
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 20-F

(Mark One)

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

or

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

For the fiscal year ended December 31, 2017

or

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

For the transition period from _____ to _____

or

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

Date of event requiring this shell company report

Commission file number: 1-14362

广深铁路股份有限公司

(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, Luohu District, Shenzhen, People's Republic of China 518010
(Address of Principal Executive Offices)

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No. 1052 Heping Road, Luohu District, Shenzhen, People's Republic of China 518010
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class
American Depositary Shares,
each representing 50 Class H ordinary shares
Class H ordinary shares, nominal value
RMB1.00 per share

Name of Each Exchange on which Listed
New York Stock Exchange, Inc.

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, 2017:

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

(including 103,311,450 H shares in the form of American Depositary Shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"). Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ Emerging Growth Company ☐

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

U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ Other ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act. ☐

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ☐ Yes ☐ No

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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 Exchange Act of 1934, as amended (the “Exchange Act”). 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 policy of the PRC government, changes in the Pearl River Delta economy and elsewhere in mainland China, increased competition from other means of transportation, delays in major development projects, occurrence of health epidemics or outbreaks in Hong Kong or China, foreign currency fluctuations and other factors beyond our control.

When considering such forward-looking statements, you should keep in mind the factors described in “ITEM 3. KEY INFORMATION—D. Risk Factors” and other cautionary statements appearing in “ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS” of this annual report. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

Certain Terms and Conventions

Solely for the convenience of the reader, this annual report contains translations of amounts from RMB into U.S. dollars and vice versa at the rate of RMB6.5063 to US\$1.00, the certified exchange rate for December 29, 2017 as published by the Federal Reserve Board of the United States, except where we specify that a different rate has been used. You should not construe these translations as representations that the RMB amounts actually represent U.S. dollar amounts or could be converted into U.S. dollars at that rate or at all. See “ITEM 3. KEY INFORMATION—A. Selected Financial Data—Exchange Rate Information” for information regarding the certified exchange rates for U.S. dollar/RMB conversions from January 1, 2012 through April 13, 2018.

We prepare and publish our consolidated financial statements in RMB.

Various amounts and percentages set out in this document have been rounded and, accordingly, may account for apparent discrepancies in the tables appearing herein. Unless the context otherwise requires or otherwise specified:

- “Acquisition” means our acquisition of the railway transportation business between Guangzhou and Pingshi and the related assets and liabilities from Yangcheng Railway Company according to the asset purchase agreement dated November 15, 2004 between Yangcheng Railway Company and us.
- “China” or “PRC” means the People’s Republic of China.
- “CEPA” means the Closer Economic Partnership Arrangement between Hong Kong and Chinese Mainland entered into on October 27, 2004, as amended.
- “CRH” means China Railway High-Speed.
- “CSRC” means China Securities Regulatory Commission.
- “China Railway Corporation” or “CRC” means the entity set up on March 14, 2013 by the First Session of the 12th National People’s Congress of the PRC to perform the commercial functions formerly performed by the Ministry of Railways.
- “Company”, “we”, “our”, “our Company”, the “Group”, or “us” means Guangshen Railway Company Limited, a joint stock limited company incorporated in Shenzhen, China with limited liability, and its subsidiaries on a consolidated basis.

- “CRC Group” means CRC together with the subsidiaries transferred from MOR.
- “EMU” means electric multiple unit, a multiple unit train consisting of self-propelled carriages.
- “GRCL” means Guangmeishan Railway Company Limited.
- “GRGC” means Guangzhou Railway (Group) Company, our largest shareholder.
- “GSRC” means Guangdong Sanmao Railway Company Limited.
- “HKSE” means the Stock Exchange of Hong Kong Limited.
- “HKSE Listing Rules” means the Rules Governing the Listing of Securities on the HKSE.
- “Hong Kong” means The Hong Kong Special Administrative Region of the PRC.
- “Hong Kong dollars” or “HKD” means Hong Kong dollars, the lawful currency of Hong Kong.
- “KCR” means Kowloon–Canton Railway.
- “Macau” means the Macau Special Administrative Region of the PRC.
- “MOF” means the Ministry of Finance of the PRC.
- “MOR” means the Ministry of Railways, which was dissolved by the First Session of the 12th National People’s Congress of the PRC.
- “MOT” means Ministry of Transport.
- “MTR” means MTR Corporation Limited.
- “NDRC” means the National Development and Reform Commission of the PRC.
- “PBOC” means the People’s Bank of China.
- “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.
- “Reform” means the transfer of (i) administrative functions pertaining to railway development planning and policies from the MOR to the MOT, (ii) other administrative functions previously performed by the MOR to the National Railway Administration, supervised by the MOT, and (iii) commercial functions previously performed by the MOR to the CRC, in accordance with the approved plan on State Council Institutional Reform and Transformation of Government Functions and Approval On Setting Up China Railway Company by the State Council.
- “RMB” means Renminbi Yuan, the lawful currency of the PRC.
- “Restructuring” means the restructuring conducted in connection with our initial public offering in 1996 during which we succeeded to the railroad and certain other businesses of our predecessor company and certain assets and liabilities of GRGC.
- “SEC” means the U.S. Securities and Exchange Commission.
- “ton” means metric ton; and one ton is approximately 2,205 pounds in weight.
- “US\$”, “USD” or “U.S. dollars” means U.S. dollars, the lawful currency of the United States.

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated data relating to our Consolidated Balance Sheets as of December 31, 2016 and 2017, and our Consolidated Comprehensive Income Statements, Consolidated Statements of Changes in Equity and Consolidated Cash Flow Statements for each of the years ended December 31, 2015, 2016 and 2017 are derived from and are qualified by reference to our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with “ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS”. The Selected Consolidated Balance Sheets Data as of December 31, 2013, 2014 and 2015 and our Consolidated Income Statements, Consolidated Statements of Changes in Equity and Consolidated Cash Flow Statements for each of the years ended December 31, 2013 and 2014 are derived from our audited consolidated financial statements that are not included in this annual report.

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

	Year ended December 31,					
	2013	2014	2015	2016	2017	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands except for per share/ADS data)						
Income Statement Data:						
Revenue from Railroad and Related Business						
- Passenger transportation	8,058,291	6,988,288	6,997,562	7,358,851	7,757,077	1,192,241
- Freight transportation	1,603,288	1,763,679	1,761,449	1,718,260	1,893,594	291,040
- Railway network usage and other transportation related services	5,034,676	5,031,241	5,874,727	7,093,198	7,644,230	1,174,897
Subtotal	14,696,255	13,783,208	14,633,738	16,170,309	17,294,901	2,658,178
Revenue from other businesses	1,104,422	1,017,573	1,091,571	1,110,195	1,036,521	159,310
Total revenue	15,800,677	14,800,781	15,725,309	17,280,504	18,331,422	2,817,488
Railroad and Related business operating expenses	(12,878,816)	(12,729,828)	(13,150,405)	(14,561,793)	(15,850,056)	(2,436,109)
Other businesses operating expenses	(1,048,553)	(1,022,133)	(1,006,330)	(1,076,206)	(1,082,531)	(166,382)
Other gains/(losses)-net	14,903	7,138	(114,627)	(108,270)	(48,477)	(7,451)
Operating profit	1,888,211	1,055,958	1,453,947	1,534,235	1,350,358	207,546
Profit attributable to equity holders of the Company	1,273,841	662,021	1,070,822	1,158,253	1,015,361	156,058
Operating profit per share	0.27	0.15	0.21	0.22	0.19	0.03
Earnings per share for profit attributable to equity holders of the Company						
- Basic and diluted	0.18	0.09	0.15	0.16	0.14	0.02
Dividends declared per share	0.08	0.05	0.08	0.08	0.08	0.01
Earnings per ADS for profit attributable to equity holders of the Company	8.99	4.67	7.56	8.18	7.17	1.10
Balance Sheet Data (at year end):						
Working capital	648,201	1,011,115	1,338,889	830,610	892,911	137,238
Fixed assets-net	24,302,653	24,179,210	24,073,759	24,278,032	23,617,138	3,629,888
Leasehold land payments	657,593	668,005	948,526	1,624,859	1,980,278	304,363
Total assets	33,231,989	30,536,663	31,943,272	32,870,258	33,994,238	5,224,819
Equity attributable to equity holders of the Company	26,650,544	26,745,843	27,462,488	28,054,058	28,684,677	4,408,754
Share capital, issued and outstanding (domestic shares 5,652,237; H shares 1,431,300), RMB1.00 per value domestic shares	5,652,237	5,652,237	5,652,237	5,652,237	5,652,237	868,733

	Year ended December 31,					
	2013	2014	2015	2016	2017	
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands except for per share/ADS data)					
H shares	1,431,300	1,431,300	1,431,300	1,431,300	1,431,300	219,987
Cash Flow Statement Data:						
Net cash generated from operating activities	1,883,411	1,945,576	2,259,691	1,641,238	2,634,839	404,967
Net cash used in investing activities	(1,572,961)	3,373,821	(1,349,235)	(1,935,702)	(2,264,647)	(348,070)
Net cash used in financing activities	(572,785)	(4,067,018)	(354,710)	(566,683)	(569,333)	(87,504)
Payment for acquisition of fixed assets and construction-in-progress and prepayment for fixed assets; net of related payables	(1,376,601)	(999,633)	(1,292,273)	(1,973,897)	(2,273,426)	(349,419)
Dividends paid to the Company's shareholders	(566,680)	(566,685)	(354,177)	(566,683)	(569,333)	(87,504)
Other Data:						
Railroad transportation operating income	1,817,439	1,053,380	1,483,333	1,608,516	1,444,845	222,069
Other businesses operating income/loss	55,869	(4,560)	85,241	33,989	(46,010)	(7,072)

- (1) Translation of amounts from RMB into US\$, for the convenience of the reader has been made at RMB6.5063 to US\$1.00, the certified exchange rate for December 29, 2017 as published by the Federal Reserve Board of the United States. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at that rate on December 29, 2017 or on any other date.

Exchange Rate Information

We derive a majority of our revenue and incur most of our expenses in RMB. In addition, we maintain our books and records in RMB and our financial statements are prepared and expressed in RMB. Solely for the convenience of the reader, this annual report contains translations of certain RMB amounts into U.S. dollars and vice versa at US\$1.00 = RMB6.5063, the certified exchange rate for December 29, 2017 as published by the Federal Reserve Board of United States. These translations should not be construed as representations that the RMB amounts could have been or could be converted into U.S. dollars at such rate or at all.

Effective January 1, 2009, the Federal Reserve Bank of New York discontinued publication of foreign exchange rates certified for customs purposes. Effective January 5, 2009, the Federal Reserve Board of the United States reinstituted the publication of the daily exchange rate data in a weekly version of the H.10 release. The certified exchange rate for RMB published by the Federal Reserve Board of the United States was US\$1.00 = RMB6.2725 on April 13, 2018.

The following table sets forth information for the daily RMB per U.S. Dollar daily exchange rate for the periods indicated as set forth by the Federal Reserve Board of the United States in its weekly version of the H.10 release:

	Renminbi per U.S. Dollar Daily Exchange Rate			
	Period End	Average ⁽¹⁾	Low	High
2013	6.0537	6.1412	6.0537	6.2438
2014	6.2046	6.1704	6.0402	6.2591
2015	6.4778	6.2869	6.1870	6.4896
2016	6.9430	6.6400	6.4480	6.9580
2017				
October 2017	6.6328	6.6254	6.5712	6.6533
November 2017	6.6090	6.6200	6.5967	6.6385
December 2017	6.5063	6.5932	6.5063	6.6210
2018				
January 2018	6.3199	6.4302	6.3189	6.5263
February 2018	6.3280	6.3183	6.2649	6.3471
March 2018	6.2726	6.3174	6.2685	6.3565
April 2018 (through April 13, 2018)	6.2725	6.2889	6.2655	6.3045

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

Dividends

At a meeting of the directors held on March 28, 2018, the directors proposed a final dividend of RMB0.08 per ordinary share for the year ended December 31, 2017, which is to be voted up on at our annual general meeting of shareholders scheduled on June 6, 2018.

This proposed dividend has not been reflected as a dividend payable in the financial statements as of December 31, 2017, but instead as equity attributable to equity holders of our Company.

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Our Business

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

The global financial markets experienced periods of extreme volatility and disruption in 2008 and early 2009. The global financial crisis, concerns over inflation or deflation, energy costs, geopolitical risks, and the availability and cost of financing contributed to the unprecedented levels of market volatility and adversely affected the expectations for the continuous growth of the global economy, the capital markets and the consumer industry. These factors, combined with others, resulted in a severe global economic downturn and also a slowdown in the PRC economy. This change in the macro-economic conditions had an adverse impact on our business and operations by causing a decrease in the number of passengers and the volume of freight that we transported. Recent events, including the recent potential changes in international policies of the United States and United Kingdom's vote to exit the European Union, create a level of uncertainty for multi-national companies. Any recurrence of a global financial crisis as a result of the recent market volatility arising from the concerns over among other issues, the fiscal stability of certain European countries, may adversely affect the growth of the PRC economy, which could adversely affect our business, financial condition, results of operations and prospects.

Rising threats of international tariffs, including tariffs applied to goods traded between the United States and China, could materially and adversely affect the Chinese economy and our business.

In the beginning of 2018, there has been an increasing rhetoric, in some cases coupled with action, from several U.S. and foreign leaders about the possibility of instituting tariffs against foreign imports of certain materials. More specifically, in March and April of 2018, the U.S. and China have applied tariffs to each other's exports. The institution of trade tariffs both globally and between the U.S. and China specifically carries the risk of negatively impacting China's overall economic condition, which could have negative repercussions on the Company. Furthermore, imposition of tariffs could cause a decrease in freight traffic, which would directly impact our business.

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

Our passenger and freight transportation businesses face competition from other means of transportation, such as road, air and water transportation. In our passenger transportation business, we compete with the bus and ferry services operating within Hong Kong, Guangzhou, Shenzhen and elsewhere in our service region. We compete for passengers with bus and ferry services in terms of price, speed, comfort, reliability, convenience, service quality, frequency of service and safety. In our freight transportation business, we primarily compete with water, truck and air transportation services operating within our service region. We increasingly compete for freight business with truck operators, shipping companies and airline companies on the basis of price, reliability, capacity, convenience, service quality, and safety. In addition, the inter-city traffic system is gradually expanding within the Pearl River Delta region and there are a number of new high-speed inter-city passenger rail lines in operation or under construction within our service territory. As a result, the competition in both passenger and freight transportation in our service territory could increase significantly.

We expect competition to increase in the future as the marketization reform of the railway industry (including the reformation of the investment and financing system, the transportation management system and the pricing system) gradually deepens. In 2008, the PRC National Development and Reform Commission of the PRC (the “NDRC”) approved the construction of a “four horizontal and four vertical” highspeed railway network to connect major populous and industry-intensive cities in China. With the establishment of the “four horizontal and four vertical” high-speed railway network and the Pearl River Delta Intercity railway network, the number of high-speed trains and intercity trains connecting the Pearl River Delta and other major mainland cities is increasing. The Guangzhou-Shenzhen section of the Guangzhou-Shenzhen-Hong Kong passenger line commenced operation in December 2011, the Beijing-Guangzhou passenger line commenced operation in December 2012, the Xiamen-Shenzhen passenger line commenced operation in December 2013, the Nanning-Guangzhou and Guiyang-Guangzhou passenger lines commenced operation in December 2014, the Guangzhou-Foshan-Zhaoqing Intercity passenger line and the new section from Changping East Station to Xiaojinkou Station of the Dongguan-Huizhou Intercity passenger line commenced operation in March 2016. Although we commenced the operation of the Shenzhen East Station in December 2012, the Pinghu Station in September 2016 and more long-distance trains to increase our passenger transportation capacity, we may experience a decrease in the number of passengers using our Guangzhou-Shenzhen intercity train and long-distance train services in the future (as we did from 2015 to 2016), which could materially and adversely affect our revenue from railway passenger transportation services. Furthermore, improvements in the high-speed railway network in China may further increase the competition we face and materially and adversely affect our revenue and results of operations. We believe that the entry barrier to the industry will decrease, investors in the industry will become more diversified and the State’s high-speed railway network with Four East-West Lines and Four South-North Lines and numerous inter-city railways will complete construction and commence operation, leading to increased competition within the industry itself.

See “ITEM 4. INFORMATION ON THE COMPANY—B. Business Overview—Competition” for additional information regarding our competition.

Any significant decrease in the overall levels of business, industrial, manufacturing and tourism activities within the Pearl River Delta region and elsewhere in China may have a material adverse effect on our revenue and results of operations.

The volume of freight and the number of passengers we transport are affected by the overall levels of business, industrial, manufacturing and tourism activities within the Pearl River Delta region, especially Guangdong and Hong Kong, which is our main service region, and elsewhere in China, which is in turn affected by many factors beyond our control, such as applicable policies and regulations of the PRC government, perceptions regarding the attractiveness of investing or operating a business within our service region, consumer confidence levels and interest rate levels. Any significant decrease in the overall levels of passenger travel or freight transportation, whether due to an economic slowdown or other reasons, such as freezing weather, floods, earthquake and other natural disasters or a recurrence of the SARS epidemic or outbreaks of avian flu, H1N1 or H7N9 influenza, dengue fever, Ebola virus or other similar health epidemics, may have a material adverse effect on our business, results of operations and financial condition. Furthermore, following China’s accession to the World Trade Organization, 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, ports and free trade zones in China may develop at a faster pace and become more competitive than Shenzhen. As a result, part of the freight currently imported or exported through ports in Hong Kong, Shenzhen or Guangzhou may be shipped through other ports in China, which may adversely affect our freight transportation business.

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

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

In March 2013, the First Session of the 12th National People's Congress of the PRC considered and approved the plan on State Council institutional reform and transformation of government functions, pursuant to which the Ministry of Railways ("MOR") was dissolved. In accordance with the plan, administrative functions pertaining to railway development planning and policies were transferred to the Ministry of Transport ("MOT"), other administrative functions previously performed by the MOR were transferred to the National Railway Administration, supervised by the MOT, and commercial functions previously performed by the MOR were transferred to the China Railway Corporation ("CRC") established in March 2013 (the "Reform"). In January 2014, the National Railway Bureau was established. It oversees seven regional railway supervision and administration bureaus, including the Guangzhou Railway Supervision and Administration Bureau, which supervises Guangzhou Railway (Group) Company ("GRGC") and China Railway Nanning Bureau Group Company. The Reform was completed on January 1, 2017 and as a result thereof, the actual controlling entity of our Company's largest shareholder became the CRC. There may be uncertainty in the division of functions with the MOR or the entities previously controlled or owned by it in our future relationships with the MOT, the National Railway Administration and the China Railway Corporation. Our commercial transactions may be renegotiated and the regulatory landscape may change.

Any significant change in the relevant regulations of the PRC government as a result of these reforms or for any other reason 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 MOT, National Railway Administration and other Chinese governmental authorities.

Significant changes with respect to the PRC railway industry could adversely affect our business and results of operations

From 2005 to 2010, the PRC railway industry experienced rapid growth in terms of total investment in infrastructure construction from RMB88 billion to RMB707 billion, representing a compounded annual growth rate of 52%, according to statistics published by the MOR. However, after the occurrence of the Wenzhou Railway Accident (defined below) on July 23, 2011, the MOR reduced the investment in the construction of fixed assets for the railway industry in China from RMB744.1 billion in 2010 to RMB591.5 billion in 2011, representing an annual decrease rate of 20.5%. Although the investment in the construction of railway-related fixed assets during the 12 Five-Year Plan (from 2011 to 2015) achieved a record of RMB3.58 trillion and the newly proposed investment amount in the construction of railway-related fixed assets during the 13 Five-Year Plan (from 2016 to 2020) is approximately RMB3.5 trillion, we cannot assure you that there will not be any significant changes with regard to the actual amount the MOR will invest in the railway industry in the future. As the railway industry is heavily reliant on capital expenditures on infrastructure construction, the reduced investment in infrastructure construction may have material adverse impact on our future development and results of operations. In addition, to ensure the safe operation of high-speed railway transportation, the MOR also set speed limits on certain high-speed railways. Corresponding with the reduced speed limits, the ticket fare of the affected high-speed railways may be reduced. Although the speed limits do not affect the railways we operate, we cannot assure you that the future policies of the PRC government authorities in relation to railway speed limits will not affect us.

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

Historically, our freight transportation revenue was derived mainly from the transportation of construction materials, coal, iron ore, oil, steel and chemicals, in which our railroad transportation services have an advantage over other means of transportation, such as road transportation services. With the restructuring of these industries, the movement of labor, the upgrading of the industrial structure and a shift in the Pearl River Delta economy towards technology businesses, we may experience reduced demand for our freight transportation services. For example, some products and materials, such as advanced technological products, which tend to be compact, may be instead shipped by road or air. We face significant competition in the transportation of such low-volume, high-value products. For example, the aggregate weight of goods we transported decreased each year and from 2012 to 2015. Changes in freight composition may affect the usage volume and pricing of our freight transportation services and adversely affect our results of operations.

Significant increases in electricity prices could harm our business.

Significant increases in the cost of electricity could increase the costs of our passenger and freight transportation. 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. Any increase in the cost of electricity in Guangdong could increase our railway operating expenses. In 2015, 2016, and 2017, we paid approximately RMB599.3 million, RMB599.2 million, and RMB520.2 million, respectively, in electricity charges. Significant increases in electricity prices could have a material adverse effect on our financial condition and results of operations.

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

Our railroads are an integral part of the PRC national railway network. Our railroads connect with the Beijing-Guangzhou line in the north, the Shenzhen-Kowloon rail line in the south, the Guangzhou-Maoming rail line in the west, and the Guangzhou-Meizhou-Shantou rail line in the east, all of which are owned and operated by other operators. See “ITEM 4. INFORMATION ON THE COMPANY—A. History and Development of the Company—Service Territory” for additional information. Our train services use these other railroads to carry passengers and freight to locations outside of our service territory. The performance of our domestic long distance trains services and our Hong Kong Through Trains depends on the smooth operation of these railroads and our cooperation with the operators of these railroads. Any disruption in the operation of these railroads, or our cooperation with any one of these railroad operators for any reason, could have a material adverse effect on our business and results of operations.

