC, on a replacement cost approach and open market value approach, where applicable. These fixed assets were stated at their revalued amounts in the financial statements as of 30 September, 2002.

The directors of the Company are of the opinion that the carrying values of fixed assets as of 31 December, 2004 approximated to their fair values.

### 14. CONSTRUCTION-IN-PROGRESS

	31 December,	
	2003	2004
	RMB	RMB
At 1 January	672,827	390,393
Additions	250,315	284,902
Transfer to fixed assets	(532,749)	(329,982)
	-----	-----
At 31 December	390,393	345,313
	=====	=====

As of 31 December, 2004, there was no interest capitalised in the construction-in-progress as the Group had no bank borrowings.

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## GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 15. LEASEHOLD LAND PAYMENTS

	Year ended 31 December,	
	2003	2004
	RMB	RMB
Cost		
At 1 January	760,087	770,774
Additions	10,687	-
Disposals	-	-
	-----	-----
At 31 December	770,774	770,774
	-----	-----
Accumulated amortisation		
At 1 January	103,089	118,691
Charges for the year	15,602	15,704
Disposals	-	-
	-----	-----

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At 31 December	118,691	134,395
	-----	-----
Net book value		
At 31 December	652,083	636,379
	=====	=====
At 1 January	656,998	652,083
	=====	=====

16. INTERESTS IN ASSOCIATES

	31 December,	
	2003	2004
	-----	-----
	RMB '000	RMB '000
Share of net assets, at 1 January	136,574	134,066
Share of losses	(2,508)	(12,119)
	-----	-----
Share of net assets, at 31 December	134,066	121,947
Due from associates	48,437	48,402
Due to associates	(8)	(2)
	-----	-----
	182,495	170,347
Less: Provision for impairment in value	(29,689)	(29,689)
Provision for doubtful accounts	(12,312)	(12,312)
	-----	-----
	140,494	128,346
	=====	=====

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

16. INTERESTS IN ASSOCIATES (CONT'D)

Analysis of share of net assets of the associates is as follows:

	2003	2004
	RMB '000	RMB '000
At 1 January	136,574	134,066
Share of losses before tax	(2,417)	(12,070)

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Share of taxation	(91)	(49)
	-----	-----
At 31 December	134,066	121,947
	=====	=====

The amounts due from/to associates were unsecured, interest free and had no fixed repayment terms. The provision for impairment in value and provision for doubtful accounts were provided for Zengcheng Lihua Stock Company Limited ("Zengcheng Lihua") as Zengcheng Lihua is in financial difficulty.

Movements of provision for impairment in value and for doubtful accounts are as follows:

	Year ended 31 December,	
	2003	2004
	-----	-----
	RMB	RMB
Beginning of year	43,787	42,001
Utilisation during the year	(1,786)	-
	-----	-----
End of year	42,001	42,001
	=====	=====

As of 31 December, 2004, the Company had direct or indirect interests in the following companies which were incorporated/established and are operating in the PRC:

Name of the entity	Date of incorporation / establishment	Percentage of equity interest attributable to the Company	Paid-up capital
-----	-----	-----	-----
Directly held by the Company			
Guangzhou Tiecheng Enterprise Company Limited	2 May, 1995	49%	RMB245,000,000
Zengcheng Lihua Stock Company Limited	30 July, 1992	27%	RMB100,000,000
Indirectly held by the Company			
Guangzhou Tielian Economy Development Company Limited	27 December, 1994	34%	RMB1,000,000
Guangzhou Huangpu Yuehua Freight Transportation Joint Venture Company Limited	20 July, 1990	33.3%	RMB6,610,000

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 17. AVAILABLE-FOR-SALE INVESTMENTS

Name of the investee company	31 December,	
	2003	2004
	RMB'000	RMB'000
China Railway Communication Company Limited ("China Railcom")*	121,854	121,854
Shenzhen Innovation Technology Investment Company Limited	30,000	30,000
China Railway Express Company Limited	13,608	13,608
Shenzhen Huatie Enterprise Company Limited	2,000	2,000
Zhongtie Information Company Limited	500	500
	-----	-----
	167,962	167,962
	=====	=====

The Company's share of equity interests in each of the respective companies is not more than 10%. No quoted market prices are available for the above unlisted companies as of year end.