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

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

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

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

GRGC's interests may sometimes conflict with the interests of the other shareholders. We cannot assure you that GRGC, as our single largest shareholder, will always vote its shares in a way that benefits the other shareholders of our Company. In addition to its relationship with us as our single largest shareholder, GRGC, by itself or through its affiliates, such as Yangcheng Railway Enterprise Development Company, a wholly owned subsidiary of GRGC, and Guangmeishan Railway Co., Ltd., also provides us with certain services, for which we have limited alternative sources of supply. The interests of GRGC and its affiliates as providers of these services may also conflict with our interests. We have entered into service agreements, and our transactions with GRGC and its affiliates have been conducted on open, fair and competitive commercial terms. However, we only have limited leverage in negotiating with GRGC and its affiliates over the specific terms of the agreements for the provision of these services as there are no alternate suppliers. See "ITEM 4. INFORMATION ON THE COMPANY—B. Business Overview—Major Suppliers and Service Providers" and "ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS—B. Related Party Transactions" for additional information regarding the services provided to us by GRGC and its subsidiaries.

We have very limited insurance coverage.

We do not maintain any insurance coverage against third party liabilities, except compulsory automobile liability insurance. Since November 1, 2015, passengers in China can voluntarily purchase accident insurance while purchasing a train ticket at RMB3.0 per person for a maximum coverage of up to RMB300,000 for an adult, or RMB100,000 for a minor, for death, injury and disability claims, and up to RMB30,000 for an adult, or RMB10,000 for a minor, for medical services and treatments, as a result of an accident. However, since we do not maintain any insurance coverage for most of our property, for business interruption or for environmental damage arising from accidents that occur in the course of our operations, we have to pay for financial and other losses, damages and liabilities, including those caused by natural disasters and other events beyond our control, out of our own funds, which could have a material adverse effect on our results of operations and financial condition.

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

Our railroad operations and real estate ownership are subject to extensive national and local environmental laws and regulations concerning, among other things, gaseous emissions, wastewater discharge, disposal of solid waste and noise control. In addition, environmental liabilities may arise from claims asserted by adjacent landowners or other third parties. As of December 31, 2017, we had not incurred any such liabilities and therefore, had not made any provision for such liabilities. We may also be required to incur significant expenses to remediate any violation of applicable environmental laws and regulations. In 2017, our environmental protection-related expenses were approximately RMB1.47 million, mainly related to the landscaping of our railroad and office areas and environmental fees.

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

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

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

If we experience any equipment failures, delays, temporary cancellations of schedules, collisions and derailments, or any deterioration in the performance or quality of any of our services, it could result in personal injuries, damage of goods, customer claims of damages, customer refunds and loss of goodwill. These problems may lead to decreases in customers and revenue, damage to our reputation, unexpected expenses, loss of passengers and freight customers, incurrence of significant warranty and repair costs, diversion of our attention from our transportation service efforts or strained customer relations, any one of which could materially adversely affect our business. For example, in January and February 2008, certain regions in southern China experienced extraordinary harsh winter weather, which caused equipment failures and delays and cancellations of some of our scheduled trains. As a result, during such period of freezing weather, our cost for repair of equipment increased and our revenue decreased. We cannot assure you that such events will not happen again in the future. In addition, on July 23, 2011, two high-speed trains collided on the Yongtaiwen railway line in the suburbs of Wenzhou, Zhejiang Province, China. 40 people were killed and 172 people were injured in this accident (the “Wenzhou Railway Accident”). Although we believe we have maintained effective safety measures and there has been no such collision accidents on railway lines operated by us since our inception, we cannot assure you that similar accidents will not occur on our railway lines in the future. The occurrence of any such accident could have a material adverse impact on us.

The revenue or charges for certain long-distance passenger train and freight transportation businesses are ultimately settled by China Railway Corporation in accordance with the unified settlement rules.

As described in “ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS—B Related Party Transactions” and Note 38 to our audited consolidated financial statements included elsewhere in this annual report, due to the fact that the railway business is centrally managed by China Railway Corporation (“CRC”) within the PRC, we work in cooperation with CRC and other railway companies controlled by the CRC for the operation of certain long-distance passenger train and freight transportation businesses within the PRC. The revenue generated from these long-distance passenger and freight transportation businesses is collected and settled by the CRC according to its settlement systems. The charges for the use of the rail lines and services provided by other railway companies are also settled by the CRC based on its systems. Although we can, to a certain extent, calculate the revenue and charges settled by the CRC based on our own data and information, the amount of settlement is ultimately settled by the CRC.

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

The United States Securities and Exchange Commission, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company in the United States to include a management report on such company’s internal control over financial reporting in its annual report, which contains management’s assessment of the effectiveness of the company’s internal control over financial reporting. In addition, an independent registered public accounting firm must report on the effectiveness of the company’s internal control over financial reporting. Although we have concluded that we maintained effective internal control over financial reporting for each of the years ended December 31, 2015, 2016 and 2017, we may not be able to conclude in future years that we have effective internal control over financial reporting, in accordance with the Sarbanes-Oxley Act of 2002. See “ITEM 15. CONTROLS and PROCEDURES.”

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

Risks Relating to Conducting Business in China

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

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

As we are established, and operate substantially all of our businesses, in China, any changes in the political, economic and social conditions of the PRC or any changes in PRC governmental policies or regulations, including a change in the PRC government's economic or monetary policies or railway or other transportation regulations, may have a material adverse effect on our business and operations and our results of operations. The economic environment in the PRC differs significantly from the United States and many Western European countries in terms of its structure, stage of development, capital reinvestment, growth rate, level of government involvement, resource allocation, self-sufficiency, rate of inflation and balance of payments position. The PRC government's economic reform policies since 1978 have resulted in a gradual reduction in state planning in the allocation of resources, pricing and management of assets, and a shift towards the utilization of market forces. The PRC government is expected to continue its reforms, and many of its economic and monetary policies still need to be developed and refined. In addition, certain changes in governmental policies from time to time may negatively affect our business and operations. For example, the cooling measures imposed by PRC government on the real estate industry since early 2011 in response to rising housing prices has resulted in our decreased transportation of construction materials, coal, iron ore, oil and steel that are largely used in that industry. On January 1, 2014, the PRC government also implemented a Pilot Scheme for the Change from Business Tax to Value-added Tax (the "Pilot Scheme") in the railway transportation industry. Value-added tax is a tax on top of but separated from price. According to the relevant accounting standard in China and overseas, operating revenues should be recognized after deducting value-added tax. As our income and pricing scheme remained unchanged after the implementation of the Pilot Scheme, the deduction of value-added tax from our income received from the original pricing scheme resulted in our reduced operating revenues in 2014 as compared to the same period in 2013. On January 1, 2016, the NDRC delegated its power to set baseline ticket pricing standards for high speed trains to the CRC. If the CRC increases or decreases the ticket prices for trains in our operation area, our revenue from railroad businesses will be affected accordingly. For further information on the ticket pricing, see "ITEM 4. INFORMATION ON THE COMPANY—B. Business Overview—Pricing." We cannot assure you that future changes in governmental policies or regulation will not have a material adverse effect on our business, operations or results of operations.

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

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

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

The value of the RMB fluctuates and is subject to changes in market conditions as well as China's political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed floating band against a basket of certain foreign currencies. On April 14, 2012, the PRC government further allowed the floating band of RMB's trading prices against the U.S. dollar to widen from 0.5% to 1% on each business day effective from April 2012, and further widened the floating band to 2% in March 2014. This has resulted in greater volatility in RMB exchange rate. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. We have certain U.S. dollar-denominated and HK dollar-denominated assets and the appreciation of RMB could result in a decrease of the value of these assets. For further information on our foreign exchange risks and certain exchange rates, see "ITEM 3. KEY INFORMATION—A. Selected Financial Data" and "ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK—Currency Risks." We cannot assure you that any future movements in the exchange rate of RMB against the United States dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

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

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

PCAOB registered public accounting firms in China, including our independent registered public accounting firm, are not inspected by the U.S. Public Company Accounting Oversight Board, which deprives us and our investors of the benefits of such inspection.

Auditors of companies whose shares are registered with the U.S. Securities and Exchange Commission and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the U.S. Public Company Accounting Oversight Board (the “PCAOB”) and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards applicable to auditors. Our independent registered public accounting firm is located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB, notwithstanding the requirements of U.S. law, is currently unable to conduct inspections without the approval of the Chinese authorities. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance (the “MOF”), which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the MOF in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the MOF to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

This lack of PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our common stock are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm’s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms’ failure to meet specific criteria set by the SEC, we may have difficulties complying with the requirements of the Exchange Act.

In December 2012, the SEC instituted administrative proceedings against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC’s rules and regulations thereunder by failing to provide to the SEC the firms’ audit work papers with respect to certain PRC-based companies that are publicly traded in the United States. On January 22, 2014, the administrative law judge presiding over the matter rendered an initial decision that each of the firms had violated the SEC’s rules of practice by failing to produce audit work papers to the SEC.

The initial decision censured each of the firms and barred them from practicing before the SEC for a period of six months. The Big Four PRC-based accounting firms appealed the administrative law judge’s initial decision to the SEC. The administrative law judge’s decision does not take effect unless and until it is endorsed by the SEC. In February 2015, the four China-based accounting firms each agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S.-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to PRC firms’ audit documents via the CSRC. If future document productions fail to meet specified criteria, the SEC retains the authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure.

While we cannot predict if the SEC will further review the four China-based accounting firms' compliance with specified criteria or if the results of such a review would result in the SEC imposing penalties such as suspensions or restarting the administrative proceedings, if the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with SEC requirements could ultimately lead to the delisting of our ADSs from the NYSE or the termination of the registration of our ADSs under the Exchange Act, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Overview

We were established as a joint stock limited company under the Company Law of the PRC on March 6, 1996, and have conducted our business for twenty-one years. Our legal name is 广深铁路股份有限公司, and its English translation is Guangshen Railway Company Limited. Our registered office is located at No. 1052 Heping Road, Luohu District, Shenzhen, Guangdong Province, The People's Republic of China, 518010. Our telephone number is (86-755) 2558-8150 and our fax number is (86-755) 2559-1480.

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

We are mainly engaged in passenger and freight transportation businesses on the Shenzhen-Guangzhou-Pingshi Railway, which is 481.2 kilometers long, running vertically through Guangdong Province. The Guangzhou-Pingshi Railway is the southern part of Beijing-Guangzhou Railway, which connects Northern China with Southern China. The Guangzhou-Shenzhen Railway is strategically located and links with major railway networks in China, including the Beijing-Guangzhou, Beijing-Kowloon, Sanshui-Maoming, Pinghu-Nantou, and Pinghu-Yantian lines, as well as to the Kowloon Canton Railway in Hong Kong, which is an important component of the transportation network of southern China, as well as the one of the main railway channels linking Hong Kong with Mainland China.

Passenger transportation is our principal business. As of December 31, 2017, there were 251 pairs of passenger trains in our operation area according to the then train schedule, including 107 pairs of intercity high-speed passenger trains between Guangzhou and Shenzhen (including 97 pairs of inter-city trains between Guangzhou East to Shenzhen (including 22 stand-by pairs), 10 pairs of Guangzhou East to the Chaozhou-Shantou cross-network EMU trains), 13 pairs of Hong Kong Through Trains (including 11 pairs of Canton-Kowloon Through Trains, 1 pair of Zhaoqing-Kowloon Through Trains and 1 pair of Beijing/Shanghai-Kowloon Through Trains) and 131 pairs of long-distance trains (including 12 pairs of Guangzhou-Foshan-Zhaoqing intercity trains, 3 pairs of Guangzhou to Guilin North, NaningEast and Guiyang North cross-network EMU trains). We have adopted an "As-Frequent-As-Buses" operating model by dispatching one pair of our domestically manufactured electric multiple units trains, known as "China Railway High-Speed trains" or "CRHs," every 10 minutes on average during peak hours between Guangzhou and Shenzhen. The through-trains passing Hong Kong jointly operated by us and the MTR Corporation Limited ("MTR") are one of the most important means of transportation between Guangzhou and Hong Kong. We have organized and operated a number of long-distance trains running from and to Guangzhou and Shenzhen that linked with most of the provinces, autonomous regions and municipalities across the nation.

Freight transportation is another important segment of our business. We are well-equipped with comprehensive freight facilities and are able to efficiently transport full load cargo, single load cargo, containers, bulky and overweight cargo, dangerous cargo, fresh and live cargo, and oversized cargo. Our rail lines operated are closely knitted with the major ports in Guangzhou and Shenzhen and are connected to several large industrial zones, logistics zones and plants and mines in the Pearl River Delta region via the railroad sidings. The major market of our freight transportation business is domestic mid-to long-distance transportation, and we enjoy competitive advantages in domestic mid-to long-distance freight transportation.

We have extended our passenger and freight transportation business to include railway operation services with the commencement of Wuhan-Guangzhou Passenger Railway Line in December 2009. As of the date of this annual report, we have provided such services to Wuhan-Guangzhou Passenger Railway Line Co., Ltd., Guangdong Guangzhou-Zhuhai Inter-city Railway Traffic Co., Ltd., Guangzhou-Shenzhen-Hong Kong Express Rail Link Company Limited, Guangzhou-Zhuhai Railway Company Limited, Xiamen-Shenzhen Railway (Guangdong) Company Limited, Ganzhou-Shaoguan Railway Company Limited, Nanning-Guangzhou Railway Company Limited, Guiyang-Guangzhou Railway Company Limited and Guangdong Pearl River Delta Inter-city Railway Traffic Company Limited. With the successful completion and commencement of operation of a series of high-speed railways and inter-city railways in the “Pan Pearl River Delta,” our geographical coverage of railway operation service will be more extensive.

Background, Restructuring and Acquisition

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

In 1979, Guangshen Railway Company, our predecessor, in conjunction with Kowloon-Canton Railway (“KCR”), which has been merged into the MTR, was engaged in the joint operation of Hong Kong Through Train passenger services between Guangzhou and Hong Kong.

In 1984, to exploit the rapid growth in the Pearl River Delta, Guangshen Railway Company, our predecessor, was established pursuant to the approval of the State Council as a state-owned enterprise administered by the Guangzhou Railway Bureau. At that time, Guangshen Railway Company had only a single-line railroad. Since then, large capital expenditures have been made to expand and upgrade its facilities and services. In 1987, construction of the second line was completed. In 1991, Guangshen Railway Company began the construction of a semi-high-speed rail line and purchased locomotives and passenger coaches, which can provide passenger train services at speeds of more than 160 kilometers per hour. Commercial operation of the EMUs commenced in December 1994.

We were established as a joint stock limited company on March 6, 1996 following the Restructuring, which was carried out to reorganize the railroad assets and related businesses of Guangshen Railway Company and certain of its subsidiaries. As part of the Restructuring, 2,904,250,000 state legal person shares, par value RMB1.00 per share, of our Company were issued to GRGC, a state-owned enterprise controlled by the MOR. Guangshen Railway Company retained the assets, liabilities and businesses not assumed by us, including units providing staff quarters and social services such as health care, education, public security and other ancillary services, as well as subsidiaries or joint ventures whose businesses do not relate to railroad operations and do not compete with our businesses. As part of our Restructuring, Guangshen Railway Company was renamed Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company.

Since April 1, 1996, we have been able to set our own prices for our EMU train services and charge a premium over average national prices for our other passenger and freight train services. See “ITEM 4. INFORMATION ON THE COMPANY—B. Business Overview—Regulatory Overview—Pricing” for a more detailed description of our pricing scheme.

We completed our initial public offering of class H ordinary shares, or H shares, and our American depositary shares, or ADSs, in May 1996. In that offering, we issued a total of 1,431,300,000 H shares, par value RMB1.00 per share. Our H shares are listed for trading on the HKSE and our American depositary shares, or ADSs, each representing 50 H shares, are listed for trading on the NYSE.

On November 15, 2004, we entered into an asset purchase agreement with Yangcheng Railway Company to acquire the railway transportation business between Guangzhou and Pingshi and related assets and liabilities, or the Acquisition. In order to finance such Acquisition, on December 13, 2006, we issued 2,747,987,000 A shares that are now listed for trading on the Shanghai Stock Exchange (stock code: 601333) and raised approximately RMB10.0 billion from the A Share Offering. After the A Share Offering, approximately 41% of our issued and outstanding shares were owned by GRGC, while institutional and public shareholders own approximately 59% of our issued and outstanding ordinary shares, including A shares, H shares and ADSs.

On December 28, 2006, we paid RMB5.27 billion out of the proceeds raised from the A Share Offering to Yangcheng Railway Company. On January 1, 2007, the railway transportation business of the Guangzhou-Pingshi Railway came under our control as a result of the Acquisition. As a result, our operations expanded from a regional railway to a national trunk line network and our operating railway distance extended from 152 kilometers to 481.2 kilometers, running vertically through the entire Guangdong Province. In June 2007, we paid the remaining balance in the amount of RMB4.87 billion to Yangcheng Railway Company.

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

On November 30, 2013, we entered into an agreement to acquire the freight service business and related assets of China Railway Express Co., Ltd. Guangzhou Branch (“CREC”) and China Railway Container Transport Co. Ltd. Dalang Processing Station (“CRCT”), the subsidiaries of the CRC which operate freight service business. The purchase considerations for CREC and CRCT were approximately RMB102.3 million and RMB79.9 million, respectively. On the same day, control of the assets and operations of CREC and CRCT were transferred to us. The results of the operations of the above-mentioned entities have been included in our consolidated comprehensive income statement from November 30, 2013 onwards.

On May 29, 2014, we entered into an agreement with Guangzhou Railway (Group) Company Guangzhou Railway Economic Development Co., Ltd. to acquire certain assets and liabilities in relation to the freight service business. The total amount of assets were RMB161.7 million and total amount of liabilities were RMB39.3 million. The purchase price was approximately RMB122.4 million.

On October 20, 2014, we entered into an agreement with Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company to acquire approximately an additional 17.7% equity interest in Zengcheng Lihua Stock Company Limited (“Zengcheng Lihua”). The purchase price was approximately RMB 4.7 million. Upon the completion of the acquisition, we held an aggregate of approximately 44.7% equity interest in Zengcheng Lihua. On February 12, 2015, we obtained control of Zengcheng Lihua and began to consolidate its financial statements from that date.

On October 26, 2016, we entered into agreements to acquire certain railway operating assets of GRGC, Guangmeishan Railway Company Limited (“GRCL”) and Guangdong Sanmao Railway Company Limited (“GSRC”). GRCL and GSRC are subsidiaries of GRGC which operates passenger and freight transport service business. The purchase prices to GRGC, GRCL and GSRC were approximately RMB28,657,000, RMB453,658,000 and RMB249,677,000, respectively. On October 26, 2016, we obtained control of the above-mentioned railway operation assets and began to consolidate the results of operations of GRGC, GRCL and GSRC in our consolidated comprehensive income statement from that date.

Service Territory

Our rail lines traverse the Pearl River Delta and also run vertically through Guangdong Province, an area which benefited early from the PRC economic reform policies that began in the late 1970s. Throughout the 1980s and early 1990s, the economy of the Pearl River Delta, fueled by foreign investments, grew rapidly. The Pearl River Delta is currently one of the most affluent and fastest growing areas in China.

As of April 25, 2018, we had 48 stations situated on our rail lines, providing passenger and freight transportation services for cities, towns and ports situated along the Shenzhen-Guangzhou-Pingshi corridors and Hong Kong Through Train passenger service, which we serve in conjunction with the MTR. We also provide railway operation services to other Chinese domestic railway companies.

The Shenzhen-Guangzhou-Pingshi railroad is an integral component of the PRC national railway network, and provides nationwide access to passenger and freight traffic from southern China to other regions of mainland China as described below:

Northbound. At Pingshi, our rail line connects with the Beijing-Guangzhou line, which is one of the major trunk lines linking southern China with Beijing and northern China. Another trunk line connecting northern and southern China, the Beijing-Hong Kong rail line, includes the section of our line from Dongguan to Shenzhen.

Southbound. Our line connects at Shenzhen with the rail line owned by the MTR that runs to Kowloon, Hong Kong.

Westbound. Our line connects with the Guangzhou-Maoming rail line operated by GSRC, a company in which GRGC holds a 49.1% equity interest, which 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. Nanning-Guangzhou Railway and Guiyang-Guangzhou Railway commenced operation on December 26, 2014, which are connected with our line at Guangzhou Station since May 2016 by three EMUs operating between Guangzhou and Guiyang North, Guangzhou and Nanning East, and Guangzhou and Guilin North. Nanning-Guangzhou Railway is owned by Nanning-Guangzhou Railway Company Limited, a subsidiary of Nanning Railway Bureau of CRC. Guiyang-Guangzhou Railway is owned by Guiyang-Guangzhou Railway Company Limited, a subsidiary of Chengdu Railway Bureau of CRC. We provide the operational services to Nanning-Guangzhou Railway and Guiyang-Guangzhou Railway. Our line also connects with Guangzhou-Foshan-Zhaoqing Intercity Railway, which commenced operation on March 30, 2016 and was jointly invested by Guangdong Provincial Railway Construction Investment Group Co., Ltd. and the CRC.

Eastbound. Our line connects with the Guangzhou-Meizhou-Shantou rail line and Xiamen-Shenzhen rail line. Guangzhou-Meizhou-Shantou rail line is operated by GRCL, a company in which GRGC holds a 78.2% equity interest. 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. The section of Xiamen-Shenzhen rail line in Guangdong Province is owned by Xiamen-Shenzhen Railway (Guangdong) Company Limited, a subsidiary of GRGC. We provide the operational services to Xiamen-Shenzhen Railway (Guangdong) Company Limited. At Pinghu, our rail line connects with two local rail lines: one of them, Pingnan Railway, principally serves three ports located in western Shenzhen—Shekou, Chiwan and Mawan, which is under renovation and expansion to add passenger transport and sea-railway cargo transport capabilities in the future—and the other, Pingyan Railway, serves Yantian port, an international deep-water port located in eastern Shenzhen. At the Huangpu and Xiayuan stations in Guangzhou, our line connects with Huangpu port and Xinsha port. Our rail line also connects with certain industrial districts, commercial districts and the facilities of many of our customers through spur lines, which are rail lines running off the main line that are used and typically financed by a freight customer or a group of freight customers and maintained by us for a fee. We believe that the customers connected to these spur lines and customers with goods that must be shipped through these regional ports are likely to use our services on a long-term basis.

Capital Expenditure

Our capital expenditure includes payments for acquisition of fixed assets and construction-in-progress, and prepayments for fixed assets, net of related payables. In 2015, 2016 and 2017, our total capital expenditure were RMB1,292.3 million, RMB1,973.9 million and RMB2,273.4 million, respectively.