\* China Railcom has confirmed in writing that the Company is entitled to the 0.69% equity interest in China Railcom as of 31 December, 2003. The relevant legal registration procedures have not been completed in 2004. Taking into account of a legal opinion, the directors believe that as at 31 December, 2004, the Company's equity investment in China Railcom is valid.

Pursuant to Tiezhengfa (2004) No. 6 jointly issued by MOR and State-owned Assets Supervision and Administration Commissions, the Company is required to dispose its investment in China Railcom. For fulfilling such requirement, the Company has been negotiating with the Parent Company, which would buy the Company's investment in China Railcom. The management expected that the consideration will be no less than the carrying book value of the Company's investment in China Railcom as at 31 December, 2004.

## GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 18. DEFERRED TAX ASSETS

	31 December,	
	2003	2004
	RMB	RMB
Deferred tax assets:		
- Provision for doubtful accounts	2,699	14,916
- Loss on disposals of fixed assets	3,455	3,490
	6,154	18,406
	6,154	18,406

The movements of deferred taxation during the years are as follows:

	Year ended 31 December,	
	2003	2004
	RMB	RMB
At beginning of year	7,577	6,154
(Debit) / credit to consolidated profit during the years	(1,423)	12,252
	6,154	18,406
	6,154	18,406

### 19. DEFERRED STAFF COSTS

	31 December,	
	2003	2004
	RMB'000	RMB'000
Cost, at 1 January and 31 December	226,369	226,369
Accumulated amortisation		
At 1 January	(45,274)	(60,366)
Charges for the year	(15,092)	(15,092)
	(60,366)	(75,458)
At 31 December	(60,366)	(75,458)

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Net book amount		
At 31 December	166,003	150,911
	=====	=====
At 1 January	181,095	166,003
	=====	=====

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

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(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

20. ACCRUED EXPENSES AND OTHER PAYABLES

	31 December,	
	2003	2004
	RMB	RMB
Advances from customers	89,840	127,411
Accrued expenses	24,000	74,173
Salary and welfare payables	15,138	24,257
Taxes payables	49,494	75,878
Other payables	179,815	217,089
	-----	-----
	358,287	518,808
	=====	=====

Other payables mainly represented various payables and deposits for daily operation of business.

Pursuant to Caishui [2004] No. 36 and Caishui [2003] No. 149 issued by MOF and State Administration of Taxation, the Group is exempted from certain real estate taxes amounting to approximately RMB14,000,000 for the year ended 31 December 2004 (2003: approximately RMB12,000,000). The grant of such exemption is subject to the acknowledgement of relevant authorities that the Company is a transportation company under the MOR. The directors believe that the Group is qualified for such exemption and is in the process of seeking the acknowledgement from the relevant authorities. Accordingly, such real estate taxes have not been accrued for in the accompanying financial statements.

21. SHARE CAPITAL

As of 31 December, 2004, the authorised capital of the Company consisted of ordinary shares of par value RMB1.00 per share:

	Number of shares	Nominal value	Percentage of capital stock
--	---------------------	---------------	-----------------------------------

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	----- '000	----- RMB	-----
Authorised, issued and fully paid:			
State-owned Domestic Shares	2,904,250	2,904,250	67%
H Shares	1,431,300	1,431,300	33%
	-----	-----	---
	4,335,550	4,335,550	100%
	=====	=====	===

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

22. DISTRIBUTION OF INCOME

According to the articles of association of the Company, when distributing profit attributable to shareholders of each year, the Company shall set aside 10% of its profit attributable to shareholders after tax based on the Company's local statutory accounts for the statutory surplus reserve (except where the reserve has reached 50% of the Company's registered share capital) and 5% to 10% for the statutory public welfare fund at a percentage determined by the directors. The Company may make appropriation from its profit attributable to shareholders to the discretionary surplus reserve provided it is approved by a resolution of a shareholders' general meeting. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends without prior approval from a shareholders' general meeting under certain conditions.

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

The statutory public welfare fund is used to build or acquire capital items, such as dormitories and other facilities for the Company's employees and cannot be used to pay for welfare expenses. Title of these capital items will remain with the Company.

The statutory surplus reserve, the discretionary surplus reserve and the share premium may be converted into share capital provided it is approved by a resolution at a shareholders' general meeting and the balance of the statutory surplus reserve does not fall below 25% of the registered capital stock. The Company may either distribute new shares in proportion to the number of shares held by shareholders, or increase the par value of each share.

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

### 22. DISTRIBUTION OF INCOME (CONT'D)

In accordance with the articles of association of the Company, dividends are determined based on the least of retained earnings determined in accordance with (a) PRC GAAP, (b) IFRS and (c) the accounting standards of the countries in which its shares are listed. As the statutory accounts have been prepared in accordance with PRC GAAP, the retained earnings as reported in the statutory accounts may be different from the amount reported in the accompanying statement of changes in shareholders' equity.

As of 31 December, 2004, the reserve of the Company available for distribution was approximately RMB694,086,000 (2003: approximately RMB656,893,000).

### 23. RETIREMENT BENEFITS

All the full-time staff of the Group are covered by a defined-contribution pension scheme. Pursuant to a circular dated 24 October, 1995 issued by the Parent Company, the Company is required to pay to the Parent Company an amount equivalent to 19% of the salary and certain amount of bonus of the staff for pension benefits, and the Parent Company is responsible for the ultimate pension liability to the staff. Starting from December 2000, the percentage borne by the Company changed to 18% pursuant to another circular dated 21 December, 2000 issued by the Parent Company.

Starting from April 2002, the ultimate pension liability is under the management of local government authority. For administrative purpose, during the transition period from April 2002 to November 2004, the Group continued to pay such contributions to the Parent Company, which in turn paid such amounts to the relevant government authority. Since November 2004, the Group has paid all such contributions directly to the relevant government authority.

The retirement benefits borne by the Company in 2002, 2003 and 2004 were RMB 31,858, RMB39,999 and RMB42,950 respectively. As of 31 December, 2004, payable for pension obligations due to the Parent Company was nil (2003: nil).

### 24. RELATED PARTY TRANSACTIONS

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

- (a) During the year, the Group had the following material transactions with related parties:

#### Recurring transactions

A significant portion of transactions undertaken by the Group during the year was with related PRC state-owned enterprises and on such terms as determined by the relevant PRC authorities and/or stipulated in the related agreements entered into with these parties. The following is a summary of significant recurring transactions carried out in the ordinary course of business by the Group with its related parties during the year:

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

24. RELATED PARTY TRANSACTIONS (CONT'D)

Recurring transactions (Cont'd)

		Year ended
		-----
		2002
		-----
		RMB
Expense		
Lease of locomotives and related services from Guangzhou Railway Group Yang Cheng Railway Company, a subsidiary of the Parent Company (i)	42,047	
Provision of trains and related services from Guangmeishan Railway Company Limited, a subsidiary of the Parent Company (ii)	4,864	
Purchases of materials and supplies from Guangzhou Railway Material Supply Company, a subsidiary of the Parent Company (iii)	33,074	
Social services (employee housing, health care, educational and public security services and other ancillary services) provided by the Parent Company and related parties (including Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company) (ii)	66,744	
Operating lease rentals paid to the MOR (i)	57,298	
Provision of trains and related service through MOR (i)	211,667	2
Provision of trains usage and related services from Guangzhou Railway (Group) Passenger Transportation Company, a subsidiary of the Parent Company (i)	6,681	
Interest expenses paid to the Parent Company (iv)	2,443	
Income		
Interest received from the MOR's Railroad Deposit-taking Centre (see Note 10 (b) and 24 (b))	3,239	
Interest received from Pingnan Railway Company Limited, an associate of the Parent Company (iv)	806	
Interest received from Guangmeishan Railway Company Limited (iv)	1,884	