For more information concerning the Company's principal capital expenditure and divestitures currently in progress, including the distribution of these investments geographically and the method of financing, see "ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS—B. Liquidity and Capital Resources" and "ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS—F. Tabular Disclosure of Contractual Obligations."

B. Business Overview

Business Operations

Our principal businesses are railroad passenger, transportation, freight transportation, railway network usage and other transportation-related services, which collectively generated 94.3% of our total revenue in 2017. The remaining 5.7% of our total revenue in 2017 mainly consisted of on-board catering services, leasing, sales of materials and supplies, sale of goods and other businesses related to railway transportation.

Due to deepening structural reform in supply, the steady improvement of the domestic economy, the addition of cross-network EMU trains between Guangzhou East and Chaozhou-Shantou between February 2016 and September 2017, and our ongoing strengthened marketing efforts in freight transportation, our passenger and freight transportation business bounced back in 2017 following a decline in 2016. As the Company seeks to continue to increase its revenue, we will seek to capitalize on an historic opportunity presented by the extensive railway construction, proactively adapt to the policy direction of railway system reform in order to establish a steadfast foothold in the Pan Pearl River Delta, and perfect and enhance its business portfolio centered on railway passenger and freight transportation and complemented by the railway-related businesses. We will also focus on improving quality of and innovation around management, service and technology.

In 2017, we achieved a passenger delivery volume of 85.1 million persons, representing a year-to-year increase of 0.3%; a tonnage of outbound freight of 15.9 million tons, representing a year-to-year decrease of 3.3%; generating operating revenues of RMB18,331 million, representing a year-to-year increase of 6.1%; consolidated profits attributable to equity holders of RMB1,015 million, representing a year-to-year decrease of 12.3%; and basic earnings per share of RMB0.14.

The table below summarizes our railroad and related business revenue and traffic volume for the periods indicated:

	Year Ended December 31,				
	2013	2014	2015	2016	2017
Passenger Transportation					
Total passenger transportation revenue (RMB millions)	8,058.29	6,988.29	6,997.56	7,358.85	7,757.08
Total passengers (millions)	90.96	90.11	85.37	84.90	85.13
Total passenger-kilometers (millions)	27,844.65	27,953.94	25,989.28	25,479.15	25,528.73
Revenue per passenger-kilometer (RMB) ⁽¹⁾	0.29	0.25	0.27	0.29	0.34
Freight Transportation					
Total freight transportation revenue (RMB millions)	1,603.29	1,763.68	1,761.45	1,718.26	1,893.59
Total freight tons (millions)	59.56	51.56	48.44	48.60	52.34
Revenue per ton (RMB) ⁽²⁾	26.92	34.21	36.36	35.36	36.18
Total ton-kilometers (millions)	13,293.83	11,435.00	10,874.30	10,302.05	10,700.48
Revenue per ton-kilometer (RMB) ⁽³⁾	0.12	0.15	0.16	0.17	0.18
Railway Network Usage and other transportation related services (RMB millions)	5,034.68	5,031.24	5,874.73	7,093.20	7,644.23

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

Passenger Transportation

Passenger transportation is our largest business stream, accounting for 42.3% of our total revenue and 44.9% of our railroad and related business revenue in 2017. Our passenger train services can be categorized as follows:

- transportation business of Guangzhou-Shenzhen inter-city express trains;
- long-distance trains; and
- Through Trains in Hong Kong.

As of December 31, 2017, there were a total of 251 pairs of passenger trains in our operation area according to the then train schedule (each pair of trains meaning trains making one round-trip between two points), representing a decrease of 2 pairs from 253 pairs as of December 31, 2016, of which:

- 107 pairs of intercity high-speed passenger trains between Guangzhou and Shenzhen (including 97 pairs) of inter-city trains between Guangzhou East to Shenzhen (including 22 stand-by pairs), and 10 pairs of Guangzhou East to the Chaozhou-Shantou cross-network EMU trains);
- 13 pairs of Hong Kong Through Trains (including 11 pairs of Canton-Kowloon Through Trains, 1 pair of Zhaoqing-Kowloon Through Trains and 1 pair of Beijing/Shanghai-Kowloon Through Trains); and
- 131 pairs of long-distance trains, representing a decrease of 7 pairs from 138 pairs as of December 31, 2016. Long-distance trains included long-distance passenger trains operated by us between the following departure and terminal stations:

<u>Departure/ Terminal Station</u>	<u>Terminal/Departure Station</u>
Guangzhou	Beijing West, Lhasa, Shanghai South, Xi'ning, Xi'an, Wuchang, Yantai, Chongqing North, Taizhou, Wenzhou, Zhangjiajie, Jiujiang, Chengdu, Yueyang, Chenzhou, Pingshi, Maoming, Xinyi
Guangzhou East	Beijing West, Xiamen, Shantou, Meizhou
Shenzhen	Beijing West, Shanghai South, Urumqi, Qingdao, Meizhou, Zhangjiajie, Suzhou
Shenzhen East	Chengdu East
Dongguan East	Chengdu
Shantou	Chongqing North, Shenzhen West
Huizhou	Dazhou
Sanya	Beijing West

Long-distance trains also included domestic long-distance trains that are operated by other operators but originate or terminate on, or pass through, our railroad.

The table below sets out passenger transportation revenue and volumes for our Hong Kong Through Trains and domestic trains for each of the periods indicated:

	<u>Total passenger transportation revenue</u>			<u>Total passengers</u>			<u>Revenue per passenger</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
	(RMB millions)			(millions)			(RMB)		
Guangzhou-Shenzhen Trains	2,224.0	2,413.0	2,566.4	35.7	36.2	36.9	62.3	66.7	69.6
Hong Kong Through Trains	510.4	528.3	523.4	3.8	3.5	3.6	134.3	150.9	145.4
Long-distance Trains ⁽¹⁾	3,883.6	4,019.3	4,206.2	45.9	45.2	44.6	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A
Other Revenues from Passenger Transportation ⁽²⁾	379.6	398.4	461.1	—	—	—	—	—	—
Combined passenger operations	6,997.6	7,358.9	7,757.1	85.4	84.9	85.1	N/A ⁽¹⁾	N/A ⁽¹⁾	N/A

- (1) Our revenue of long-distance passenger trains includes both the revenue from the passengers arriving at our railway stations and the revenue from the passengers departing from our railway stations. However, the number of our long-distance passengers only includes the passengers departing from our railway stations. As a result, we believe that the “per passenger revenue” cannot fairly reflect the financial status of our passenger transportation business.
- (2) Since 2014, we have separated Other Revenues from Passenger Transportation from Long-distance Trains to more accurately reflect the correlation between passenger revenue and volumes, and have re-categorized Revenue from Long-distance Trains for 2012 and 2013 to reflect this change.

Guangzhou-Shenzhen Trains. In 2017, our passenger transportation services on the trains between Guangzhou and Shenzhen accounted for 33.1% of our railroad passenger transportation revenue. As of December 31, 2017, we operated 107 pairs of intercity CRH passenger trains between Guangzhou and Shenzhen. Such CRH passenger trains are capable of running at a top speed of 200 kilometers per hour. The number of passengers traveling on our Guangzhou-Shenzhen trains increased by 2% from 36.2 million in 2016 to 36.9 million in 2017. The revenue from our Guangzhou-Shenzhen trains increased by 6.4% from RMB2,413.0 million in 2016 to RMB2,566.4 million in 2017. The increase in revenue of Guangzhou-Shenzhen trains was primarily due to: (i) the recommencement of inter-city passenger transportation business at Pinghu Railway Station since September 26, 2016, (ii) the commencement of the service of seven pairs of cross-network EMU trains between Guangzhou and Chaozhou-Shantou between February 2016 and September 2017, and the revenue from such trains is accounted for in the revenue from Guangzhou-Shenzhen trains, (iii) the increase in ticket prices in April 2017 for Guangzhou East to Chaozhou-Shantou EMU trains, which led to a revenue increase.

Hong Kong Through Trains. In 2017, our passenger transportation services on Hong Kong through trains accounted for 6.7% of our railroad passenger transportation revenue. We currently operate, jointly with the MTR, 13 pairs of Hong Kong Through Trains (including 11 pairs of Canton-Kowloon Through Trains, 1 pair of Zhaoqing-Kowloon Through Trains and 1 pair of Beijing West/Shanghai-Kowloon Through Trains). The MTR is responsible for the operation of 3 pairs of Canton-Kowloon Through Trains while we are responsible for the remaining 10 pairs of Hong Kong Through Trains (except for the Shanghai-Kowloon Through Train which is operated by Shanghai Railway Bureau). In addition, we also provide railway network usage services to MTR for the Hong Kong Through Trains it operates in the section between Shenzhen Station and Guangzhou East Station.

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

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

In 2017, the volume of passengers who traveled on the Hong Kong Through Trains increased by 2.9% from 3.5 million in 2016 to 3.6 million in 2017. The revenue from Hong Kong Through Trains decreased by 0.1% from RMB528.3 million in 2016 to RMB523.4 million in 2017. This increase in passenger volume was mainly due to the recovery of Hong Kong tourism, including more visitors from the mainland. This decrease in revenue was mainly due to the falling exchange rate from RMB to Hong Kong dollars.

Domestic Long-distance Trains. In 2017, our passenger transportation services on domestic long-distance trains accounted for 54.2% of our railroad passenger transportation revenue. As of December 31, 2017, we operated on a daily basis 131 pairs of long-distance trains on our rail lines to cities in Guangdong, Hunan, Hubei, Jiangxi, Anhui, Jiangsu, Liaoning, Shaanxi, Gansu, Fujian, Heilongjiang, Jilin, Zhejiang, Hebei, Henan, Sichuan, Yunnan, Hainan, Shanxi and Shandong provinces, Chongqing, Shanghai, Beijing and Tianjin municipalities and Guangxi Autonomous Region, Xinjiang Autonomous Region and Tibet Autonomous Region. In 2017, the number of passengers traveled on our long-distance trains was 44.6 million, representing a decrease of 1.3% from 45.2 million in 2016. Our revenue from long-distance trains in 2017 was RMB4,206.2 million, compared to RMB4,019.3 million in 2016. The decrease of the passenger volume of long-distance trains was primarily due to the railway's diversion effect, which has resulted in a continuous decrease of passenger volume of long-distance trains. The increase in revenue of long-distance trains was primarily due to the commencement of the service of one pair of long-distance trains between Shenzhen and Urumqi.

Major Stations. The following are the major train stations owned and operated by us as of December 31, 2017:

Station	Location	Connected Railways	Passenger Transportation Business	Total Passengers for 2017 (millions)
Guangzhou Station	Yuexiu District, Guangzhou	Beijing-Guangzhou Railway, Guangzhou-Maoming Railway, Guangzhou-Shenzhen Railway, Guangzhou-Foshan-Zhaoqing Intercity Railway, Line 2 and Line 5 of Guangzhou's subway system	Long-distance trains, inter-city trains between Guangzhou and Shenzhen	25.27
Guangzhou East Station	Tianhe District, Guangzhou	Beijing-Guangzhou Railway, Guangzhou-Shenzhen Railway, Xiamen-Shenzhen Railway, Line 1 and Line 3 of Guangzhou's subway system	Long-distance trains, inter-city trains between Guangzhou and Shenzhen, Hong Kong Through Trains	20.97
Shenzhen Station	Luohu District, Shenzhen	Guangzhou-Shenzhen Railway, Hong Kong railway, Luobao Line of Shenzhen's subway system	Long-distance trains, inter-city trains between Guangzhou and Shenzhen	18.24
Shaoguan East Station	Shaoguan	Beijing-Guangzhou Railway	Long-distance trains	2.94

Freight Transportation

Revenue from our freight transportation accounted for 10.3% of our total revenue and 10.9% of our railroad and related business revenue in 2017. Our principal market for freight is domestic medium and long-haul freight, originating and/or terminating outside the Shenzhen-Guangzhou-Pingshi corridor. We are well equipped with various freight facilities and can efficiently transport full load cargo, single load cargo and containers. We have established business cooperation with ports, logistics bases and specialized building materials markets in our service region.

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

- inbound freight, which is primarily freight unloaded at freight stations and spur lines connected to ports on our rail line or in Hong Kong;
- outbound freight, which is primarily freight bound for other regions in Mainland China as well as foreign countries loaded at our train stations and spur lines connected to ports on our rail line or in Hong Kong; and
- pass-through freight, which refers to freight that travels on our rail line, but which does not originate from or terminate at our rail line.

Revenue from freight transportation business in 2017 was RMB1,893.6 million, an increase of 10.2% from RMB1,718.3 million in 2016. The total tonnage of freight we transported in 2017 was 52.2 million tons, representing an increase of 7.4% from 48.6 million tons in 2016. The increase in freight transportation revenues and freight volumes was mainly due to deepening structural reform in supply, the steady improvement of the Chinese domestic economy, our ongoing marketing efforts, and the rebound of freight railway delivery of bulk goods such as iron ore and coal.

We serve a broad customer base and ship a wide range of goods in our freight transportation business. We are not dependent upon any particular customers or industries. We transport a broad range of goods, which can generally be classified as follows: metal ores, coal, containers, construction materials, steel, petroleum, and other goods.

The majority of our inbound freight consists of raw materials and essential production materials for manufacturing, industrial and construction activities, while the majority of our outbound freight consists of imported mineral ores as well as coal and goods produced or processed within our service territory, for customers throughout China and abroad.

Railway Network Usage and other Transportation-Related Services Business

Revenue from our railway network usage and other transportation-related services accounted for 41.7% of our total revenue and 44.2% of our railroad and related business revenue in 2017. In 2017, our revenue from railway network usage and other transportation-related services was RMB7,644.2 million, representing an increase of 7.8% from RMB7,093.2 million in 2016. The increase in revenue from railway network usage was primarily due to improvements in the workload for the locomotive towing services. The increase in revenue from other transportation services was primarily due to improvements to the workload for the railway operations and passenger services.

The following table shows the composition of our revenue from railway network usage and other transportation-related services for each of the periods indicated:

	2015	2016	2017
		(RMB millions)	
Railway Network Usage	2,933.5	3,178.5	3,306.5
Passenger transportation network usage services	2,701.2	2,940.5	3,044.1
Freight transportation network usage services	232.3	238.0	262.4
Other Transportation-Related Services ⁽¹⁾	2,941.2	3,914.7	4,337.7
Railway operation services	2,387.2	2,614.3	2,850.0
Other Services ⁽²⁾	554.0	1,300.4	1,487.7
Total	5,874.7	7,093.2	7,644.2

(1) Other transportation-related services include provision of railway operation services and other services.

(2) Other services include lease of locomotive and passenger trains, fueling of locomotive and passenger trains, parcel transportation and other transportation.

Other Businesses

Revenue from our other businesses accounted for 5.7% of our total revenue in 2017. Our other businesses mainly consist of on-board catering services, leasing, sales of materials and supplies, sale of goods and other businesses related to railway transportation.

Revenue from our other businesses was RMB1,036.5 million in 2017, compared to RMB1,110.2 million in 2016.

Seasonality of Our Railway Transportation Business

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

Sales

Passenger Transportation

Our passenger tickets are currently sold primarily through the internet. Passengers also can buy tickets at the ticket counters and automatic selling machines which are located in our train stations as well as through telephone. Additionally, our tickets are sold in Hong Kong and major cities in the Guangdong Province through ticket agents, travel agents and hotels, at our usual prices plus nominal commissions.

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

Our stations along the Guangzhou-Shenzhen line have adopted a real-name ticketing system, allowing passengers to use their identification cards to purchase tickets and board trains. Customers who provide their second generation China identification cards or Hong Kong and Macau identification cards may purchase tickets aboard trains without customer service representatives. Customers can also purchase tickets for our Guangzhou-Shenzhen inter-city trains online. As of December 31, 2017, we had a total of 253 automatic ticket selling machines, 149 automatic ticket inspection machines and 214 internet ticket printing machines along the Guangzhou-Shenzhen line.

The current settlement method for passenger transportation was stipulated by the MOR and is still under execution by the CRC. It provides that all revenue from passenger train services (including revenue generated from luggage and parcel services) is considered passenger transportation revenue and belongs to the railway company that operates that train. The railway company in turn pays other railway companies the fees for the use of their rail lines, hauling services, in-station passenger services, water supply, electricity for electric locomotives and contact wire use fees, etc. Under this settlement method, the railway companies operating the long-distance train services are required to pay us the following fees: (i) the portion of the revenue from the sale of tickets that is higher than the PRC national railway standards due to our special pricing standards and (ii) other fees including those for railroad line usage, in-station passenger service, haulage service, power supply for electric locomotives, usage fees of contact wires and water supply. This settlement method does not apply to the settlement of our revenue from the passenger trains between Guangzhou and Shenzhen, between Beijing and Hong Kong, between Shanghai and Hong Kong, between Zhaoqing and Hong Kong and the Hong Kong Through Trains. See "ITEM 4. INFORMATION ON THE COMPANY—B. Business Overview—Regulatory Overview—Pricing."

In October 2016, we acquired parts of the railway operation assets of GRCL and GSRC. As a result of the acquisition, we expanded our service scope of railway operation of the Shenzhen-Pinshi rail line to the entire Guangdong Province, which improved the supply of passenger trains and our competitiveness in passenger transportation.

Freight Transportation

In May 2013, the CRC restructured the businesses between CRCT, CREC and China Railway Special Cargo Services CO., Ltd. ("CRSCS"). After the restructuring, CRCT took charge of the container operation and management and left the container transportation business with all relevant assets to State Railway Bureaus (including GRGC). CREC transformed into a logistics company, providing services to the public, while National Railway Bureau was responsible for the operation and management of luggage carts, postal trains, postal and parcel express special trains and operational bases. CRSCS expanded the businesses into container, mail and luggage transportation.

On November 30, 2013, we entered into an asset transfer agreement with China Railway Express Co., Ltd. Guangzhou Branch ("CREC GB") and China Railway Container Transport Co. Ltd. Dalang Processing Station ("CRCT DS"). CREC GB and CRCT DS are all subsidiaries of the CRC. The consideration for CREC GB and CRCT DS were approximately RMB102.3 million and RMB79.9 million, respectively. On the same day, control of the assets and operations of CREC and CRCT were transferred to us. The results of operations of the above-mentioned entities have been included in our consolidated comprehensive income statements starting on November 30, 2013.

Our revenue from container, postal transportation and postal and parcel express special train services have been included into transportation revenue after business optimization.

We and State Railway Bureaus (including GRGC) pay the CRC a fee for railway containers, which is collected by the CRCT. Special cargo transportation income, partially paid to National Railway Bureau and us as railroad usage fees and locomotive traction fees, is attributable to CRSCS.

In June 2013, the CRC implemented the door-to-door freight fee for railway freight transportation which covers all fees incurred from loading goods, transportation from departure station to arrival station and ultimately to the designated destination. Door-to-door freight fees are charged one-time on the consignor's account and evidenced by consignment invoice, which lists all chargeable services with corresponding prices.

Since January 1, 2018, the Company has collected the whole-route freight transportation fees for the outbound freight delivered by the Company, and has paid the service fees to other railway companies providing the freight transportation service.

Competition

We provide passenger and freight transportation services on the Shenzhen-Guangzhou-Pingshi Railway. We expect competition to increase in the future as the marketization reform of the railway industry (including the reformation of the investment and financing system, the transportation management system and the pricing system) gradually deepens. We compete for long-distance traveling passengers against other railway service providers operating within our service territory. The Guangzhou-Shenzhen section of the Guangzhou-Shenzhen-Hong Kong passenger line commenced operation in December 2011, the Beijing-Guangzhou passenger line commenced operation in December 2012, the Xiamen-Shenzhen passenger line commenced operation in December 2013 and the Nanning-Guangzhou and Guiyang-Guangzhou passenger lines commenced operation in December 2014. In addition, in areas where our railroad connects with lines of other railway companies, such as in the Guangzhou area where our railroad connects with the Guangzhou-Maoming Line, and in the Dongguan area where our railroad connects with the Guangzhou-Meizhou-Shantou Line, we face competition from the railway companies operating in these areas. We believe that the entry barrier to the industry will decrease, investors in the industry will become more diversified and the State's highspeed railway network with Four East-West Lines and Four South-North Lines and numerous inter-city railways will complete construction and commence operation, leading to increased competition within the industry itself.

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

With respect to freight transportation, we face increasing competition from truck transportation in the medium-and short-distance freight transportation market as the expressway and highway networks in our service region and neighboring areas have increasingly improved. By comparison, in the long-distance freight transportation market, especially in the areas where water transportation is not well developed, our freight transportation service has many advantages compared to truck transportation due to the higher cost of truck transportation, susceptibility of truck transportation to traffic conditions and a scarcity of heavy duty trucks. Our freight transportation also competes with water transportation as the waterway networks have increasingly improved. Supported by its more extensive network, railway freight transportation is more competitive in terms of speed and safety compared to water transportation, especially in those areas that are far from coasts and main waterways. As air freight is very expensive and attracts a different group of customers, we do not consider that our freight transportation services face significant competition from air freight. In China, a significant portion of the bulky freight with low added-value is still transported by railroad. In addition, the CRC recently proposed to conduct deeper reform to adopt more modernized methods for railway freight transportation, including, but not limited to, the use of the internet to book and manage all cargos, which would further marketize freight transportation-related services and may increase competition from companies that have adopted more modernized methods in railway freight transportation.

Equipment, Tracks and Maintenance

As of December 31, 2017, we operated 185 diesel locomotives, 73 electric locomotives, 26 EMUs and 2,410 passenger coaches for our operations.

The freight cars we use are all leased from the CRC, to which we pay uniform rental fees based on the national standards set by the CRC. The amounts of such usage fees we paid to the CRC in 2015, 2016 and 2017 were approximately RMB251.3 million, RMB261.9 million and RMB254.2 million, respectively.

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

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

We believe that our existing tracks and equipment meet the needs of our current business and operations. Most of the rails and ties on our main lines have been installed within the last decade and are maintained and upgraded on an ongoing basis as required. In 2015, 2016 and 2017, we replaced approximately 7 kilometers, 41 kilometers and 76 kilometers of railway lines, respectively.

Major Suppliers and Service Providers

GRGC, our single largest shareholder, and its subsidiaries are major suppliers of our materials and supplies. In 2017, we purchased approximately RMB455,716 million in materials and supplies from GRGC and its subsidiaries, which represented 34.8% of our total purchase of materials and supplies. See “ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS—B. Related Party Transactions.”