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. RELATED PARTY TRANSACTIONS (CONT'D)

Non-recurring transactions

	2002	
	-----	-----
	RMB'000	RMB
Expense		
Provision of repair and maintenance services from Guangzhou Railway Engineer Construction Enterprise Development Company, a subsidiary of the Parent Company (i)	-	
Provision of repair and maintenance services from Guangzhou Guangtie Huake Technology Service Company, a subsidiary of the Parent Company(i)	-	
Provision of management services for construction of fixed assets from the Parent Company (v)	-	
	=====	=====

- (i) The services are based on the pricing scheme set by the MOR.
- (ii) The services are based on the contractual prices determined at cost plus reasonable margin.
- (iii) The prices of materials and supplies are based on market price.
- (iv) The interest arose from the long-distance transportation services, which was calculated based on the average balances due from/to related parties on a quarterly basis, at the prevailing interest rates of six-month bank loans.
- (v) In 2004, the Company entered into certain management agreements and supplementary agreements (collectively, the "Management Agreements") with the Parent Company. Pursuant to the Management Agreements, the Parent Company, on behalf of the Company, provided monitoring and supervision to the sub-contractors, who are responsible for construction of certain railway and stations to the Company. The management service fees are based on the pricing scheme set by MOR.

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## GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

24. RELATED PARTY TRANSACTIONS (CONT'D)

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(b) As of 31 December, 2002, the Group had the following material balances with related parties:

	2002
	RM
Temporary cash investments in the MOR's Railroad Deposit-taking Center (see Note 10(b))	168,
Bank deposits in the MOR's railroad Deposit-taking Center	321,
Due to Parent Company (vi)	(37,
Due from related parties	199,
- Trading balance (vii)	10,
- Non-trading balance (vi)	189,
Due to related parties	(120,
- Trading balance (vii)	(60,
- Non-trading balance (viii)	(60,

(vi) As of 31 December, 2004, the balance with the Parent Company, which is non-trading in nature, and the non-trading balance due from related parties mainly represented the Company's payment on behalf of related parties, who were required to make settlements to the Parent Company in respect of their provision of long-distance transportation services. Interest arose from the balance due from the related parties is disclosed in Notes 24 (a) (iv).

(vii) The balances with related parties, which are of trading in nature, all aged within one year.

(viii) As of 31 December, 2004, the non-trading balance due to related parties mainly represented the Company's collection of railroad revenue on behalf of the related parties.

As of 31 December, 2004, the balances with the MOR, the Parent Company and related parties are unsecured, non-interest bearing and repayable on demand, except for those disclosed in Notes 10(b), 24(a). The trading balances are resulted from transactions carried out by the Group with related parties in the ordinary course of business, and/or in accordance with the bases as set out in Note 24(a) (i), (ii) and (iii).

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### Non-cash transactions

During the year ended 31 December, 2004, the Group disposed certain staff quarters of approximately RMB11 million (2003: approximately RMB92 million) to their employees pursuant to its housing benefit scheme.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

#### 26. FINANCIAL INSTRUMENTS

The carrying amounts of the cash and cash equivalents, temporary cash investments and accounts receivable and payables of the Group approximate their fair values because of the short maturity of those instruments. Cash and cash equivalents and temporary cash investments denominated in foreign currencies have been translated at the applicable market exchange rates prevailing at the balance sheet date. The Company has not had and does not believe it will have any difficulty in exchanging its foreign currency cash and cash equivalents for RMB.

As of 31 December, 2004, cash and cash equivalents and temporary cash investments were mainly maintained with commercial banks in the PRC and the MOR's Railroad Deposit-taking Centre.

As of 31 December, 2004, balances denominated in USD and HK\$ have been translated into RMB at the applicable market exchange rates as of that date.

#### 27. CONCENTRATION OF RISKS

##### (a) Credit risk

The carrying amount of cash and cash equivalents, accounts receivable and other receivables, and due from related parties and other current assets except for prepayments and deferred tax assets, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's accounts receivable relate to the rendering of services or sales of products to third party customers. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains a provision for doubtful accounts and actual losses have been within management's expectation.

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

##### (b) Interest rate risk

The directors of the Group believe that the exposure to interest rate risk of financial assets and liabilities as of 31 December, 2004 was minimum since their deviation from their respective fair values was not significant.

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### GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

#### 27. CONCENTRATION OF RISKS (CONT'D)

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(c) Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies. On 1 January, 1994, the Mainland China government abolished the dual rate system and introduced single rate of exchange as quoted by the PBOC. However, the unification of the exchange rate does not imply free convertibility of Renminbi into foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institution requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

28. COMMITMENTS

(a) Capital commitments

As of 31 December, 2004, the Group had the following capital commitments which are authorized but not contracted for and contracted but not provided for:

	-----	31
	2003	
	----	
	RMB	
Authorised but not contracted for	-	
Contracted but not provided for	-	
	=====	

(b) Operating lease commitments

Total future minimum lease payments under non-cancelable operating leases were as follows:

	-----	31
	2003	
	-----	
	RMB	
Machinery and equipment		
- not more than one year	108,000	
- more than one year but not more than two years	108,000	
- more than two years but not more than three years	75,375	
	-----	
	291,375	
	=====	

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

28. COMMITMENTS (CONT'D)

(c) Commitment under a conditional acquisition agreement

See Note 29.

29. PROPOSED ACQUISITION OF A RAILWAY BUSINESS

On 15 November, 2004 the Company and Guangzhou Railway Group Yangcheng Railway Company (The "Vendor"), a wholly owned subsidiary of the Parent Company, have entered into an agreement for the acquisition of the railway transportation business between Guangzhou and Pingshi (currently operated by the Vendor) and the assets and liabilities relating to such business (the "Acquisition Agreement"). The consideration for the Acquisition was determined to be RMB 10,264,120,700, subject to confirmation from the relevant PRC authorities and certain adjustments to be made as per the Acquisition Agreement.

The Company intends to finance the payment of the Consideration with the proceeds of an A share issue with any shortfall being financed by internal resources / bank borrowings etc. These shares will be listed on the Shanghai Stock Exchange.

In this regard, the Company has applied to the relevant authorities in China for the issue and allotment of not more than 2.75 billion A shares. The Company submitted its application proposal relating to the A Share Issue to the China Securities Regulatory Commission (the "CSRC") on 31 December, 2004.

Pursuant to the requirements of the Listing Rules of Hong Kong, the proposed Acquisition will be deemed to be a very substantial acquisition by the Company. As the vendor is a wholly-owned subsidiary of the Parent Company, the controlling shareholder of the Company, the proposed Acquisition will also be considered a connected transaction of the Company.

In addition to the Acquisition Agreement, the Company has entered into various agreements in respect of leasing agreement and services agreement with the parent company or the vendor. Such agreements shall take effect upon the completion of the Acquisition and shall replace all existing connected transaction agreements relating to the same categories of transactions.

On 5 December, 2004, the Company issued a circular to its shareholders in respect of the proposed A share issue, the proposed very substantial acquisition and ongoing connected transaction, and the proposed ongoing connected transactions. On 30 December, 2004, the Company held its domestic shareholders' class meeting, H shares shareholders' class meeting and extraordinary general meetings that approved the proposed A share issue, the proposed acquisition and the proposed ongoing connected transactions.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

#### 29. PROPOSED ACQUISITION OF A RAILWAY BUSINESS (CONT'D)

The Acquisition Agreement is conditional upon the fulfillment of, among other things, the following remaining conditions: (1) the formal approval of the relevant authorities or bodies in relation to the A Share Issue being obtained; (2) the A Share Issue having completed and raised an amount of not less than 65% of the consideration; (3) the approval of the relevant government bodies responsible for the supervision and management of state owned assets in relation to the vendor's proposal on disposal of state-owned assets being obtained; and (4) the approval of the National Development and Reform Committee in relation to the price determination for passenger and freight railway transportation services between Guangzhou and Pingshi being obtained. As of the date of this report, none of the conditions are fulfilled.