The companies or bureaus owned or controlled by the CRC, including the GRGC, our single largest shareholder, are our major customers. In 2017, we collected approximately RMB3,595.96 million from GRGC and its subsidiaries, which represented 19.6% of our operating revenues.

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 2015, 2016 and 2017, we paid approximately RMB599.3 million, RMB599.2 million and RMB520.2 million, respectively, for electricity charges.]

Regulatory Overview

As a joint stock limited company with publicly traded shares, we are subject to regulation by the PRC securities regulatory authorities with respect to our compliance with PRC securities laws and regulations.

Prior to March 14, 2013, we were regulated by the MOR. However, on March 14, 2013, the First Session of the 12th National People’s Congress of the PRC considered and approved the plan on State Council institutional reform and transformation of government functions, pursuant to which the MOR was dissolved. In accordance with the plan, administrative functions pertaining to railway development planning and policies were transferred to the MOT, other administrative functions previously performed by the MOR were transferred to the National Railway Administration, supervised by the MOT, and commercial functions previously performed by the MOR were transferred to the CRC. The Reform was completed on January 1, 2017 and as a result, the actual controlling entity of our Company’s largest shareholder became the CRC. See “ITEM 3. KEY INFORMATION—D. Risk Factors—Risks Relating to Our Business— Extensive government regulation of the railway transportation industry may limit our flexibility in responding to market conditions, competition or changes in our cost structure.”

National Railway System

Railroads in the PRC fall largely into three categories: state-owned railroads, jointly owned railroads and local railroads. The PRC central government holds the equity interests in state-owned railroads. The state-owned railway system comprises over 70% of all rail lines, including all trunk lines. Prior to the dissolution of the MOR, the state-owned railway system was operated as a nationwide integrated system under the supervision and management of the MOR. Jointly owned railroads are jointly invested and operated by the central government of the PRC, the local government and other foreign or domestic investors. Local railroads consist of regional lines usually within provincial or municipal boundaries that have been constructed under the sponsorship of local governments or local enterprises to serve local needs. Although the MOR did not operate other railroads, it provided guidance, coordination, supervision and assistance with respect to industry matters to such other railroads. The MOR's responsibilities include the centralized coordination of train routing and scheduling nationwide, planning of freight shipments and freight car allocations, overseeing equipment standardization and maintenance requirements, and financial oversight and revenue clearing throughout the national railway system. After the dissolution of the MOR, the administrative functions formerly performed by the MOR were assigned to the MOT and the National Railway Administration, while the commercial functions formerly performed by the MOR were assigned to the CRC.

Railway group companies are directly responsible for passenger and freight transportation as well as the coordination and supervision of operations carried out by train stations within their respective service territory. There are currently 18 railway group companies overseeing distinct portions of the national railway system.

Transport Operations

Prior to the dissolution of the MOR, the transport operations of the PRC national railway system were organized under the centralized regulation of the MOR. In order to promote efficient utilization of the railroad network nationwide, the MOR supervised and coordinated 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 formulated and issued the plans to the railway companies or railway group companies regarding routings on trunk lines, allocation of transportation capacities between railway companies or railway group companies at the connection points and allocation of freight cars to railway companies or railway group companies. The MOR also regulated the dispatch of empty freight cars to designated locations in order to enhance the utilization rate of the freight cars within the national railway system. Within the plans set forth by the MOR, each railway company and railway group company supervised and coordinated traffic within its own jurisdiction.

Currently, the plans and schedules for our passenger and freight services that were conducted solely on our own lines were determined by us; while our passenger and freight services that ran beyond our own lines were subject to overall planning and scheduling of GRGC or the CRC.

Where our service runs beyond our own line, clearance by and coordination with GRGC is necessary. Prior to the dissolution of the MOR, to the extent that we operated long-distance services beyond GRGC's jurisdiction, they were subject to coordination and clearance by the MOR. Currently, they were subject to coordination and clearance by the CRC. In addition, in order to enable GRGC and the MOR to allocate freight cars and control traffic going through connection points, we were required to provide GRGC with prior electronic notice through internal network, on a daily basis, of the number and types of freight cars we required, as well as the number of our freight trains that would go through particular connection points. Currently, the daily notice is still provided to GRGC and the allocation of freight cars and control of traffic through connection points are carried out by GRGC and the CRC. Furthermore, we were required to carry out special shipping tasks, such as emergency aid and military and diplomatic transport, as directed by the MOR (and now by the CRC) or GRGC. Revenue from military and diplomatic transport generally account for less than 1% of our total transportation revenue. Emergency aid transport was required only during periods of natural disasters declared by the PRC government, and was provided with reduced fees.

Pricing

Prior to the dissolution of the MOR, the MOR was generally 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 would take effect after being approved by and/or filed with relevant PRC government authorities. Currently, the CRC is responsible for the preparing and filing of such proposal for the baseline pricing standards.

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

Environmental Protection

We believe that we are in material compliance with all applicable PRC national and local environmental protection laws and regulations. We have not been fined or cited for any activities that have caused environmental damages. We have 14 wastewater treatment facilities used for purposes of treating wastewater generated from cleaning of special cargo freight cars, locomotives, coaches and from residential use of our employees. We pay regular fees to local authorities for the discharge of waste substances. In 2017, our environmental protection-related expenses were approximately RMB1.47 million, mainly related to the landscaping of our railroad and office areas and environmental fees.

Insurance

We do not currently maintain any insurance coverage with third party carriers against third party liabilities. Consistent with what we believe to be the customary practice among railway operators in the PRC, we do not maintain insurance coverage for our property and facilities (other than for our automobiles), for business interruption or for environmental damage arising from accidents on our property or relating to our operations. As a result, in the event of an accident or other event causing loss, destruction or damage to our property or facilities, causing interruption to our normal operations or causing liability for environmental damage or clean-up, we will be liable for such damages. See “ITEM 3. KEY INFORMATION—D. Risk Factors—Risks Relating to Our Business—We have very limited insurance coverage.”

In addition, we have purchased liability insurance for our directors and have taken out basic retirement insurance, basic medical insurance, work-related personal injury insurance policies and childbearing insurance for our employees.

C. Organizational Structure

The following table lists our significant subsidiaries as of December 31, 2017:

<u>Name</u>	<u>Country of Incorporation</u>	<u>Percentage of Interest held by our Company</u>
Dongguan Changsheng Enterprise Company Limited	PRC	51%
Shenzhen Fu Yuan Enterprise Development Company Limited	PRC	100%
Shenzhen Pinghu Qun Yi Railway Store Loading and Unloading Company Limited	PRC	100%
Shenzhen Nantie Construction Supervision Company Limited	PRC	76.66%
Shenzhen Railway Property Management Company Limited	PRC	100%
Shenzhen Shenhuasheng Storage and Transportation Company Limited	PRC	100%
Shenzhen Guangshen Railway Economic and Trade Enterprise Company Limited	PRC	100%
Shenzhen Railway Station Passenger Services Company Limited	PRC	100%
Guangshen Railway Station Dongqun Trade and Commerce Service Company Limited	PRC	100%
Guangzhou Railway Huangpu Service Company Limited	PRC	100%
Zengcheng Lihua Stock Company Limited (1)	PRC	44.72%

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- (1) (i) According to the Articles of Association of Zengcheng Lihua, the remaining shareholders are all natural persons and none of these individuals holds more than 0.5% equity interest in Zengcheng Lihua. All directors of Zengcheng Lihua were appointed by the Company. After considering all shareholders of Zengcheng Lihua other than the Company are individuals with individual interest holding of less than 0.5% and such individuals do not act in concert, and also all directors of Zengcheng Lihua were appointed by the Company, the directors of the Company consider that the Company has the de facto control over the board and the substantial financial and operating decisions of Zengcheng Lihua.

D. Property, Plant and Equipment

We occupy a total area of approximately 41.1 million square meters, among which, we own the land use right of approximately 13.1 million square meters on which our buildings and facilities of Guangzhou-Shenzhen railway are located, we lease approximately 28.0 million square meters from GRGC for the Guangzhou-Pingshi Railway.

With respect to the land for which we hold the land use rights, the terms range from 36.5 to 50 years, terminating between 2027 and 2047. We will renew the term of extend land use right upon its expiry in strict compliance with requirements of relevant laws and regulations. With respect to the land leased from GRGC, the term is 20 years, terminating in 2027. Based on the land lease agreement we entered into with GRGC in 2004, we can renew such lease at our discretion upon the expiration of the term of such land lease.

As of December 31, 2017, we had not obtained the land use right certificates, or Land Certificates, of certain parcels of land with an aggregate area of approximately 1,928,603 square meters. After consultation with our PRC legal counsel, we believe there is no legal hurdle for us to apply for and to obtain the Land Certificates and we do not believe the current lack of Land Certificates will lead to any material adverse impact on the operation of our business. Accordingly, we do not consider any provision for impairment necessary.

As of December 31, 2017, we had not obtained the ownership certificates of certain buildings, or Building Ownership Certificates, which had an aggregate carrying value of approximately RMB1,858.3 million. After consultation with our PRC legal counsel, we believe that there is no legal hurdle for us to apply for and obtain the Building Ownership Certificates and it should not lead to any material adverse impact on the operation of our business. Accordingly, we do not consider any provision for impairment necessary.

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

As of April 25, 2018, we had 48 stations situated on our rail line, of which the Guangzhou East Station is the largest, occupying an area of 41,925 square meters.

For additional information regarding our property, plant and equipment, see “ITEM 4. INFORMATION ON THE COMPANY—B. Business Overview—Equipment, Tracks and Maintenance” and Note 6 to our audited consolidated financial statements included elsewhere in this annual report.

ITEM 4A. UNRESOLVED STAFF COMMENTS

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

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview

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

For the year ended December 31, 2017, our total revenue was RMB18,331.4 million, profit attributable to equity holders was RMB1,015.4 million, and earnings per share were RMB0.14. Railroad and related business revenue accounted for 93.1%, 93.6% and 94.3% of our total revenue in 2015, 2016 and 2017, respectively.

Passenger transportation is our principal business. In 2017, the total number of our passengers was 85.1 million, representing an increase of 0.3% from 84.9 million in 2016. Our passenger transportation revenue was RMB7,757.1 million in 2017, representing an increase of 5.4% from RMB7,358.9 million in 2016.

We transported a total of 52.2 million tons of freight in 2017, representing an increase of 7.5% from 48.6 million tons in 2016. Our freight transportation revenue in 2017 was RMB1,893.6 million, representing an increase of 10.2% from RMB1,718.3 million in 2016.

Revenue from our railway network usages and other transportation related services business was RMB7,644.2 million in 2017, representing an increase of 7.8% from RMB7,093.2 million in 2016.

Revenue from our other businesses was RMB1,036.5 million in 2017, compared to RMB1,110.2 million in 2016.

A. Operating Results

Principal Factors Affecting Our Results of Operations

Economic Development in the Pearl River Delta Region and the PRC. We are mainly engaged in railway transportation services on the trains between Guangzhou-Shenzhen intercity trains, certain long-distance trains and Hong Kong Through Trains. Our results of operations relating to passenger transportation are influenced by the economic development in the Pearl River Delta region. The level of economic activities in the Pearl River Delta region, including the economic cooperation among Hong Kong, Macau and China, affects the number of business people and migrant workers traveling in this region. In addition, the average income levels of residents in this region and elsewhere in the PRC affects the number of the tourists departing from or arriving at our train stations. The majority of the freight we transport is large-volume, medium-to long-distance freight received from and/or transferred to other railway lines. Economic development in the PRC, including but not limited to the Pearl River Delta region, determines the market demand for such goods as coal, iron ore, steel and therefore indirectly affects the market demand of freight train transportation service. Furthermore, the global financial crisis and economic downturn in 2008 had adversely affected economies and businesses around the world, including in China. This change in the macro-economic conditions had an adverse impact on our business and operations by causing a decrease in the number of passengers and the volume of freight that we transported in 2009. Although many places around the world have recovered since the second half of 2009, the global economic downturn, Europe's sovereign debt crisis, the stability of the Eurozone and the decreased growth rate of China's economy may have a material and adverse effect on our businesses, results of operations and financial condition. 2017 saw a strong trend of steady and favorable growth in China's economy, in which a rebound in GDP growth rate occurred for the first time since 2011, representing a year-on-year increase of 6.9%. It was also the first time that the GDP exceeded RMB80 trillion, reaching RMB82.71 trillion. Meanwhile, the national railway showed solid improvements both in its passenger and freight transportation, with its passenger delivery volume reaching 3.039 billion people over the course of the year, a year-on-year increase of 9.6%, and outbound freight tonnage of 2.918 billion tons, a year-on-year increase of 10.1%. Given this sound macroeconomic environment, we were able to adhere to and achieve business objectives while upholding our working theme to "strengthen foundation, obtain achievement, improve quality and raise efficiency".

Competitive Pressure from other Railway Operators and other Means of Transportation. Sales for our passenger transportation services are also affected by the competitive pressure from other railway operators and other means of transportation, such as the automobile, bus, ferry and airplane services. With the establishment of the “four horizontal and four vertical” high-speed railway network, more high-speed trains that connect the Pearl River Delta region and other major mainland cities are available to the public, including the Guangzhou-Shenzhen section of the Guangzhou-Shenzhen-Hong Kong passenger line which commenced operation in December 2011, the Beijing-Guangzhou passenger line which commenced operation in December 2012, the Xiamen-Shenzhen passenger line which commenced operation in December 2013 and the Nanning-Guangzhou and Guiyang-Guangzhou passenger lines which commenced operation in December 2014. As a result, the number of passengers traveling by our long-distance train services decreased recently. In response to such competition, we adjusted the operational scheme of passenger transportation to increase the number of pairs of long-distance trains. In addition, the opening of the Guangzhou-Shenzhen high speed rail way, the rapid growth in the number of privately owned vehicles and a higher penetration of bus services also affected the number of train passengers traveling short distances and any significant decrease in the air transportation prices affects the number of train passengers traveling long distances. Our sales of the freight transportation services are also affected by the competition from other means of transportation, such as water, truck and freight transportation services. We also expect competition to increase in the future as the marketization reform of the railway industry (including the reformation of the investment and financing system, the transportation management system and the pricing system) gradually deepens.

We believe that the entry barrier to the industry will decrease, investors in the industry will become more diversified and the State’s high-speed railway network with Four East-West Lines and Four South-North Lines and numerous inter-city railways will complete construction and commence operation, leading to increased competition within the industry itself.

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

Year ended December 31, 2017 compared with year ended December 31, 2016

Revenue

In 2017, our total revenue was RMB18,331.4 million, representing an increase of 6.1% from RMB17,280.5 million in 2016. Our revenue from railroad passenger transportation service, freight transportation service and railway network usage and other transportation related services was RMB7,757.1 million, RMB1,893.6 million and RMB7,644.2 million, respectively, accounting for approximately 42.3%, 10.3% and 41.7% of our total revenue in 2017, respectively.

Passenger transportation. Revenue from passenger transportation accounted for 42.3% of our total revenue and 44.9% of our railroad and related business revenue in 2017. As of December 31, 2017, we operated 251 pairs of passenger trains each day, including 107 pairs of intercity high-speed passenger trains between Guangzhou and Shenzhen (including 97 pairs of inter-city trains between Guangzhou East to Shenzhen (including 22 stand-by pairs), 10 pairs of Guangzhou East to the Chaozhou-Shantou cross-network EMU trains), 13 pairs of Hong Kong Through Trains (including 11 pairs of Canton-Kowloon Through Trains, 1 pair of Zhaoqing-Kowloon Through Trains and 1 pair of Beijing/Shanghai-Kowloon Through Trains) and 131 pairs of long-distance trains (including 12 pairs of Guangzhou-Foshan-Zhaoqing intercity trains, 3 pairs of Guangzhou to Guilin North, Nanning East and Guiyang North cross-network EMU trains).

In 2017, the total number of our passengers was 85.1 million, representing an increase of 0.3% from 84.9 million in 2016. Our passenger transportation revenue was RMB7,757.1 million in 2017, representing an increase of 5.4% from RMB7,358.9 million in 2016. The increase in passenger transportation revenues was mainly due to: (i) the Company's addition of 2 pairs, 3 pairs and 2 pairs of cross-network EMU trains between Guangzhou East to Chaozhou-Shantou on February 1, 2016, May 15, 2016 and September 21, 2017, respectively; and 1 pair of long-distance trains between Shenzhen and Urumqi and 1 pair of long-distance trains between Guangzhou and Yueyang, both of which commenced operations on May 15, 2016; (ii) the recommencement of Guangzhou-Shenzhen inter-city passenger transportation business at Pinghu Railway Station on September 26, 2016; and (iii) the implementation of an increase in ticket prices on April 21, 2017, for the Guangzhou East to Chaozhou-Shantou cross-network EMU trains. The increase in passenger volume was primarily due to the recommencement of the Guangzhou Shenzhen inter-city passenger transportation business at Pinghu Station on September 26, 2016.

The following table sets forth our revenue from passenger transportation and the number of passengers for 2016 and 2017:

	Year ended December 31,		Change from 2016 to 2017
	2016	2017	
Revenue from passenger transportation (RMB thousands)	7,358,851	7,757,077	5.4%
Total passengers (thousands)	84,896	85,133	0.3%
Total passenger-kilometers (millions)	25,479	25,529	0.2%
Revenue per passenger-kilometer (RMB)	0.29	0.30	3.4%

Freight transportation. Revenue from our freight transportation accounted for 10.3% of our total revenue and 10.6% of our railroad and related business revenue in 2017.

Revenue from our freight transportation business in 2017 was RMB1,893.6 million, an increase of 10.2% from RMB1,718.3 million in 2016. The total tonnage of freight we transported in 2017 was 52.2 million tons, representing an increase of 7.5% from 48.6 million tons in 2016. The increase in freight transportation revenues and freight volumes was mainly due to the deepening structural reform in supply, the steady improvement of the domestic economy, our ongoing marketing efforts, and the rebound of the freight railway delivery of bulk goods such as iron ore and coal.

The following table sets forth our revenue from freight transportation and the volumes of commodities we shipped for 2016 and 2017:

	Year ended December 31,		Change from 2016 to 2017
	2016	2017	
Revenue from freight transportation (RMB thousands)	1,718,260	1,893,594	10.2%
- Revenue from outbound freight transportation	476,505	475,849	(0.1%)
- Revenue from inbound and pass-through transportation	1,105,061	1,266,122	14.6%
- Revenue from other freight transportation services	136,694	151,623	10.9%
Total freight tons (thousands of tons)	48,603	52,239	7.5%
- Outbound freight tonnage	15,356	15,864	3.3%
- Inbound and pass-through freight tonnage	33,247	36,375	9.4%
Revenue per ton (RMB)	35.4	36.2	2.3%
Total ton-kilometers (millions)	10,302	10,700	3.9%
Revenue per ton-kilometer (RMB)	0.17	0.18	5.9%

Railway network usage and other transportation related services. Revenue from our railway network usage and other transportation related services accounted for 41.7% of our total revenue and 44.2% of our railroad and related business revenue in 2017. Railway network usage and other transportation related services mainly include locomotive traction, track usage, electric catenary, vehicle coupling and other services. Revenue from our railway network usages and other transportation related services business was RMB7,644.2 million in 2017, representing an increase of 7.8% from RMB7,093.2 million in 2016. The increase in revenue from railway network usage was primarily due to improvements in the workload for the locomotive towing services. The increase in revenue from other transportation services was primarily due to improvements to the workload for the railway operations and passenger services.

Other Businesses. Our other businesses mainly consist of the sale of materials and supplies, on-board catering services, labor services, train repair and other businesses related to railway transportation. Revenue from our other businesses was RMB1,036.5 million in 2017, representing a decrease of 6.6% from RMB1,110.2 million in 2016, primarily due to the decreases in revenue from on-board catering services.

Operating Expenses

In 2017, our total operating expenses were RMB16,932.6 million, representing an increase of 8.3% from RMB15,638.0 million in 2016.

The following table sets forth the principal operating expenses associated with our railroad and related business, as a percentage of our railroad and related business revenue for 2016 and 2017.

	Year ended December 31,	
	2016	2017
Railroad and related business revenue (RMB millions)	16,170.3	17,294.9
Business tax	0.2%	0.1%
Employee benefits	35.0%	36.4%
Equipment leases and services	25.9%	25.3%
Land use right leases	0.3%	0.3%
Materials and supplies	8.3%	7.6%
Repairs and facilities maintenance costs, excluding materials and supplies	3.8%	5.1%
Depreciation of fixed assets	9.2%	9.4%
Cargo logistics and outsourcing service charges	1.3%	1.4%
Amortization of leasehold land payments	0.2%	0.2%
Social services expenses	0.1%	0.0%
Utility and office expenses	0.3%	0.3%
Others	5.5%	5.4%
Operating expenses ratio	90.1%	91.6%
Railroad and related business operating margin	9.9%	8.4%

(1) Total railroad operating expenses as a percentage of railroad and related business revenue.

Railway Operating Expenses. Our total railway operating expenses increased by 8.8% to RMB15,850.1 million in 2017 from RMB14,561.8 million in 2016. This increase was primarily driven by:

- The increase in the number of staff for the provision of railway operations and passenger services, as well as the corresponding rise in wages in the industry, resulting in the increase of remuneration and benefits expenses.
- The increase in the number of pairs of Guangzhou East to the Chaozhou-Shantou cross-network EMU trains, and the commencement of operations of the long-distance trains between Shenzhen to Urumqi and between Guangzhou to Yueyang since May 15, 2016, resulting into the increase in equipment leases and services.
- The company's acquisition of part of the operating assets of GMSR and SR at the end of October 2016 and newly added fixed assets during the reporting period, which incurred the increase in the depreciation of fixed assets.
- The increase in the workload of the fifth-grade maintenance of the EMU trains, resulting in the increase of the repair costs of trains.

Profit from Operations

Our profit from operations decreased by 12.0% to RMB1,350.4 million in 2017 from RMB1,534.2 million in 2016, primarily due to a rise in the cost of railway, primarily attributable to (i) an increase in the number of staff for the provision of railway operations and passenger services, as well as a corresponding rise in wages in the industry, resulting in an increase of remuneration and benefits expenses; (ii) an increase in the number of pairs of Guangzhou East to Chaozhou-Shantou cross-network EMU trains, and the commencement in May 2016 of operations of the long-distance trains between Shenzhen and Urumqi and between Guangzhou and Yueyang resulting in an increase in equipment leases and services; (iii) our acquisition of part of the operating assets of Guangmeishan Railway Limited Company (“GMSR”) and Guangdong Sanmao Railway Limited Company (“SR”) in 2016 and newly added fixed assets during the reporting period, which incurred a depreciation charge; and (iv) an increase in the work required in connection with the fifth-grade maintenance of the EMU trains, resulting in an increase in repair costs.

Taxation

In 2017, according to relevant tax regulations, our subsidiaries were subject to income tax at the rate of 25%. Our income tax expense was RMB335.4 million in 2017, representing a decrease of 14.1%, compared to RMB390.3 million in 2016. The effective tax rate in 2017 of 24.9% was consistent with the effective tax rate of 25.3% in 2016.

Profit attributable to equity holders of our Company

As a result of the above, our profit attributable to equity holders of our Company decreased by 12.3% to RMB1,015.4 million in 2017 from RMB1,158.3 million in 2016.

Year ended December 31, 2016 compared with year ended December 31, 2015

Revenue

In 2016, our total revenue was RMB17,280.5 million, representing an increase of 9.9% from RMB15,725.3 million in 2015. Our revenue from railroad passenger transportation service, freight transportation service and railway network usage and other transportation related services was RMB7,358.9 million, RMB1,718.3 million and RMB7,093.2 million, respectively, accounting for approximately 42.6%, 9.9% and 41.0% of our total revenue in 2016, respectively.

Passenger transportation. Revenue from passenger transportation accounted for 42.6% of our total revenue and 45.5% of our railroad and related business revenue in 2016. As of December 31, 2016, we operated 253 pairs of passenger trains each day, including 102 pairs of intercity high-speed passenger trains between Guangzhou and Shenzhen (including 94 pairs of inter-city trains between Guangzhou East to Shenzhen (including 20 stand-by pairs), 8 pairs of Guangzhou East to the Chaozhou-Shantou cross-network EMU trains), 13 pairs of Hong Kong Through Trains (including 11 pairs of Canton-Kowloon Through Trains, 1 pair of Zhaoqing-Kowloon Through Trains and 1 pair of Beijing/Shanghai-Kowloon Through Trains) and 138 pairs of long-distance trains (including 10 pairs of Guangzhou-Foshan-Zhaoqing intercity trains, 3 pairs of Guangzhou to Guilin North, Nanjing East and Guiyang North cross-network EMU trains).

In 2016, the total number of our passengers was 84.9 million, representing a decrease of 0.6% from 85.4 million in 2015. Our passenger transportation revenue was RMB7,358.9 million in 2016, representing an increase of 5.2% from RMB6,997.6 million in 2015. The increase in revenue from passenger volume was primarily due to the commencement of service of five new pairs of cross-network EMU trains between Guangzhou East and Chaozhou-Shantou and one new pair of long-distance trains between Shenzhen and Urumqi, and the recommencement of inter-city passenger transportation business at Pinghu Railway Station since September 26, 2016. The decrease in passenger volume was primarily due to (i) the increasing number of high-speed railways between the Pearl River-Delta Area and other major cities in China, which has greatly drawn away passengers from us and (ii) the decrease in mainland visitors travelling to and shopping in Hong Kong, which caused the decrease of the volume of passengers taking our Hong Kong Through Trains.

The following table sets forth our revenue from passenger transportation and the number of passengers for 2015 and 2016:

	Year ended December 31,		Change from
	2015	2016	2015 to 2016
Revenue from passenger transportation (RMB thousands)	6,997,562	7,358,851	5.2%
Total passengers (thousands)	85,367	84,896	(0.6%)
Total passenger-kilometers (millions)	25,989	25,479	(2.0%)
Revenue per passenger-kilometer (RMB)	0.27	0.29	7.4%

Freight transportation. Revenue from our freight transportation accounted for 9.9% of our total revenue and 10.6% of our railroad and related business revenue in 2016.

Revenue from our freight transportation business in 2016 was RMB1,718.3 million, a decrease of 2.5% from RMB1,761.4 million in 2015. The total tonnage of freight we transported in 2016 was 48.6 million tons, representing an increase of 0.3% from 48.4 million tons in 2015. The decrease in freight revenue was mainly due to the decrease in outbound freight tonnage and outbound freight transportation revenue, which resulted from the slowing economy in China, the structural adjustment in the Pearl River Delta region and the heightened competition in the freight transportation market in 2016. The increase in the volume of freight transportation was due to the increase in inbound freight tonnage and inbound freight transportation revenue as a result of our deepening reform of railway freight transportation and the increased operations of southern express trains (containers, single load cargo), and freight tonnage (mainly in containers) through each station we managed.

The following table sets forth our revenue from freight transportation and the volumes of commodities we shipped for 2015 and 2016:

	Year ended December 31,		Change from
	2015	2016	2015 to 2016
Revenue from freight transportation (RMB thousands)	1,761,449	1,718,260	(2.5%)
- Revenue from outbound freight transportation	565,392	476,505	(15.7%)
- Revenue from inbound and pass-through transportation	1,022,025	1,105,061	8.1%
- Revenue from other freight transportation services	174,032	136,694	(21.5%)
Total freight tons (thousands of tons)	48,438	48,603	0.3%
- Outbound freight tonnage	16,882	15,356	(9.0%)
- Inbound and pass-through freight tonnage	31,556	33,247	5.4%
Revenue per ton (RMB)	36.4	35.4	(2.7%)
Total ton-kilometers (millions)	10,874	10,302	(5.3%)
Revenue per ton-kilometer (RMB)	0.16	0.17	6.3%

Railway network usage and other transportation related services. Revenue from our railway network usage and other transportation related services accounted for 41.0% of our total revenue and 43.9% of our railroad and related business revenue in 2016. Railway network usage and other transportation related services mainly include locomotive traction, track usage, electric catenary, vehicle coupling and other services. Revenue from our railway network usages and other transportation related services business was RMB7,093.2 million in 2016, representing an increase of 20.7% from RMB5,874.7 million in 2015. The increase in revenue from railway network usage and other transportation related services was principally due to (i) the acquisition of locomotive assets of GSRC, which induced an increase in the usage of locomotive towing services, and an increase in the revenue from such services; (ii) an increase in the railway operation services we provided to railway companies we have been serving in the past, including but not limited to, Wuhan-Guangzhou Passenger Railway Line Co., Ltd., Guangzhou-Shenzhen-Hong Kong Express Rail Link Company Limited, Xiamen-Shenzhen Railway Company Limited, Ganzhou-Shaoguan Railway Company Limited, Guiyang-Guangzhou Railway Company Limited, and Nanning-Guangzhou Railway Company Limited; and (iii) the acquisition of part of the operating assets and personnel of GRCL and GSRC, which resulted in us providing transportation service to them and adding new transportation services among Pearl River Delta cities.

Other Businesses. Our other businesses mainly consist of the sale of materials and supplies, on-board catering services, labor services, train repair and other businesses related to railway transportation. Revenue from our other businesses was RMB1,110.2 million in 2016, representing an increase of 1.7% from RMB1,091.6 million in 2015, primarily due to the increased profit we received from train repair services and food and beverage we provided in trains.

Operating Expenses

In 2016, our total operating expenses were RMB15,638.0 million, representing an increase of 10.5% from RMB14,156.7 million in 2015.

The following table sets forth the principal operating expenses associated with our railroad and related business, as a percentage of our railroad and related business revenue for 2015 and 2016.

	Year ended December 31,	
	2015	2016
Railroad and related business revenue (RMB millions)	14,633.7	16,170.3
Business tax	0.3%	0.2%
Employee benefits	32.6%	35.0%
Equipment leases and services	26.7%	25.9%
Land use right leases	0.4%	0.3%
Materials and supplies	8.4%	8.3%
Repairs and facilities maintenance costs, excluding materials and supplies	4.9%	3.8%
Depreciation of fixed assets	9.5%	9.2%
Cargo logistics and outsourcing service charges	1.1%	1.3%
Amortization of leasehold land payments	0.1%	0.2%
Social services expenses	0.1%	0.1%
Utility and office expenses	0.4%	0.3%
Impairment for trade and other receivables and materials and supplies	0.4%	0.0%
Others	5.0%	5.5%
Operating expenses ratio ⁽¹⁾	89.9%	90.1%
Railroad and related business operating margin	10.1%	9.9%

(1) Total railroad operating expenses as a percentage of railroad and related business revenue.

Railway Operating Expenses. Our total railway operating expenses increased by 10.7% to RMB14,561.8 million in 2016 from RMB13,150.4 million in 2015. This increase was driven primarily by:

- **Employee Benefits.** Our Employee Benefits mainly consist of wages and welfare. In 2016, our expenses relating to employee benefits amounted to RMB5,654.9 million, representing an increase of 18.6% from RMB4,767.1 million in 2015. This increase was mainly due to an increase in the number of employees providing railway operations and services due to the acquisition of GRCL and GSRC, and an increase in industry-wide pay levels and contributions to the housing provident fund and social security fund.
- **Equipment leases and services.** Our expenses for equipment leases and services mainly consist of railway line usage fees, train hauling fees and train leasing fees paid to other railway companies. In 2016, our expenses relating to equipment leases and services amounted to RMB4,193.6 million, representing an increase of 7.3% from RMB3,908.5 million in 2015. This increase was mainly due to the commencement of five newly added cross-network EMU pairs traveling across Guangzhou and Chaozhou-Shantou and one new pair of long distance trains between Shenzhen and Urumqi, and newly provided transportation service to GRCL and GSRC.
- **Depreciation of Fixed Assets.** In 2016, our expenses of depreciation of fixed assets amounted to RMB1,488.3 million, representing an increase of 7.3% from RMB1,387.5 million in 2015. The increase was mainly due to the acquisition of part of the operating assets of GRCL and GSRC.

- The increase in our operating expenses was partially offset by repairs and facilities maintenance costs, excluding materials and supplies. In 2016, our repairs and facilities maintenance costs, excluding materials and supplies, amounted to RMB612.5 million, representing a decrease of 14.5% from RMB716.2 million in 2015. This was mainly due to the decrease of repairs and facilities maintenance costs in 2016.

Profit from Operations

Our profit from operations increased by 5.5% to RMB1,534.2 million in 2016 from RMB1,453.9 million in 2015, primarily due to the increased profit we received from passenger business, railway network usage and other transportation related services and other businesses in 2016.

Taxation

In 2016, according to relevant tax regulations, our subsidiaries were subject to income tax at the rate of 25%. Our income tax expense was RMB390.3 million in 2016, representing an increase of 0.5%, compared to RMB388.5 million in 2015. This increase was primarily due to the increase in our profit from operations. The effective tax rate in 2016 was 25.3%, representing a decrease of 1.5% from 26.8% in 2015. This decrease was mainly due to the reversal of deferred tax assets for the impairment losses in investments in associates and other receivables recognized in prior years relating to Zengcheng Lihua, a predecessor associate of the Company which became a subsidiary in 2015.

Profit attributable to equity holders of our Company

As a result of the above, our profit attributable to equity holders of our Company increased by 8.2% to RMB1,158.3 million in 2016 from RMB1,070.8 million in 2015.

Critical Accounting Policies and Estimates

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

Revenue recognition

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

We recognize revenue when the services are rendered and the amount of revenue can be reliably measured, future economic benefits will probably flow to the entity with reasonably certainty, and specific criteria have been met for each of our activities as described below. The recognition also involves use of estimates exercised by management based on historical results, takes into consideration the different type of customers, transactions and the specifics of each arrangement.

(a) Revenue from railroad and related business

Revenue from passenger transportation

The passenger transportation is generally classified by transportation business of Guangzhou-Shenzhen inter-city express trains, long-distance trains and Guangzhou-Hong Kong city through trains. These services are provided in cooperation with other railway companies in PRC and the corresponding revenue information is captured and processed by the CRC through a central clearance system.

Revenues are recognized on a monthly basis when the train transportation services are rendered within the month, i.e. upon the passenger tickets with fixed prices and dates of travel, which are non-refundable and non-reschedulable, are sold and the respective trains have reached the prescribed destinations within that particular month, as well as upon approval and notification is made by the CRC on a monthly basis (the “CRC Monthly Statement”) for transactions completed within that month and when the amounts of revenue can be reliably measured and collectability is certain. The revenue is presented net of value-added tax but before deduction of any sales handling commissions.

Revenue from freight transportation

We also operate with other railway companies in PRC for the provision of freight transportation services. Service information and computation of the attributable revenues entitled by us are processed by the central clearance system of the CRC on a monthly basis. Revenue from outbound and inbound freight transportation with ports of loading and discharge located at railway lines owned and operated by us; pass-through transportation with freight trains passing through railway lines owned and operated by us; as well as goods loading and discharge services rendered at ports located at railway lines owned by us, are recognized, on a monthly basis, when the goods are delivered to the ports of discharge within a month, or when the loading/discharge services are rendered, and when the amounts are approved and notified in the CRC Monthly Statement, upon which the amounts can be reliably measured and collectability is certain.

The revenues are presented at the gross amounts of the attributable freight charges computed from the standard freight charges imposed by the CRC.

Revenue from railway network usage and other transportation related business

Revenue from railway network usage and other transportation related business, mainly consist of network usage services (locomotive traction, track usage and electric catenary service, etc.) and railway operation services and other services, are rendered by us together with other railway companies in PRC. The information relating to network usage service is captured and processed by the central clearance system of the CRC. The revenue from network usage services are recognized on a monthly basis, when the services are rendered within that month and revenue can be reliably measured, i.e. upon approval and notification made in the CRC Monthly Statement, for the transactions completed within that month, when the respective revenue amounts can be reliably measured and when collectability is certain. Railway operation services and other services are rendered solely by us and they are recognized when the services are rendered and revenue can be reliably measured. All proceeds are collected by us directly.

The operations of our railway and related business form part of the nationwide railway system in PRC and they are supervised and governed by the CRC. We render the passenger transportation and freight transportation services in cooperation with other railway companies and the related service fees and charges are collected either by us or by other railway companies. In addition, we also receive service fees and charges for on behalf of other railway companies. The respective fares and charges of the services, fee sharing basis, and processing of the respective revenue sharing among different railway companies are done centrally by a central clearance system operated by the CRC. We record revenues based on the amounts of attributable revenue approved and notified in the CRC Monthly Statement for services undertaken by us completed within the specific month, upon then the revenues can be reliably measured and collectability is certain. The respective share of revenues, in excess of amount collected by us, are credited by the CRC to bank accounts maintained by us. In the case that the attributable amount is less than the amount collected by us, we remit the surplus to the CRC.

(b) Revenue from other businesses

Revenue from other business mainly consist of on-board catering services, leasing, sales of materials, sale of goods and other businesses related to railway transportation. Revenues from on-board catering services are recognized when the related services are rendered. Revenues from sales of materials and supplies and sale of goods are recognized when the respective materials and goods are delivered to customers. Revenue from operating lease arrangements on certain properties and locomotives is recognized on a straight-line basis over the period of the respective leases.

Fixed assets

The railway industry is capital intensive. Under IFRS, fixed assets are initially recorded at historical cost with the balance subsequently adjusted for depreciation and impairment. Historical cost represents expenditure that is directly attributable to the acquisition of the items (for the case of fixed assets acquired by us from GRGC during the Restructuring, the revaluated amount in the Restructuring was deemed costs).

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

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

Buildings (<i>Note a</i>)	20 to 40 years
Track, bridges and service roads (<i>Note a</i>)	16 to 100 years
Locomotives and rolling stock	20 years
Communications and signaling systems	8 to 20 years
Other machinery and equipment	4 to 25 years

Note a: The estimated useful lives of some buildings, tracks, bridges and service roads exceed the initial lease periods of the land use rights from operation lease; and the initial period of certain land use right acquired, on which these assets are located.

We will renew the term of land use rights upon their expiry in strict compliance with requirements of relevant laws and regulations. There is no substantive impediment for the renewal except for possible competing public interests. In addition, based on the provision of the land use right operating lease agreement entered into with the single largest shareholder, we can renew the lease at its own discretion upon expiry of the operating lease term. Based on the above consideration, our directors consider the current estimated useful lives of those assets to be reasonable.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other losses—net", included in the comprehensive income statement.

Government grants

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

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

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the comprehensive income statement on a straight-line basis over the expected lives of the related assets.

Trade and other receivables

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

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

A provision for impairment of receivables is established when there is objective evidence to prove the following:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- we, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

We derecognize financial liability when, and only when, our obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of our share of identifiable net assets acquired. Goodwill arising from acquisitions of subsidiaries' business is disclosed separately on the balance sheet.

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

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

Impairment of non-financial assets other than goodwill

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

Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in our subsidiaries, and associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future. Generally we are unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives us the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from our associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in our subsidiaries, and associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

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

Employee benefits

(a) Defined contribution plan

We pay contributions to defined contribution schemes operated by the local government for employee benefits in respect of pension and unemployment. We also pay contributions to defined contribution schemes operated by Guangzhou Railway Group for employee supplementary pension benefit. We have no further payment obligations once the contributions have been paid. The contributions to the defined contribution schemes are recognized as staff costs when they are due.

(b) Termination benefits

Termination benefits are payable when employment is terminated by us before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. We recognize termination benefits at the earlier of the following dates: (a) when we can no longer withdraw the offer of those benefits; and (b) when we recognize costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Impairment of receivables

We make provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and the impairment charge in the period in which such estimate has been changed.

Recently adopted accounting standards

In the current year, we have adopted the following new and revised standards, and amendments to existing standards which are mandatory for the financial year beginning January 1, 2017:

- Income taxes — Amendments to IAS 12;
- Statement of cash flows — Amendments to IAS 7; and
- Disclosure of interest in other entities — Amendment to IFRS 12.

The directors of the Company consider that the adoption of these amendments did not have any impact on the amounts recognized in prior periods. Most of the amendments will also not affect the current or future periods.

New accounting pronouncements

Details of the new accounting pronouncements are set out in Note 2.1.1 to our audited consolidated financial statements included elsewhere in this annual report.

B. Liquidity and Capital Resources

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

We generated approximately RMB2,634.8 million of net cash flow from operating activities in 2017. Substantially all of our revenue was received in cash, with accounts receivable arising primarily from long-distance passenger train services provided and pass-through freight transactions originating from other railway companies whose lines connect to our railroad. Similarly, some accounts payable arise from payments for railroad transportation services that we collect on behalf of other railroad companies and should pay to these companies. Accounts receivable and payable were generally settled either quarterly or monthly between us and the other railroad companies. Most of our revenue generated from our other businesses was also received in cash. We also have accounts payable associated with the purchase of materials and supplies in our other businesses.

In 2017, other than operating expenses, our cash outflow mainly related to the following:

- capital expenditures of approximately RMB2,273.4 million, representing an increase of 15.2% from RMB1,973.9 million in 2016;
- payment of dividends of approximately RMB569.3 million; and
- income tax expenses of approximately RMB327.9 million.

Our capital expenditures for 2017 consisted primarily of the following projects:

- the reconstruction of automatic inter-locking equipment from the Guangzhou to Pingshi section of the Beijing-Guangzhou railway;
- improvements in system adaptability for the traction power supply system from the Pingshi to Guangzhou section of the Beijing-Guangzhou railway;
- fifth-grade transformation of uses for CRH1A EMU trains (10 trains);
- Phase I construction of the newly built staff apartment in Shipai, Guangzhou district;
- section repair, capacity expansion and renovation of the Guangzhou North vehicle section; and
- reconstruction of the Guangzhou East to Xintang section of the Guangshen lines III and IV.

Funds not required for immediate use are kept in short-term investments and bank deposits. We had cash and cash equivalents of approximately RMB1,160.5 million as of December 31, 2017.

As of December 31, 2017, we did not have any entrusted deposits placed with any financial institutions in the PRC and we did not engage in any trust business.

As of December 31, 2017, we did not have any banking facilities.

Cash Flow

Our net cash and cash equivalents as of December 31, 2017 decreased by approximately RMB199.1 million from December 31, 2016. Our principal source of capital was revenue generated from operating activities.

The following table sets forth certain items in our consolidated cash flow statements for 2015, 2016 and 2017, and the percentage change in these items from 2016 to 2017:

	Year ended December 31,			Change from 2016 to 2017
	2015	2016	2017	
		(RMB thousands)		
Net cash generated from operating activities	2,259,691	1,641,238	2,634,839	60.5%
Net cash used in investing activities	(1,349,235)	(1,935,702)	(2,264,647)	17.0%
Net cash used in financing activities	(354,710)	(566,683)	(569,333)	0.5%
Net (decrease)/increase in cash and cash equivalents	555,746	(861,147)	(199,141)	(76.9%)

Our net cash inflow from operating activities increased to RMB2,634.8 million in 2017 from RMB1,641.2 million in 2016, primarily due to (i) the net cash inflow of RMB614.7 million generated from a decrease of trade receivables, and (ii) the decrease in income tax paid in the amount of RMB243.8 million. Our net cash inflow from operating activities decreased to RMB 1,641.2 million in 2016 from RMB2,259.7 million in 2015, primarily due to the increase in revenue of RMB1,555.2 million, offset by (i) the increase of payments in employee benefits in the amount of RMB984.4 million and income tax of RMB310.9 million, and (ii) the increase in revenue of RMB1,555.2 million offsets by cash flow outflow of RMB855.7 million as a result of changes in accounts receivable and account payables.

Our net cash used in investment activities increased from RMB1,935.7 million in 2016 to RMB2,264.6 million in 2017, primarily due to the increase in purchase expenses and construction of fixed assets. Our net cash used in investment activities increased from RMB1,349.2 million in 2015 to RMB1,935.7 million in 2016, primarily due to an increase in expenses on investment of certain fixed assets of GRCL and GSRC.

Our net cash used in financing activities increased to RMB569.3 million in 2017 from RMB566.7 million in 2016, primarily due cash dividends paid to certain non-controlling shareholders.

Our net cash used in financing activities increased to RMB566.7 million in 2016 from RMB354.7 million in 2015, primarily due to the increase in allocation of cash dividends in 2016.

Our working capital was mainly used for capital expenditures, operating expenses and payment of taxes and dividends and investments. In 2017, our expenses for the purchase of fixed assets and payments for construction-in-progress totaled RMB2,273.4 million. In addition, we paid RMB327.9 million for income taxes and approximately RMB569.3 million for dividends.

We believe we have sufficient financial resources to meet our operational and development requirements in 2018.