Save for condition (2) which can be waived by the Company, none of the above conditions can be waived. If the above conditions are not fulfilled within 2 years from the date of signing of the Acquisition Agreement, 15 November, 2004, the Acquisition Agreement shall lapse and no party shall have any liability thereunder. In the event that any party rescinds the Acquisition Agreement for whatever reason after the A Share Issue has been completed, it is expected that the Company will retain the proceeds from the A Share Issue as general working capital.

The Company believes that the A Share Issue will be completed by the end of 2005, subject to the market conditions and policies of the CSRC.

#### 30. CONTINGENCY

As of 31 December, 2004, the Company's interest in an associated company, Guangzhou Tiecheng Enterprise Company Limited ("Tiecheng"), amounted to approximately RMB140,000,000. In 1996, Tiecheng entered into an agreement with a Hong Kong incorporated company to establish Guangzhou Guantian Real Estate Company ("Guangzhou Guantian"), a sino-foreign contractual joint venture to develop certain properties near a railway station operated by the Group.

On 27 October, 2000, Guangzhou Guantian together with Guangzhou Guanhua Real Estate Company Limited ("Guangzhou Guanhua") and Guangzhou Guanyi Real Estate Company Limited ("Guangzhou Guanyi") agreed to act as joint guarantors (the "Guarantors") of certain payables of Guangdong Guancheng Real Estate Company Limited ("Guangdong Guancheng") to an independent third party.

Guangzhou Guantian, Guangzhou Guanhua, Guangzhou Guanyi and Guangdong Guancheng were related companies with a common chairman. As Guangdong Guancheng failed to repay the payables, according to a court verdict on 4 November, 2001, Guangzhou Guantian, Guangzhou Guanhua and Guangzhou Guanyi were liable to the independent third party to recover an amount of approximately RMB257,000,000 plus interest from Guangdong Guancheng.

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

### 30. CONTINGENCY (CONT'D)

As stated above, if Guangzhou Guantian were held responsible for the guarantee, the Company may need to provide for impairment on its interests in Tiecheng. Having consulted with a PRC lawyer, the directors are of the opinion that the guarantee arrangement should be invalid according to the relevant PRC rules and regulations. Tiecheng is now in the process to apply to the court for discharging the obligation of Guangzhou Guantian in relation to the guarantee. Accordingly, the directors consider that as of the date of this report, the chance of Guangzhou Guantian to settle the above claim is remote and no provision for impairment on the interests in Tiecheng has been made in the financial statements.

To avoid the possible loss resulting from the litigation, the Company has obtained a letter of undertaking issued by the Parent Company. The Parent Company undertakes to resolve through relevant channels or to take up the responsibilities so that the equity interest of the Company in Tiecheng will not be affected by the litigation.

### 31. DIFFERENCE BETWEEN IFRS AND US GAAP

The accompanying financial statements conform to IFRS which differ in certain respects from those prepared under Generally Accepted Accounting Principles in the United States of America ("US GAAP"). A major difference between IFRS and US GAAP, which has a significant effect on consolidated profit attributable to shareholders and consolidated net assets, is set out below:

#### Revaluation of fixed assets

The Group revalued their fixed assets on 6 March, 1996. The revaluation surplus of fixed assets amounting to approximately RMB1,492,185,000 was recorded by the Group on that date. The revaluation as of 30 September, 2002 did not result in a material difference from the carrying amounts and no revaluation surplus or deficit was recorded.

Under IFRS, revaluation of fixed assets is permitted and depreciation is based on the revalued amount. Additional depreciation arising from the revaluation surplus was approximately RMB38,548,000 for the year ended 31 December, 2004 (2003: approximately RMB38,548,000).

Under US GAAP, fixed assets are required to be stated at original cost. Hence, no additional depreciation from revaluation will be recognised under US GAAP. However, a deferred tax asset related to the revaluation surplus amounting to approximately RMB223,828,000 was created under US GAAP with a corresponding increase in equity since the revaluation resulted in a higher tax base which will be realised through additional depreciation for PRC tax purposes.