C. Research and Development, Patents and Licenses, etc.

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

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

D. Trend Information

The Pearl River Delta remains one of China's fastest growing economic regions. We believe that various factors, including the increasing economic cooperation within the Pearl River Delta region and its adjacent areas, the "Relaxed Individual Travel" program, the improvement of the subway system in Shenzhen and Guangzhou, will continue to increase passenger travel and freight transportation within our service region. We expect the PRC government's current economic, import and export, foreign investment and infrastructure policies to generate additional demand for transportation services in our service areas. These policies and measures may have both positive and negative effects on our business development. They are expected to promote economic growth and create new demand for our transportation services.

At the same time, however, with the improvement of highway and waterway transportation facilities, we anticipate additional competition. In addition, the economic measures PRC government implemented to manage its economy may have an impact on our business and results of operations in 2018. In addition, any change of the benchmark interest rates set by the PRC government and the implementation of other applicable policies may have an impact on our business and results of operations in 2018.

While the PRC government is in the progress of lessening restrictions on foreign investment, the opening up of domestic railway transportation will be gradual and we expect competition from foreign and domestic railway to be limited in the short term. In addition, as the PRC government lifts control over foreign investments, including allowing foreign participation in railway construction, our competitive position in our service region may be challenged by foreign strategic investment.

In addition, the global financial crisis and economic downturn since 2008 adversely affected economies and businesses around the world, including in China. This change in the macro-economic conditions had an adverse impact on our business and operations by causing a decrease in the number of passengers and the volume of freight that we transported in 2009. Although the economy in China, as well as in many other places around the world, has recovered since the second half of 2009, the sustainability of these recoveries is uncertain due to escalating concerns regarding Europe's sovereign debt crisis, the stability of the Eurozone and sustainability of high rates of growth in China. In 2016, China's economy grew at a slower pace and trended stably and positively. Although China's GDP growth rate remained high compared to other countries and the quality and efficiency of economic development were enhanced, providing strong and solid protection for the long-term and stable development of the Company, with the still complicated and evolving domestic and international economic environment, China's economy still faced greater downward pressure, which suppressed the demand and growth of passenger and freight transportation. Finally, the institution by some governments of new trade tariffs generally, and specifically between the United States and China, poses a potential risk to the Chinese economy and to our freight transportation.

Nevertheless, we believe the Chinese railway industry will continue to grow in the coming years in light of the launch of certain government policies. There are expected to be stable investments in the country's railway industry from 2016 to 2020 in accordance with the Thirteenth Five-Year Plan on National Economics and Social Development of the PRC and in July 2016, the NDRC, Ministry of Transport and the CRC jointly issued the Medium to Long Term Plan for Railway Network Development (the "Plan"), which sets out the railway network development plan for the period of 2016 to 2025. According to the Plan, by the year 2020, a series of landmark railway projects will be completed and put into operation, extending the length of railways in China to 150,000 kilometers, representing a 24.0% increase from 121,000 kilometers at the end of 2015. Length of high speed rails will increase to 30,000 kilometers, representing a 57.9% increase from 19,000 kilometers at the end of 2015. During the same period, the Chinese government expects to invest more than RMB2.8 trillion in railway network development.

Looking into 2018, we believe China remains in a strategic opportunity phase for its development even though the rate of growth in China may not be maintained at historical levels. Under the background of the steady growth of China's economy and its stable social situation, the railway transportation industry is expected to develop in a more scientific, orderly, sustained and stable manner in 2018, with continuous growth of the railway network and transportation capacity, as well as volume of passengers and freight.

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations, capital commitments and operating lease commitments as of December 31, 2017 for the periods indicated.

Contractual Obligations	Payment due by period (RMB thousands)				
	Total	Less than 1 year	1-3 year	3-5 year	More than 5 years
Capital Expenditure Obligation ⁽¹⁾	1,341,055	1,341,055	—	—	—
Operating Lease Obligations ⁽²⁾	666,000	74,000	148,000	148,000	296,000
Total	2,007,055	1,415,055	148,000	148,000	296,000

(1) See Note 36(a) to our audited consolidated financial statements, "Capital Commitments."

(2) See Note 36(b) to our audited consolidated financial statements, "Operating Lease Commitments."

Based on the current progress of our new projects, we estimate that our capital expenditures for 2018 will amount to approximately RMB2.88 billion and will consist primarily of the following projects:

- Extending construction of the Guangzhou North Vehicle Section;
- Purchase of new EMU;
- Construction and improvement of video monitoring system of key sections along Guangzhou-Pingshi line and Guangzhou-Shenzhen line;
- Improvement of CTC system and train control system of Guangzhou-Shenzhen line; and
- Construction of staff apartment in Shipai, Guangzhou district.

G. Safe Harbor

See "Forward-Looking Statements."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors

Our board of directors is composed of six non-independent directors and three independent directors. All of our directors were re-elected at our annual shareholders' general meeting held on June 15, 2017 by cumulative voting. The business address of each of our directors is No. 1052 Heping Road, Luohu District, Shenzhen, People's Republic of China 518010.

The table below sets forth the information relating to our directors as of April 25, 2018:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date First Elected or Appointed</u>
Wu Yong	54	Chairman of the Board of Directors	2014
Hu Lingling	54	Executive Director	2016
Sun Jing	52	Director	2012
Yu Zhiming	59	Director	2008
Chen Jianping	51	Director	2015
Luo Qing	53	Executive Director	2009
Chen Song	45	Independent Non-executive Director	2014
Jia Jianmin	60	Independent Non-executive Director	2014
Wang Yunting	59	Independent Non-executive Director	2014

Wu Yong is our Chairman. Mr. Wu holds a bachelor's degree and is a senior engineer with advanced engineering remuneration. Mr. Wu started his career in July 1986, and served as the deputy bureau chief of Benghu Sub-bureau of Shanghai Railway Bureau, the commander chief of Hefei-Wuhan Railway Engineering Construction Headquarters of Shanghai Railway Bureau, the bureau chief assistant and the deputy bureau chief of Wuhan Railway Bureau, the bureau chief of Chengdu Railway Bureau, the chairman and the general manager of GRGC and the deputy secretary of the party committee. Since November 2017, he has been the chairman of GRGC and the secretary of the party committees.

Hu Lingling is our executive Director and general manager. Mr. Hu holds a bachelor's degree and is an engineer. Mr. Hu started to work in the railway transportation industry in 1985. Mr. Hu served as the deputy chief engineer and the deputy station chief of Shaoguan East Station (f/k/a Shaoguan Station) of former Yangcheng Railway Company of GRGC, the deputy chief engineer and the deputy general manager of former Yangcheng Railway Company of GRGC and the director of the transportation department of GRGC, and the deputy general manager of GRGC. He also worked in the global business department of the headquarter of International Union of Railways in Paris, France and served as the deputy general manager of Guangzhou-Shenzhen-Hong Kong Express Rail Link Company Limited. Mr. Hu has been serving as our general manager since November 2015.

Sun Jing is our non-executive Director. Mr. Sun holds a bachelor's degree and is a senior engineer. Mr. Sun started to work in the railway transportation industry in July 1985. Mr. Sun served as the section chief and deputy party secretary of Yueshan locomotive section of Zhengzhou Sub-bureau of Zhengzhou Railway Bureau, the deputy division chief and the division chief of locomotive department of Zhengzhou Railway Bureau, an assistant to the director of Zhengzhou Railway Bureau and the deputy general manager of GRGC. He is currently a director and the general manager of China Railway Zhengzhou Group Limited.

Yu Zhiming is our non-executive Director. Mr. Yu holds a bachelor's degree and is a senior accountant. Mr. Yu started his career in May 1980. He served as the director of the Sub-division of Finance of Wuhan Railway Sub-bureau of Zhengzhou Railway Bureau, the director of the finance department of Wuhan Railway Bureau and the standing vice-director of capital settlement center of MOR. He is currently the director and the chief accountant of GRGC.

Chen Jianping is our non-executive Director. Mr. Chen holds a bachelor's degree and a master's degree and is a political engineer. Mr. Chen served as a Supervisor representing employees of the Company before being elected as our non-executive Director. Mr. Chen worked with the First High School of Guangzhou Railway and Locomotive Sports Association of GRGC and is working with GRGC. From 1997 to 2007, Mr. Chen served as the office secretary of the trade union of GRGC, director of the logistics department of our Company, deputy secretary of the Party Work Committee and concurrently the secretary of the committee for disciplinary inspection of the passenger transportation business unit of our Company, deputy office manager of our Company and chairman of the trade union of the mechanized line center of GRGC. From 2007 to October 2012, Mr. Chen served as the section chief of Guangzhou Passenger Transportation Division. From November 2012 to October 2013, he was the general manager of diversified operation and development center, deputy secretary of the Party Work Committee and director of various operation and management offices of GRGC. From November 2013 to September 2014, he was the stationmaster of Shenzhen North Station and deputy secretary of the Party Work Committee of our Company. From October 2014 to December 2017, Mr. Chen was the chief of the passenger transportation department of GRGC. Mr. Chen is currently the deputy chairman of Beijing Xinhua Airport Aeronautics Food Limited Company of the Hainan Airlines. Mr. Chen was also a Supervisor representing employee of the Company from May 2014 to May 2015.

Luo Qing is our executive Director. Mr. Luo is a postgraduate at the Party School of the Communist Party of China and is a political engineer. Mr. Luo has been working in the railway transportation industry since August 1981. Previously, he served as the secretary-general of Locomotive Sports Association of Yangcheng Railway Company of GRGC, the secretary-general of Locomotive Sports Association of GRGC, the chief of the organization department of trade union of GRGC and the chairman of the trade union of the Company. From May 2010 to April 2018, he was the deputy secretary of the party and working committee, the secretary of the discipline inspection and working commission of the Company and the chairman of the trade union of the Company. He is currently the chairman of the trade union of the Company.

Chen Song is our independent non-executive Director. Mr. Chen holds a doctorate degree in finance and investment from the Management School of Sun Yat-sen University, and is a certified public accountant of China and a certified internal auditor registered in the U.S. Mr. Chen was a teacher in higher mathematics and pharmaceutical machinery in Guangdong Food and Drug Vocational College, the tutor for MBA and EMBA in Management School of Sun Yat-sen University, managerial trainee in P&G (China) Investment Limited Company, financial analysis manager in Crest Oral Department, financial supervisor of business department, CFO, executive director of Heinz (China) Investment Co., Ltd., chief financial officer of Ren Coty (China) and a director and general manager of its cosmetics division, financial supervisor of Greater China Region in Boer CMC Markets Asia Pacific Pty Ltd, the deputy general manager and CFO of Chongqing Brewery Co., Ltd. He currently serves as a director and general manager of Chongqing Brewery Co., Ltd.

Jia Jianmin is our independent non-executive Director. Mr. Jia holds a master's degree and doctorate degree from the McCombs School of Business of the University of Texas at Austin. He was a member of The National Natural Science Foundation of Department of Management Science Advisory Committee of Experts, a member of China National MBA Education Supervisory Committee and a Scholar Director of MSI USA. He has served companies including Hutchison Whampoa, China Telecom, China Mobile, China Citic Bank, IBM, China Rail, CSR and CNR. He is a professor and chairman of the Department of Marketing of Faculty of Business Administration of The Chinese University of Hong Kong and holds the title of Changjiang Scholar Professor of the Ministry of Education of PRC.

Wang Yunting is our independent non-executive Director. Mr. Wang holds a bachelor's degree from the Medical School of Xi'an Jiaotong University and an EMBA degree from Guanghua School of Management, Peking University. Mr. Wang was the vice general manager of China Commercial Foreign Trade Corporation, Ltd. (Shenzhen) and vice general manager of Beijing Capital Huayin Group. He is now a director of Shaanxi Fortune Investment Limited.

Supervisors

The table below sets forth the information relating to our supervisors as of April 25, 2018:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date First Elected or Appointed</u>
Liu Mengshu	54	Chairman of the supervisory committee.	2014
Chen Shaohong	51	Supervisor	2008
Shen Jiancong	49	Supervisor	2011
Li Zhiming	57	Supervisor	2005
Zhou Shangde	47	Supervisor	2015
Song Min	47	Supervisor	2014

Liu Mengshu is chairman of our supervisory committee. Mr. Liu holds a bachelor's degree and is an engineer. He served in the Huaihua Sub-bureau of Guangzhou Railway Bureau and GRGC Changsha headquarters. He served in GRGC as the head of the director of organization of the party committee of GRGC from November 2004 to April 2006, as the head of the GRGC party committee's propaganda department from April 2006 to September 2008, as GRGC's office director from September 2008 to December 2013 and as the deputy secretary of CPC and the secretary of Committee for Discipline Inspection of GRGC from December 2013 to December 2017. Mr. Liu is currently a director, the deputy secretary of the party committee and the secretary of the Committee for Discipline Inspection of GRGC.

Chen Shaohong is our Supervisor. Mr. Chen holds a bachelor's degree and is a senior economist. Mr. Chen has been engaged in the research and practice of enterprise management for a long time. Before April 2006, he has been vice-section chief and section chief of mechanism reform section of corporate management office, vice-director of corporate management office and vice-director of corporate management and legal affairs department of GRGC. From June 2008 to July 2015, Mr. Chen was the vice-chief economist and director of corporate and legal affairs department of GRGC. From August 2015 to December 2017, Mr. Chen was the director of the Corporate and Legal Affairs department of GRGC. He is currently the chief legal advisor and the director of the Corporate and Legal Affairs department for GRGC.

Shen Jiancong is our Supervisor. Mr. Shen holds a bachelor's degree and is an economist. Before March 2011, Mr. Shen has worked as secretary of Chinese Youth League of the Guangzhou mechanical refrigerator car depot of Guangzhou Sub-bureau of Guangzhou Railway Bureau, deputy director and director of division of personnel of GRGC, deputy director of Division of Human Resources of GRGC, concurrently as deputy director of organization department of Party Committee of GRGC and secretary of CPC committee and vice stationmaster of Shenzhen Station of our Company. He has been director of division of human resources and director of organization department of party committee of GRGC since March 2011.

Li Zhiming is our Supervisor. Mr. Li holds a bachelor's degree in economics and management from the Party School of the Communist Party of China and is an accountant. Before 1996, Mr. Li had served in various managerial positions in Hengyang Railway Sub-bureau of Guangzhou Railway Bureau and Changsha Railway Company of GRGC. From 1996 to March 2005, he was chief of Finance Sub-division of Changsha Railway Company of GRGC. From April 2005 to November 2017, he was deputy chief and chief of the audit department of GRGC. He is currently the Supervisor and chief of the audit department of GRGC.

Zhou Sangde is our Supervisor and represents employees of our Company. Mr. Zhou holds a master's degree from the Party School of the Communist Party of China and is a political engineer. Mr. Zhou used to serve as the secretary of the Communist Youth League of Sungang Station (formerly known as the Shenzhen North Station), deputy chief of the organization and human resources department, director of the party committee office, and chairman of the trade union of the integrated service center of our Company. From July 2007 to March 2011, Mr. Zhou was transferred to GRGC and served as the deputy chief of the human resources office, deputy office manager and concurrently director of the reception office, and chief party secretary of the administrative office of GRGC. In March 2011, Mr. Zhou was transferred back to our Company and served as party secretary and station supervisor of Shenzhen Station. Mr. Zhou is currently the station master and the deputy secretary of the party committee for Shenzhen North Station.

Song Min is our Supervisor and represents employees of our Company. Ms. Song holds a bachelor's degree in accounting from Lanzhou University and is an accountant. Ms. Song joined the railway industry in 1991 and has served in many railway companies. She has served as the deputy manager of the operating finance office, department of finance of Qinghai-Tibet Railway Company, deputy director and finance director of Qinghai-Tibet Railway Public Security Bureau, vice office supervisor of Qinghai-Tibet Railway Company Annuity Council, vice consultant of financial management of the State Taxation Bureau of Qinghai Province and the senior manager of Petrol China Guangdong Sales Company, Shenzhen Branch. Since November 2012, she has been the chief of the Audit Department of our Company.

Senior Management

The table below sets forth information relating to our senior management as of April 25, 2018:

Name	Age	Position	Date First Elected or Appointed
Hu Lingling	54	General Manager	2015
Luo Jiancheng	45	Deputy General Manager	2016
Guo Xiangdong	52	Deputy General Manager and Company Secretary	2010 2004
Tang Xiangdong	49	Chief Accountant	2008

- (1) See "Item 6. Directors, Senior Management and Employees – A. Directors and Senior Management – Directors" for information regarding Hu Lingling.
- (2) Guo Xiangdong was firstly appointed as our Deputy General Manager in 2010 and Company Secretary in 2004.

Luo Jiancheng is a deputy general manager of our Company. Mr. Luo holds a bachelor's degree and is a senior engineer. Mr. Luo served successively as the chief of the Investigation & Inspection Division of the General Office of GRGC, Shiweitang station master of GSRC, deputy chief of the Transportation Department of GRGC, the assistant of the general manager of the Company, the general manager of Guangzhou Tiecheng Industrial Company and the deputy general manager of GMSR. Since December 2016, he has been serving as our deputy general manager.

Guo Xiangdong is the Deputy General Manager and secretary of the Board. Mr. Guo holds a bachelor's degree from Central China Normal University and an MBA degree and is an economist. Before January 2004, he has been deputy section chief, deputy head and head of secretariat of the Board. From January 2004 to November 2010, he has been appointed as the secretary of the Board and since December 2010, Mr. Guo has been appointed as the deputy general manager and secretary of the Board.

Tang Xiangdong is Chief Accountant of our Company. Mr. Tang holds a bachelor's degree in business administration from Jinan University and an MBA degree and is a senior accountant. Before March 2006, he has served in various professional management positions in the Labor and Capital Department, Diversified Business Department and Revenue Settlement Center of our Company. From March 2006 to November 2008, he was director of Finance Department of our Company. Since December 2008, Mr. Tang has been the chief accountant of our Company.

Additional Information

Our non-independent directors, members of our supervisory committee and senior management also serve as the directors, supervisors or senior management members in other companies as follows:

Name	Position
Wu Yong	<i>Chairman of the Board of Directors of:</i> Guangmeishan Railway Company Limited Guangdong Sanmao Railway Co., Ltd. Shichang Railway Company Limited
Sun Jing	<i>Director and General Manager of:</i> China Railway Zhengzhou Group Limited

<u>Name</u>	<u>Position</u>
Yu Zhiming	<p><i>Chairman of the Board of Directors of:</i> China Railway (Hong Kong) Holdings Limited</p> <p><i>Chairman of the Supervisory Committee of:</i> Yuehai Railway Company Limited Guangdong Guangzhou–Zhuhai Inter-city Railway Traffic Co., Ltd. MaoZhan Railway Company Limited Guangdong Pearl River Delta Inter-city Railway Traffic Co., Ltd.</p> <p><i>Director of:</i> Guangmeishan Railway Company Limited Guangdong Sanmao Railway Co., Ltd. Shichang Railway Company Limited Hukun Passenger Railway Line (Hunan) Co., Ltd. Huai Shao Heng Railway Co., Ltd. Qian Zhang Chang Railway Company Limited Ganshao Railway Company Limited China Railway Container Transportation Company Limited China Railway Special Goods Transportation Company Limited</p> <p><i>Supervisor of:</i> Guangzhou–Zhuhai Railway Company Limited China Railway Express Co., Ltd.</p>
Chen Jianping	<p><i>Deputy Chairman of:</i> Beijing Xinhua Airport Aeronautics Food Limited Company of the Hainan Airlines</p>
Chen Song	<p><i>Director and General Manager of:</i> Chongqing Brewery Co., Ltd.</p>
Jia Jianmin	<p><i>Professor and Chairman of the Department of Marketing of Faculty of Business Administration and Changjiang Scholar Professor of the Ministry of Education of:</i> The Chinese University of Hong Kong</p>
Wang Yunting	<p><i>Chairman of the Board of Directors of:</i> Shaanxi Fortune Investment Limited</p>
Liu Mengshu	<p><i>Chairman of Supervisory Committee of:</i> Guangmeishan Railway Company Limited Guangdong Sanmao Railway Co., Ltd.</p>
Chen Shaohong	<p><i>Chairman of Supervisory Committee of:</i> Shichang Railway Company Limited Hukun Passenger Railway Line (Hunan) Co., Ltd. Yangcheng Industrial Development Co., Ltd.</p> <p><i>Director of:</i> Guangmeishan Railway Company Limited Hainan Railway Co., Ltd. Qian Zhang Chang Railway Company Limited Xiamen-Shenzhen Railway (Guangdong) Company Limited Jingyue Railway Company Limited Guangdong Shenmao Railway Company Limited Guangdong Meishan Passenger Railway Line Company Limited</p> <p><i>Supervisor of:</i> Guangdong Sanmao Railway Co., Ltd. Hunan Inter-city Railway Company Limited Guangdong Pearl River Delta Inter-city Railway Traffic Co., Ltd. Ganshao Railway Company Limited China Railway Express Co., Ltd. Guangzhou Electric Locomotive Co., Ltd.</p>

<u>Name</u>	<u>Position</u>
Li Zhiming	<p><i>Chairman of the Supervisory Committee of:</i></p> <p>Guangzhou Tiecheng Enterprise Company Limited</p> <p>Guangdong Shenmao Railway Company Limited</p> <p>Guangdong Tieqing International Travel Agency Co., Ltd</p> <p><i>Director of:</i></p> <p>Hong Kong Qiwen Company Limited</p> <p><i>Supervisor of:</i></p> <p>Guangmeishan Railway Company Limited</p> <p>Guangdong Sanmao Railway Co., Ltd.</p> <p>Shichang Railway Company Limited</p> <p>Hainan Railway Co., Ltd.</p> <p>Hukun Passenger Railway Line (Hunan) Co., Ltd.</p> <p>Huai Shao Heng Railway Co., Ltd.</p> <p>Xiamen-Shenzhen Railway (Guangdong) Company Limited</p> <p>Ganzhou-Shaoguan Railway Company Limited</p> <p>Guiyang-Guangzhou Railway Company Limited</p> <p>Nanning-Guangzhou Railway Company Limited</p> <p>Jingyue Railway Company Limited</p> <p>Guangzhou-Zhuhai Railway Company Limited</p> <p>Guangdong Meishan Passenger Railway Line Company Limited</p> <p>Guangzhou Northeastern Cargo Outer Ring Railway Company Limited</p> <p>Guangzhou Nanshagang Railway Company Limited</p>
Luo Jiancheng	<p><i>Director of:</i></p> <p>Guangzhou Tiecheng Enterprise Company Limited</p> <p>Shenzhen Guangshen Railway Civil Engineering Company</p>
Tang Xiangdong	<p><i>Director of:</i></p> <p>Guangzhou Tiecheng Enterprise Company Limited</p> <p>Shenzhen Guangshen Railway Civil Engineering Company</p>

Note: Chongqing Brewery Co., Ltd is a listed A share company of China. The Chinese University of Hong Kong is a university located in Hong Kong. Shaanxi Fortune Investment Limited is a company located in Xi'an, Shaanxi Province, China. Beijing Xinhua Airport Aeronautics Food Limited Company of the Hainan Airlines is a subsidiary of HNA Group. China Railway Zhengzhou Group Limited, China Railway Container Transportation Company Limited, China Railway Special Goods Transportation Company Limited, China Railway Express Co., Ltd., Guiyang-Guangzhou Railway Company Limited, and Nanning-Guangzhou Railway Company Limited are subsidiaries of CRC. Guangzhou Tiecheng Industrial Company and Shenzhen Guangshen Railway Civil Engineering Company are our joint venture partners. Guangzhou Electric Locomotive Co., Ltd., Guangzhou Zhuhai Railway Company Limited, Guangdong Guangzhou-Zhuhai Inter-city Railway Traffic Co., Ltd., Guangdong Pearl River Delta Inter-city Railway Traffic Co., Ltd., Guangdong Shenmao Railway Company Limited, Jingyue Railway Company Limited, Guangdong Meishan Passenger Railway Line Company Limited, MaoZhan Railway Company Limited and Guangzhou Nanshagang Railway Company Limited are joint venture partners of GRGC. The remaining companies in the table above are subsidiaries of GRGC.

B. Compensation

Directors and Senior Management

Total remuneration of our directors, supervisors and senior management members during 2017 included wages, bonuses, other schemes and allowances. Directors or supervisors who are also officers and employees of our Company receive certain other benefits in kind from GRGC or us, such as subsidized or medical insurance, housing and transportation, as customarily provided by the railway companies in the PRC to their employees. The amount of compensation to each director, supervisor and senior management for the year ended December 31, 2017 is listed as follows:

Name	Position	Total remuneration received from the Company before tax) during the reporting period (RMB thousand)
Wu Yong	Chairman of the Board of Directors	—
Hu Lingling	Executive Director and General Manager	441.0
Sun Jing	Non-executive Director	—
Yu Zhiming	Non-executive Director	—
Chen Jianping	Non-executive Director	—
Luo Qing	Executive Director	367.0
Chen Song	Independent Non-executive Director	112.0
Jia Jianmin	Independent Non-executive Director	146.0
Wang Yunting	Independent Non-executive Director	112.0
Liu Mengshu	Chairman of the Supervisory Committee	—
Chen Shaohong	Supervisor	—
Shen Jiancong	Supervisor	—
Li Zhiming	Supervisor	—
Zhou Shangde	Supervisor Representing Employees	387.0
Song Min	Supervisor Representing Employees	320.0
Luo Jiancheng	Deputy General Manager	365.0
Guo Xiangdong	Deputy General Manager, Secretary of the Board	366.0
Tang Xiangdong	Chief Accountant	366.0
Total:		2,982.0

The aggregate amount of cash remuneration paid by our Company in 2017 to all individuals who are our directors, supervisors and senior management members was approximately RMB3.0 million, of which approximately RMB1.5 million was paid to our non-independent directors and supervisors and approximately RMB0.4 million was paid to the independent non-executive directors. The aggregate amount of cash remuneration we paid during the year ended December 31, 2017 for pension and retirement benefits to all individuals who are currently our directors, supervisors and senior management members was approximately RMB0.2 million.

Interests of Our Directors, Supervisors and Other Senior Management in Our Share Capital

As of December 31, 2017, there was no record of interests or short positions (including the interests or short positions which were taken or deemed to have under the provisions of the Hong Kong Securities and Futures Ordinance) held by our directors or supervisors in our shares, debentures or other securities, or securities of any of our associated corporation (within the meaning of the Hong Kong Securities and Futures Ordinance) in the register required to be kept under section 352 of the Hong Kong Securities and Futures Ordinance. We had not received notification of such interests or short positions from any of our directors or supervisors as required to be made to us and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the HKSE Listing Rules. We have not granted any of our directors or supervisors, or any of their respective spouses or children under the age of 18, any right to subscribe for any of our shares or debentures.

Service Contracts of Our Directors and Supervisors

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

Contracts Entered into by Our Directors and Supervisors

None of our directors or supervisors had any direct or indirect material interests in any contract of significance subsisting during the year ended on December 31, 2017 or as of December 31, 2017 to which we or any of our subsidiaries was a party.

Remuneration of Our Directors and Supervisors

The level of remuneration of our directors and supervisors was determined by reference to various factors, including the prevailing rates of remuneration in Shenzhen, where we are located, and the job nature of each of our directors and supervisors. The remuneration and annual incentive of the Directors and the Supervisors will be considered and recommended by the Remuneration Committee and will be approved and authorized by the shareholders at shareholders' general meetings of our Company. No Director or Supervisor is involved in determining his/her own remuneration.

C. Board Practices

Board of Directors

In accordance with our currently effective Articles of Association, our board of directors comprises nine directors, one of whom is the chairman. Directors are appointed at our shareholders' general meeting through voting, and generally serve for a term of three years. Upon the expiration of the term of their office, they can serve consecutive terms if re-appointed at the next shareholders' general meeting. The service contracts that we have entered into with our directors do not provide for any payment of compensation upon termination. Our board of directors held six meetings during the year ended December 31, 2017.

Supervisory Committee

We have a supervisory committee consisting of five to seven supervisors. Supervisors generally serve a term of three years. Upon the expiration of their terms of office, they may be re-appointed to serve consecutive terms. The supervisory committee is presided over by a chairman who may be elected or removed with the consent of two-thirds or more of the members of the supervisory committee. The term of office of the chairman is three years, renewable upon re-election. Our supervisory committee currently consists of four representatives of the shareholders who may be elected or removed by our shareholders' general meeting, and two representatives of our employees who may be elected by our employees at the employees' congress or employees' general meeting or through any other democratic means. Members of our supervisory committee may also attend meetings of the board of directors. The current members of our supervisory committee are: Liu Mengshu, Chen Shaohong, Shen Jiancong, Li Zhiming, Zhou Shangde and Song Min. All shareholder representatives of our supervisory committee were elected or re-elected at the annual shareholders' general meeting held on June 15, 2017. Zhou Shangde and Song Min were elected as the Supervisors of our Company as employee representatives at the employees' congress held in 2017. The term of the supervisors is three years. Our supervisory committee held four meetings during the year ended December 31, 2017, at which resolutions concerning our periodic reports, internal control evaluations and our dividend policy were passed and ratified. Our supervisors attended shareholders' general meetings, meetings of our board of directors and other important meetings concerning our operation during the year ended December 31, 2017. Our supervisory committee reviews the report of our directors, the financial report and proposed profit distribution presented by our board of directors at our annual general meeting of shareholders.

Supervisors attend board meetings as non-voting members. The supervisory committee is accountable to the shareholders' general meeting and has the following duties and responsibilities:

- to examine our Company's financial situation;
- to supervise the performance of duties of the directors, general manager, deputy general managers and other senior management; to propose the dismissal of directors, general managers, deputy general managers and other senior management who have violated any law, administrative regulations, the Articles of Association or resolutions of the shareholders' general meetings;
- to demand a director, general manager, deputy general manager or any other senior management to rectify such breach when the acts of such persons are harmful to our Company's interest;

- to propose the convening of shareholders' general meetings, and to convene and chair the shareholders' general meetings if the board of directors fails to perform this duty as stipulated in the Articles of Association;
- to propose motions to shareholders' general meetings; and
- to initiate legal proceedings against any director, general manager, deputy general manager and other senior management in accordance with Article 151 of the Company Law.

Supervisors may attend meetings of the board of directors and question or give advice on the resolutions of the board of directors.

The supervisory committee may conduct investigation if they find the operation of our Company unusual and may engage professionals such as lawyers, certified public accountants or practicing auditors to assist if necessary. All reasonable fees so incurred shall be borne by our Company.

Audit Committee

We have an audit committee consisting of three independent non-executive directors. The current members of our audit committee, appointed by the Board of Directors, are Chen Song (Chairman), Jia Jianmin and Wang Yunting. Mr. Chen, Mr. Jia and Mr. Wang are "independent directors" of our Company as defined in Section 303A.02 of the NYSE Listed Company Manual. The audit committee must convene at least four meetings each year, and may invite the executive directors, persons in charge of the financial and audit departments and our independent auditors to participate. The audit committee must have at least two meetings with management and at least two meetings with the auditors each year without any executive directors present. Our audit committee held six meetings during the year ended December 31, 2017. The duties of the audit committee include:

- reviewing the annual financial statements and interim financial statements of our Company, including the disclosures made by our Company in this annual report;
- reviewing the financial reports and the reports of our Company prepared by the independent auditor and its supporting documents, including the review of the internal control and disclosure controls and procedures, and to discuss with the auditor the annual audit plan and solutions to problems in the previous year;
- reviewing and approving the selection of and remuneration paid to the independent auditor;
- pursuant to the resolutions of the annual general meeting, determining with the Board of Directors the annual auditing fees paid to our independent auditor;
- reviewing with the management and the independent auditor the performance, adequacy and effectiveness of the internal controls and risk management, as well as any material deficiencies and weakness existing in the internal controls;
- evaluating our Company's performance in complying with industrial practices, market rules, and statutory duties, and the safeguarding of its own interests and the interests of its shareholders;
- considering and determining whether any senior executive officer or senior financial personnel is in violation of their code of conduct, and the consequences for such a violation; and
- overseeing the management of the retirement pension fund of our Company.

Remuneration Committee

We have a remuneration committee consisting of two executive Directors and three independent non-executive Directors, namely, Wu Yong, Hu Lingling, Chen Song (chairman of remuneration committee), Jia Jianmin and Wang Yunting. The remuneration committee will meet from time to time when required to consider remuneration-related matters of our Company.

The principal duties of the remuneration committee include reviewing and making recommendations to the Board for the remuneration packages for the Directors and the Supervisors of our Company. The remuneration policy of our Company seeks to provide, in the context of our business strategy, reasonable remuneration to attract and retain high caliber executives. The remuneration committee obtains benchmark information from internal and external sources in relation to market conditions, packages offered in the industry and the overall performance of our Company when determining the Directors' and the Supervisors' emoluments.

D. Employees

As of December 31, 2015, 2016 and 2017, we had approximately 43,824, 44,609 and 43,767 employees, respectively. The decrease in the number of our employees in 2017 was primarily due to a decrease in electricity and water personnel and in public works personnel. The following chart sets forth the number of our employees by function as of December 31, 2017:

<u>Function</u>	<u>Employees</u>
Passenger and freight transportation and transit operation personnel ^{(1) (2) (3)}	20,022
Engineering personnel ⁽⁴⁾	5,467
Driving personnel ⁽⁵⁾	4,198
Public works personnel ⁽⁶⁾	4,014
Electricity personnel ⁽⁷⁾	1,932
Electricity and water supplies personnel ⁽⁸⁾	2,176
Building construction personnel ⁽⁹⁾	1,149
Various operations and other employees of subsidiaries ⁽¹⁰⁾	125
Technical and administrative personnel ⁽¹¹⁾	4,669
Other employees ⁽¹²⁾	15
Total	<u>43,767</u>

- (1) Passenger transportation personnel mean those people that provide station boarding and train services and those people responsible for organization of freight transportation.
- (2) Freight transportation personnel mean those people responsible for organization of freight transportation.
- (3) Transit operation personnel mean those people responsible for providing station boarding services.
- (4) Engineering personnel mean those people responsible for locomotive operation and overhaul.
- (5) Driving personnel mean those people responsible for vehicle operation and overhaul.
- (6) Public works personnel mean those people responsible for station track and railroad switch maintenance.
- (7) Electricity personnel mean those people responsible for signal equipment maintenance.
- (8) Electricity and water supplies personnel mean those people responsible for catenary operation and overhaul as well as power and water consumption maintenance.
- (9) Building construction personnel mean those people responsible for construction, apartments and dining halls.
- (10) Various operations and other employees of subsidiaries mean all personnel involved in diversified businesses.
- (11) Technical and administrative personnel mean all managerial personnel other than the personnel of diversified businesses.
- (12) Other personnel include all personnel who have been sick, studying or early-retired.

All of our employees are located in Guangzhou, Shenzhen, Pingshi and the area adjacent to our Shenzhen-Guangzhou-Pingshi line.

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

We have implemented a salary policy which links our employees' salaries with results of operations, labor efficiency and individual performance. Employees' salaries distribution is subject to our overall operational results and is based on their performance records and reviews. In addition, pursuant to applicable government policies and regulations, we set aside statutory funds for our employees and also maintain various insurance policies for the benefits of our employees, including housing fund, retirement insurance, supplemental retirement insurance, basic and supplemental medical insurance, pregnancy-related medical insurance and other welfare programs. In 2017, we paid approximately RMB6,839.4 million in aggregate salaries and benefits to our employees.

In addition, pursuant to an early retirement scheme implemented by our Company, certain employees who meet certain specified criteria were provided with the option to retire early and enjoy certain early retirement benefits, such as payments of the basic salary and other relevant benefits, offered by our Company, until they reach the statutory retirement age. Under the terms of the scheme, all applications are subject to our approval. Expenses incurred on such employee early retirement benefits have been recognized in the income statement when we approved such applications from the employees. The specific terms of these benefits vary among different employees, depending on their position held, tenure of service and employment location.

Details of our statutory welfare fund and retirement benefits are set out in Notes 24 and 28 to our audited consolidated financial statements included elsewhere in this annual report.

E. Share Ownership

As of April 25, 2018, none of our directors, supervisors or senior management owned any interest in any shares or options to purchase our shares.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

We are a joint stock company organized under the laws of the PRC in March 1996. Before the A Share Offering, GRGC, a state-owned enterprise under the administration of the MOR, owned approximately 66.99% of our outstanding ordinary shares. Although the equity interest held by GRGC decreased to approximately 41% after the completion of our initial public offering of A shares in December 2006 and further reduced to 37.1% as a result of the transfer by GRGC of a portion of its shares to the National Social Security Fund Council in September 2009, GRGC can still exercise substantial influence over our Company. In addition, before the dissolution of MOR on March 14, 2013, GRGC also acted as an administrative agent of the MOR that controls and coordinates railway operations in Guangdong Province, Hunan Province and Hainan Province. As an instrumentality of the MOR, GRGC performed direct regulatory oversight functions with respect to us, including determining and enforcing technical standards and implementing special transportation directives.

After the dissolution of MOR on March 14, 2013, the MOR's administrative functions were transferred to the MOT and its subordinate body, the newly established State Railway Administration, whereas its commercial functions, together with its underlying assets, liabilities and staff, were transferred to the newly incorporated the CRC. Since GRGC was a railway corporation directly under the former MOR, its interests were also transferred to the CRC. After the completion of the Reform on January 1, 2017. As a result thereof, the actual controlling entity of our Company's largest shareholder became the CRC.

Shareholding Structure of our Company

As of March 31, 2018, we had 328 record holders holding our H shares (including ADSs) and 228,620 record holders holding our A shares according to records we obtained from Computershare Hong Kong Investor Services Limited and CSDC, respectively. Set out below is the current shareholding structure of our Company as of the date hereof:

<u>Name of Shareholders</u>	<u>Type of Shares</u>	<u>Number of Shares Held</u>	<u>Shareholder Percentage %</u>
Public Shareholders of H shares (including ADSs)	H shares	1,431,300,000	20.2
Guangzhou Railway (Group) Company	A shares	2,629,451,300	37.1
Other Public Shareholders of A shares(1)	A shares	3,022,785,700	42.7
Total		<u>7,083,537,000</u>	<u>100.0</u>

- (1) On September 22, 2009, GRGC transferred 274,798,700 A shares held by it to the National Council for Social Security Fund in the PRC (the "NCSSF") according to regulations issued by the relevant PRC authorities. Upon this transfer, the NCSSF has voluntarily agreed to extend the transfer restriction period associated with these shares for another three years. The transfer restriction of these 274,798,700 shares expired on December 21, 2012. No shares were subject to sale restriction and all the shares achieved full circulation on December 24, 2012.

The following table sets forth information regarding ownership of our issued and outstanding capital stock as of April 20, 2017, including all persons who are known by us to own, either as beneficial owners or holders of record, 5% or more of our capital stock.

<u>Title of Class</u>	<u>Identity of Person or Group</u>	<u>Amount Owned</u>	<u>Percentage of Class of Shares</u>	<u>Percent of Total Capital</u>
Ordinary Shares (A shares) ⁽¹⁾	GRGC	2,629,451,300	46.5	37.1

(1) A shares held by GRGC are no longer restricted from sales and redemption starting from December 22, 2009.

The following table sets forth all persons who were known by us to beneficially own 5% or more of our issued and outstanding H shares as of April 18, 2018.

<u>Identity of Person or Group</u>	<u>Shares Owned</u>	<u>Percentage of H Shares</u>	<u>Percentage of Total Capital</u>
BlackRock, Inc.	272,414,089 (L)	19.03%	3.85%
	10,936,000 (S)	0.76%	0.15%
BlackRock Global Funds	214,747,049 (L)	15.00%	3.03%
FIL Limited	156,872,000 (L)	10.96%	2.21%

Note: (L) – Long Position, (S) – Short Position

As of the date hereof, we are not aware of any arrangement that may at a subsequent date result in a change of control of our Company.

In accordance with our Articles of Association, each share of our capital stock has one vote and the shares of the same class have the same rights. Other than restrictions on the controlling shareholder as described under “ITEM 10. ADDITIONAL INFORMATION—B. Memorandum and Articles of Association—Restrictions on Controlling Shareholders,” the voting rights of our major holders of domestic shares are identical to those of any other holders of our domestic shares, and the voting rights of our major holders of H shares are identical to those of our other holders of H shares. Holders of domestic shares and H shares are deemed to be shareholders of different classes for some matters, which may affect their respective interests. Holders of H shares and domestic shares are entitled to the same voting rights.

B. Related Party Transactions

Under IAS 24, parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The following table sets forth our principal related parties that do not control and are not controlled by our Company as of December 31, 2017. For related parties that control or are controlled by our Company, see “ITEM 4. INFORMATION ON THE COMPANY—C. Organizational Structure”.

<u>Name of related parties</u>	<u>Relationship with Us</u>
Single largest shareholder and its subsidiaries	
Guangzhou Railway Group	Single largest shareholder
Guangzhou Railway Group YangCheng Railway Enterprise Development Company	Subsidiary of the single largest shareholder
GRCL	Subsidiary of the single largest shareholder
Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company (“GEDC”)	Subsidiary of the single largest shareholder
Guangzhou Railway Material Supply Company	Subsidiary of the single largest shareholder
Yuehai Railway Company Limited	Subsidiary of the single largest shareholder
Shichang Railway Company Limited	Subsidiary of the single largest shareholder
Guangzhou Railway Station Service Centre	Subsidiary of the single largest shareholder
Changsha Railway Construction Company Limited	Subsidiary of the single largest shareholder
Guangdong Sanmao Enterprise Development Company Limited	Subsidiary of the single largest shareholder
Guangzhou Yuetie Operational Development Company	Subsidiary of the single largest shareholder
Guangzhou Railway Rolling Stock Works	Subsidiary of the single largest shareholder
Foreign Economic & Trade Development Corporation of Guangzhou Railway Group	Subsidiary of the single largest shareholder
Guangdong Tieqing International Travel Agency Company Limited	Subsidiary of the single largest shareholder
Huaihua Railway Engineer Construction Company	Subsidiary of the single largest shareholder
Xiashen Railway Guangdong Company Limited	Subsidiary of the single largest shareholder
Ganshao Railway Company Limited	Subsidiary of the single largest shareholder
Hunan Changtie Industrial Development Co. Ltd.	Subsidiary of the single largest shareholder
Guangzhou Railway Real Estate Construction Company	Subsidiary of the single largest shareholder
Guangzhou Beiyang Information Technology Company Limited	Subsidiary of the single largest shareholder
Guangdong Sanmao Railway Capital Construction Company	Subsidiary of the single largest shareholder
Associates of the Group	
Tiecheng	Associate of the Group
Shentu	Associate of the Group

Since the Restructuring carried out in 1996 in preparation for our initial public offering, certain transactions between our Company and GRGC and the subsidiaries of GRGC, including Yangcheng Railway Company and Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company continued in the form of cross-provision of goods and services.

We entered into the Comprehensive Services Framework Agreement with GRGC on October 27, 2010, or the Framework Agreement, which governs the mutual provision of services between our Company and GRGC and the subsidiaries of GRGC, including Yangcheng Railway Company and Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company. The Framework Agreement has a term of three years beginning from January 1, 2011 and was approved by the independent shareholders at the extraordinary shareholders' general meeting held on December 21, 2010. Upon its expiration, we entered into a second Comprehensive Services Framework Agreement with GRGC on October 18, 2013. The continuing connected transactions contemplated thereunder, and the proposed annual caps in relation to the continuing connected transactions under the Comprehensive Services Framework Agreement for the three financial years ending December 31, 2016 were approved by the independent shareholders at the extraordinary shareholders' general meeting held on December 19, 2013. Upon its expiration, we entered into a new Comprehensive Services Framework Agreement with CRC on November 1, 2016, which governs the mutual provision of services between our Company, GRGC and the subsidiaries of GRGC and other companies of the CRC Group. The continuing connected transactions contemplated thereunder, and the proposed annual caps in relation to the continuing connected transactions under the Comprehensive Services Framework Agreement for the three financial years ending December 31, 2019 were approved by the independent shareholders at the extraordinary shareholders' general meeting held on December 30, 2016.

According to the current Framework Agreement, the scope of services between us and the CRC Group include the following:

- (a) Mutual provision of railway transportation services, which comprise:
 - (i) production co-ordination, safety management and dispatching services;
 - (ii) application and rental services of railway infrastructure and transportation equipment;
 - (iii) railway communication services;
 - (iv) railway network services (including but not limited to passenger services, water to supply in trains, use of railway lines, traction and electricity supply for locomotives and ticket services);
 - (v) crew services; and
 - (vi) cleaning services of locomotives, trains and railway stations.
- (b) Mutual provisions of railway-related services, which comprise:
 - (i) repair services of railway infrastructure and equipment;
 - (ii) repair services of locomotives and trains;
 - (iii) procurement and sales services of railway related materials;
 - (iv) security services;
 - (v) hygiene and epidemic prevention services;
 - (vi) property management and building maintenance services; and
 - (vii) project construction, management and supervision services.