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## GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 31. DIFFERENCE BETWEEN IFRS AND US GAAP (CONT'D)

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Revaluation of fixed assets (Cont'd)

Effects on the consolidated profit attributable to shareholders of significant differences between IFRS and US GAAP are summarised below:

	Year ended	
	-----	-----
	2002	2003
	-----	-----
	RMB	RMB
Consolidated profit attributable to shareholders under IFRS	557,083	511,762
US GAAP adjustments:		
Reversal of additional depreciation charges arising from the revaluation surplus on fixed assets	48,422	38,548
Effect of US GAAP adjustment on deferred tax provision	(7,263)	(5,782)
	-----	-----
Consolidated profit attributable to shareholders under US GAAP	598,242	544,528
	=====	=====
Earnings per share under US GAAP	RMB0.14	RMB0.13
	=====	=====
Earnings per equivalent ADS under US GAAP	RMB6.90	RMB6.28
	=====	=====

Effects on consolidated net assets of significant differences between IFRS and US GAAP are summarised below:

	Year	
	-----	-----
	2003	-----
	-----	-----
	RMB	-----
Consolidated net assets under IFRS	10,322,358	-----
US GAAP adjustments:		
Reversal of the revaluation surplus on fixed assets	(1,492,185)	-----
Reversal of accumulated depreciation on the revaluation surplus on fixed assets	369,432	-----
Deferred tax assets related to net revaluation surplus	168,413	-----
	-----	-----
Consolidated net assets under US GAAP	9,368,018	-----
	=====	-----

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except number of shares and ADSs, per share and per ADS data and unless otherwise stated)

#### 31. DIFFERENCE BETWEEN IFRS AND US GAAP (CONT'D)

Revaluation of fixed assets (Cont'd)

There are no significant differences between IFRS and US GAAP which affect classification in the balance sheet and the income statement but do not affect net income or shareholders' equity.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (the "FASB") issued Financial Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities" and in December 2003 issued a revised interpretation FIN 46R. Under these interpretations, certain entities known as variable interest entities must be consolidated by the primary beneficiary of the entity. The adoption of FIN 46 did not have any material impact on the Group's financial statements.

In November, 2004, the FASB issued FASB Statement No. 151, "Inventory Costs -- an amendment of ARB No. 43, Chapter 4" (FAS 151), which is the result of its efforts to converge U.S. accounting standards for inventories with International Financial Reporting Standards. This statement requires abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) to be recognized as current-period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS 151 will be effective for inventory costs incurred during fiscal years beginning after 15 June, 2005. The adoption of this standard will not have a material impact on the Group's consolidated financial statements.

In December 2004, the FASB issued FASB Statement No. 153, "Exchanges of Non-monetary Assets" (FAS 153), which amends APB Opinion No. 29, "Accounting for Non-monetary Transactions", to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. Under FAS 153, exchanges of non-monetary assets, except for exchanges of non-monetary assets that do not have commercial substance, should be measured based on the fair value of the assets exchanged. The provisions of this Statement shall be effective for non-monetary asset exchanges occurring in fiscal periods beginning after 15 June, 2005. The Group is currently assessing the impact of the standard on its consolidated financial statements.

#### 32. FOREIGN CURRENCY EXCHANGE

The books and records of the Group are maintained in RMB, their functional currency. RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the banks and other institutions authorized by the PBOC to buy and sell foreign currencies. The applicable market exchange rates used for the transactions are administered by the PBOC. Enterprises can deal with an approved bank for foreign exchange on recurring items and approved capital items.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. APPROVAL OF ACCOUNTS

The financial statements were approved by the Board of Directors on June 27, 2005.

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SIGNATURE

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

GUANGSHEN RAILWAY COMPANY LIMITED

Date: June 27, 2005

By: /s/ Wu Janguang

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Wu Janguang  
Chairman of the Board of Directors