- (c) We will provide special entrusted railway transportation services to the CRC Group, which include but are not limited to:
 - (i) operation and management of passengers and freight transportation and related services; and
 - (ii) repair services of transportation facilities and equipment.
- (d) Mutual provision of miscellaneous services between us and the CRC Group that are necessary for the proper functioning of railway transportation and operation.

The prices at which these mutual goods and services are provided under the current Framework Agreement are determined according to the following priority:

- (a) the prices as determined by Chinese government;
- (b) if the prices are not specified by Chinese government, the prices will be determined in accordance with the pricing standards and rules of national railways within the guidance prices set by Chinese government;
- (c) if the prices are not specified by Chinese government and Chinese government has not set applicable guidance prices, the prices shall be determined in accordance with the applicable industry price settlement rules;
- (d) except for applying the prices specified by Chinese government, the guidance prices set by Chinese government and the industry settlement rules, if there are comparable market prices or pricing standards, priority shall be given to such market prices or pricing standards as reference points to determine the prices upon negotiation;
- (e) if none of the above-mentioned pricing standards is available, the prices shall be determined with reference to the prices of nonconnected transactions between the connected parties and independent third parties; and
- (f) if neither comparable market prices nor prices of non-connected transactions are available for reference, the prices shall be determined upon negotiation according to the aggregate of the total actual costs for providing the relevant services, reasonable profits and taxes and additional charges paid.

The chart below sets forth the material transactions we undertook with related parties for the periods indicated:

	Year Ended December 31,		
	2015	2016	2017
	(RMB thousands)		
Provision of services and sales of goods			
<i>Railroad and Related Business</i>			
Provision of train transportation services to GRGC and its subsidiaries ⁽ⁱ⁾	751,956	1,425,538	1,505,348
Revenue collected by the CRC for railway network usage and related services provided to GRGC and its subsidiaries ⁽ⁱⁱ⁾	1,180,852	1,400,876	1,428,752
Revenue from railway operation service provided to GRGC’s subsidiaries ⁽ⁱⁱⁱ⁾	550,168	579,253	660,847
	2,482,976	3,405,667	3,594,947
<i>Other Businesses</i>			
Sales of materials and supplies to GRGC and its subsidiaries ^(iv)	25,940	29,449	23,386
Services received and purchases made			
<i>Railroad and Related Business</i>			
Provision of train transportation services by GRGC and its subsidiaries ⁽ⁱ⁾	888,903	989,778	1,048,524
Cost settled by the CRC for railway network usage and related services provided by GRGC and its subsidiaries ⁽ⁱⁱ⁾	1,406,962	1,628,336	1,720,849
Operating lease rental paid to GRGC for the leasing of land use rights	55,090	55,090	57,358
	2,350,955	2,673,204	2,826,731
<i>Other Businesses</i>			
Social services (employee housing and public security services and other ancillary services) provided by GEDC ⁽ⁱⁱⁱ⁾	16,080	11,297	—
Provision of repair and maintenance services by GRGC and its subsidiaries ^(iv)	489,038	306,988	298,040
Purchase of materials and supplies from GRGC and its subsidiaries ^(v)	384,262	469,273	455,716
Provision of construction services by GRGC and its subsidiaries ^(vi)	226,089	347,409	272,390
	1,115,469	1,134,967	1,026,146

- (i) The service charges are determined based on a pricing scheme set by the CRC or based on negotiation between the contracting parties with reference to actual cost incurred.
- (ii) Such revenues/charges are determined by the CRC based on its standard charges applied on a nationwide basis.
- (iii) The service charges are levied based on contract prices determined based on a “cost plus a profit margin” and explicitly agreed between both contract parties.
- (iv) The prices are determined based on mutual negotiation between the contracting parties with reference to actual cost incurred.
- (v) The prices are determined based on mutual negotiation between the contracting parties with reference to procurement cost plus a management fee ranging from 0.3% to 5%.
- (vi) Based on construction amount determined under national railway engineering guidelines.

We had the following material balances with our related parties as of the dates indicated:

	As of December 31,	
	2016	2017
	(RMB thousands)	
Trade receivables	730,061	1,435,421
- GRGC ⁽ⁱ⁾	229,056	132,830
- Subsidiaries of GRGC ⁽ⁱⁱ⁾	501,005	1,302,591
Prepayments and other receivables	25,961	44,329
- GRGC	691	3,277
- Subsidiaries of GRGC	25,270	41,052
Prepayments for fixed assets and construction-in-progress	225	4,352
- GRGC	—	—
- Subsidiaries of GRGC ⁽ⁱⁱ⁾	225	4,352
Trade payables	533,051	681,587
- GRGC ⁽ⁱ⁾	61,486	61,899
- Subsidiaries of GRGC ⁽ⁱⁱ⁾	432,712	619,509
- Associates	38,853	179
Payables for fixed assets and construction-in-progress	249,308	342,519
- GRGC	10,805	53,821
- Subsidiaries of GRGC	168,038	220,377
- Associates	70,465	68,321
Accruals and other payables	430,331	439,509
- GRGC	5,663	7,390
- Subsidiaries of GRGC ⁽ⁱⁱⁱ⁾	422,877	430,041
- Associates ^(iv)	1,791	2,078

- (i) The trade balances due from/to GRGC, subsidiaries of GRGC mainly represented service fees and charges payable and receivable balances arising from the provision of passenger transportation and cargo forwarding businesses jointly with these related parties within the PRC.
- (ii) The trade payables due to subsidiaries of GRGC mainly represented payables arising from unsettled fees for purchase of materials and provision of other services according to various service agreements entered into between the Group and the related parties.
- (iii) The other payables due to subsidiaries of GRGC mainly represented the performance deposits received for construction projects and deposits received from ticketing agencies.
- (iv) The other payables due to associates mainly represented the performance deposits received for construction projects operated by associates.

As of December 31, 2017, all the balances maintained with related parties are unsecured, non-interest bearing and are repayable on demand.

Our related party transactions have been carried out on normal commercial terms according to the HKSE Listing Rules and the contracts we entered into with our related parties. Except for the transactions discussed in this section, no other material related party transactions were entered into in 2017. Our independent non-executive directors have confirmed that these transactions (which are “connected transactions” as defined in the HKSE Listing Rules) entered into by us in 2017 were entered into in the ordinary and usual course of our business on normal commercial terms and in accordance with the terms of an agreement governing such transactions.

Transaction with CRC and other railway companies

On March 14, 2013, pursuant to the approved plan on State Council Institutional Reform and Transformation of Government Functions and Approval On Setting Up China Railway Company by the State Council, the previous controlling entity of GRGC, MOR, was dissolved. The administrative function of MOR was transferred to the MOT and the newly established National Railway Bureau, and its business functions were transferred to the CRC. Accordingly, the equity interests of GRGC, which was previously wholly controlled by MOR, were transferred to the CRC. The Reform was completed on January 1, 2017.

We work in cooperation with the CRC and other railway companies owned and controlled by the CRC for the operation of certain long distance passenger train and freight transportation businesses within the PRC. The revenues generated from these long-distance passenger and freight transportation businesses are collected and settled by the CRC according to its settlement systems. The charges for the use of the rail lines and services provided by other railway companies are also instructed by the CRC and settled by the CRC based on its systems. Since March 2013, the collecting, processing and distribution functions of revenues, which were previously executed by MOR, have been transferred to the CRC. As of December 31, 2017, the cooperation mode and pricing model had not been subject to any material changes.

The chart below sets forth the material transactions our Company undertook with the CRC and its subsidiaries during the last three fiscal years. Unless otherwise specified, the transactions disclosed below have excluded the transactions with GRGC and its subsidiaries:

	Year Ended December 31,		
	2015	2016	2017
	(RMB thousands)		
Provision of services and sales of goods			
<i>Railroad and Related Business</i>			
Provision of train transportation services to CRC Group ⁽ⁱ⁾	36,515	29,794	81,396
Revenue collected by the CRC for services provided to the CRC Group ⁽ⁱⁱ⁾	1,752,666	1,777,640	1,877,719
Revenue from railway operation service provided to the CRC Group ⁽ⁱⁱⁱ⁾	1,421,995	1,628,143	1,800,692
	<u>3,211,176</u>	<u>3,425,577</u>	<u>3,759,807</u>
<i>Other Businesses</i>			
Provision of repairing services for cargo trucks to the CRC Group ⁽ⁱⁱ⁾	284,348	323,993	333,917
Sales of materials and supplies to the CRC Group ^(iv)	38,395	7,073	7,185
Provision of apartment leasing services to the CRC Group ^(iv)	762	641	722
	<u>323,505</u>	<u>331,707</u>	<u>341,824</u>
Services received and purchases made			
<i>Railroad and Related Business</i>			
Provision of train transportation services by the CRC Group ⁽ⁱ⁾	277,138	292,754	306,208
Cost settled by the CRC for services provided by the CRC Group ⁽ⁱⁱ⁾	1,365,352	1,376,047	1,395,591
	<u>1,642,490</u>	<u>1,668,801</u>	<u>1,701,799</u>
<i>Other Businesses</i>			
Provision of repair and maintenance services by the CRC Group ^(iv)	2,813	42,954	31,089
Purchase of materials and supplies from the CRC Group ^(v)	33,591	15,220	19,258
Provision of construction services by the CRC Group ^(vi)	13,538	4,385	—
	<u>49,942</u>	<u>62,559</u>	<u>50,347</u>

- (i) The service charges are determined based on a pricing scheme set by the CRC or based on negotiation between the contracting parties with reference to actual costs incurred.
- (ii) Such revenues/charges are determined by the CRC based on its standard charges applied on a nationwide basis.
- (iii) The service charges are levied based on contract prices determined based on a “cost plus a profit margin” and explicitly agreed between both contracting parties.
- (iv) The prices are determined based on mutual negotiation between the contracting parties with reference to actual costs incurred.
- (v) The prices are determined based on mutual negotiation between the contracting parties with reference to procurement cost plus management fee ranged from 0.3% to 5%.
- (vi) Based on construction amounts determined under national railway engineering guidelines.

The chart below sets forth the revenue collected and settled through the CRC for the periods indicated:

	Year Ended December 31,		
	2015	2016	2017
	(RMB thousands)		
Passenger transportation	6,642,129	6,960,491	7,295,985
Freight transportation	1,022,025	1,105,061	1,266,122
Other transportation related services	86,199	86,883	112,267
	<u>7,750,353</u>	<u>8,152,435</u>	<u>8,674,374</u>

We cooperate with the CRC and other railway companies owned and controlled by the CRC for the operation of certain long distance passenger trains and freight transportation businesses within the PRC. The revenues generated from these long-distance passenger trains and freight transportation businesses are collected and settled by the CRC Group on our behalf through the CRC's nationwide settlement systems.

We had the following material balances maintained with the CRC Group as of December 31, 2016 and December 31, 2017:

	As of December 31,	
	2016	2017
	(RMB thousands)	
Due from the CRC Group		
Trade receivables	1,443,272	1,372,631
Other receivables	4,672	1,207
Due to the CRC Group		
Trade payables	65,496	62,620
Other payables	15,901	6,413

C. Interests of Experts and Counsel

Not applicable

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

A.1 – A.6:

See pages F-1 to F-78 following ITEM 19.

A.7 Legal Proceedings

We are not a party to any material legal proceeding and no material legal proceeding is known to us to be pending against us or with respect to our properties.

A.8 Dividend Distributions

We make decisions concerning the payment of dividends on an annual basis. Any dividends are paid at the discretion of our board of directors, which makes a recommendation in this regard that must be confirmed at our annual general meeting. Our Articles of Association permit us to distribute dividends from profits more than once a year. The amount of these interim dividends cannot exceed 50% of our distributable income as stated in our interim profit statements. In accordance with our Articles of Association, the amounts available for the purpose of paying dividends will be deemed to be the lesser of:

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

See “ITEM 10. ADDITIONAL INFORMATION—E. Taxation” for a discussion of the tax consequences related to the receipt of dividends.

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

Our Articles of Association require that cash dividends in respect of H shares be declared in RMB and paid in Hong Kong dollars at the average of the exchange rate as published by the PBOC 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.

On March 28, 2018, our Board of Directors proposed a final dividend distribution of RMB0.08 per share to our shareholders for the year ended December 31, 2017. The final dividend payment is expected to be approved by our shareholders at our annual general meeting of shareholders to be held on June 6, 2018.

B. Significant Changes

Other than events already mentioned in this annual report, there have been no significant changes since December 31, 2017.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Price Range of our H shares and ADSs

As of December 31, 2017 and April 18, 2018, there were 1,431.3 million H shares issued and outstanding. As of December 31, 2017 and April 18, 2018, there were 2,066,229 ADSs and 2,005,981 ADSs outstanding held by 136 and 136 registered holders, respectively.

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

Calendar Period	New York Stock Exchange		HKSE	
	High (USD per ADS)	Low	High (HKD per H share)	Low
Annual highs and lows				
2013	28.17	18.73	4.48	2.81
2014	24.59	18.05	3.82	2.79
2015	34.85	18.92	5.43	2.92
2016	30.50	20.51	4.92	3.11
2017	33.56	24.43	5.31	3.72

Calendar Period	New York Stock Exchange		HKSE	
	High	Low	High	Low
	(USD per ADS)		(HKD per H share)	
Quarterly highs and lows				
First Quarter 2016	24.43	20.51	3.90	3.11
Second Quarter 2016	25.74	21.22	4.05	3.30
Third Quarter 2016	27.51	22.74	4.38	3.52
Fourth Quarter 2016	30.50	25.58	4.92	3.97
First Quarter 2017	33.18	29.96	5.17	4.63
Second Quarter 2017	31.60	24.43	4.97	3.72
Third Quarter 2017	29.65	24.78	4.69	3.85
Fourth Quarter 2017	33.56	26.46	5.31	4.13
Monthly highs and lows				
October 2017	30.36	28.40	4.84	4.40
November 2017	29.15	26.46	4.57	4.13
December 2017	33.56	27.81	5.31	4.30
January 2018	37.43	33.21	5.89	5.17
February 2018	33.21	29.65	5.31	4.61
March 2018	32.93	29.49	5.25	4.58
April 2018 (through April 18, 2018)	29.63	27.01	4.71	4.16

During the year ended December 31, 2017, we did not purchase, sell or redeem any of our H shares.

In addition to our H Shares, our A shares have been listed for trading on the Shanghai Stock Exchange starting from December 22, 2006.

B. Plan of Distribution

Not applicable.

C. Markets

Our H shares are listed on the HKSE under the stock code “00525” and American Depositary Shares representing our H shares are listed on the NYSE under the stock code “GSH.” Our A shares are listed for trading on the Shanghai Stock Exchange under the stock code “601333.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

We were established as a joint stock limited company under the Company Law of the PRC on March 6, 1996. Our legal name is 广深铁路股份有限公司, and its English translation is Guangshen Railway Company Limited.

A. Share Capital

We issued a total of 2,747,987,000 A shares in our initial public offering of A shares on the PRC domestic market in December 2006, and raised proceeds of approximately RMB10.0 billion. Each A share has a par value of RMB1.00 and has been listed for trading on the Shanghai Stock Exchange.

The total number of shares of our Company after the A Share Offering is 7,083,537,000. As of December 31, 2017, our issued share capital consisted of:

Type of share capital	Number of Shares	Percentage of shares (%)
Domestic tradable shares without restriction on sales (A shares)	5,652,237,000	79.8
H shares	1,431,300,000	20.2
Total	<u>7,083,537,000</u>	<u>100.0</u>

Public Float

As of April 25, 2018, at least 25% of our total issued share capital was held by the public, as required under the HKSE Listing Rules.

Pre-Emptive Rights

There is no provision in our Articles of Association or under the laws of the PRC which provides for pre-emptive rights of our shareholders.

B. Memorandum and Articles of Association

Our shareholders previously adopted the amended and restated Articles of Association at an annual shareholders' general meeting held on June 25, 2009, which was filed as an exhibit to our annual report on Form 20-F with the SEC on June 22, 2010. On September 27, 2012 and May 28, 2015, our shareholders passed resolutions to make additional amendments to the Articles of Association, the full text of which was filed as an exhibit to our annual report on Form 20-F with the SEC on April 27, 2016. On May 26, 2016, our shareholders passed resolutions to make additional amendments concerning the scope of the business of the Company set forth in Article 13 of the Articles of Association, the full text of which was filed as an exhibit to our annual report on Form 20-F with the SEC on April 27, 2017. On June 15, 2017, our shareholders passed resolutions to make additional amendments to the Articles of Association, the full text of which is filed as Exhibit 1.1 hereto.

Described below is a summary of the significant provisions of our amended and restated Articles of Association as currently in effect. As this is a summary, it does not contain all the information that may be important to you.

General

We are a joint stock limited company established in accordance with the Company Law of China, the Rules of the State Council on the Overseas Issuance and Listings and other relevant laws and regulations of the PRC. Our Company was established by way of promotion with approval evidenced by the document "Ti Gai Sheng" [1995] No. 151 of the PRC's State Commission for Economic Restructuring. We were registered with and obtained a business license from the Administration for Industry and Commerce of Shenzhen, Guangdong Province on March 6, 1996. The number of our business license is Shen Si Zi 4403011022106. Article 12 of our Articles of Association states that our object is to carry on the business of railway transportation.

Significant Differences between H shares and A shares

Holders of H shares and A shares (also referred to as domestic shares), with minor exceptions, are entitled to the same economic and voting rights. However, our Articles of Association provide that holders of H shares will receive dividends in Hong Kong dollars while holders of A shares will receive dividends in RMB. Other differences between the rights of holders of H shares and A shares relate primarily to ownership and transferability. H shares may only be subscribed for and owned by legal and natural persons of any country other than the PRC (excluding Taiwan, Hong Kong, and Macau), and must be subscribed for, transferred and traded in a foreign currency. Other than the limitation on ownership, H shares are freely transferable in accordance with our Articles of Association. A shares may only be subscribed for and owned by legal or natural persons in the PRC (excluding Taiwan, Hong Kong and Macau), and must be subscribed for and traded in RMB. Transfers of A shares are subject to restrictions set forth under PRC rules and regulations, which are not applicable to H shares. Transfers of A shares owned by our directors or employees are also subject to restrictions under PRC rules and regulations. A shares and H shares are also distinguished by differences in administration and procedure, including provisions relating to notices and financial reports to be sent to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and appointment of dividend receiving agents.

Restrictions on Transferability

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

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

Dividends

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

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

Our Articles of Association allow for distributions of dividends in the form of cash or shares, and encourage the Board to first consider a payment of cash dividends as opposed to share dividends. In particular, according to our Articles of Association, interim dividends may be distributed by way of cash dividends. Dividends may only be distributed, however, after allowance has been made in the following sequence:

- making up losses;
- allocations to the statutory common reserve fund;
- allocations to the discretionary common reserve fund upon the approval of shareholders at a general meeting; and
- payment of dividends in respect of ordinary shares.

The board of directors shall, in accordance with the laws and administrative regulations of the State (if any) and our Company's operation and development requirements, determine the proportions of allocations to the discretionary common reserve fund and payment of ordinary share dividends subject to approval of shareholders at the general meeting. The Company may not distribute any dividend before making up for its losses and allocating funds to the statutory common reserve fund.

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

Voting Rights and Shareholder Meetings

Shareholders' general meetings can be annual shareholders' general meetings or extraordinary general meetings. Shareholders' meetings shall be convened by the board of directors. The board of directors shall convene an annual shareholders' meeting within six months from the end of the preceding accounting year. The shareholders provide us with principal authority at general meetings. We exercise our functions and powers in compliance with our Articles of Association.

We are not permitted to enter into any contract with any person other than a director, supervisor, general manager, deputy general manager, or other senior officers of our Company whereby the management and administration of the whole of our Company or any material business of our Company is to be handed over to such person without the prior approval of the shareholders in a general meeting.

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

- the number of directors falls short of the number stipulated in the Company Law of the PRC or our by-laws or is below two-thirds of the number required in our Articles of Association;
- our unrecovered losses that have not been made up amount to one-third of our paid-in share capital;
- shareholder(s), severally or jointly, holding 10% or more of our issued shares carrying the right to vote make a request in writing to convene an extraordinary general meeting;
- the board of directors considers it necessary; or
- the supervisory committee proposes to convene such a meeting.

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

Where our Company convenes an annual general meeting, shareholders who severally or jointly hold more than 3% of our Company's shares, may present an extraordinary proposal for the shareholders' general meeting in written form to our Company. If the subject of the extraordinary proposal falls within the functions and powers of a shareholders' general meeting, then it should be included in the agenda of the meeting.

A shareholder extraordinary general meeting shall not resolve any matter not stated in the notice of such meeting. A notice of meeting of shareholders shall:

- be given by way of public notice or other means as specified under our Articles of Association;
- specify the place, date and the time of the meeting;
- state the motions to be discussed at the meeting;
- provide such information and explanations as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to merge our Company with another entity, to repurchase the shares of our Company, to reorganize its share capital or to restructure our Company in any other way, the terms of the proposed transaction must be provided in detail, together with copies of the proposed agreement, if any, and the cause and effect of the proposal must be properly explained;
- contain disclosure of the nature and extent, if any, of material interests of any director, supervisor, general manager, deputy general manager or other senior officers of our Company in the transaction proposed and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of other shareholders of the same class;
- contain the full text of any special resolution proposed to be approved at the meeting;
- contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him or her and that a proxy need not also be a shareholder; and
- state the time within which and the address to which voting proxies for the meeting are to be delivered.

The Company may send the notice to the domestic shareholders by way of public notice published in one or more newspapers designated by the securities regulatory authority under the State Council at least forty-five (45) days before the date of the meeting. After the publication of such notice, all holders of domestic shares shall be deemed to have received the notice of the relevant shareholders' general meeting. Notice of a shareholders' general meeting to holders of overseas-listed foreign-invested shares shall be published on our Company's website (www.gsfc.com) at least forty-five (45) days prior to the date of the meeting. After the publication of such notice, all holders of overseas-listed foreign-invested shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by any person entitled to receive notice, shall not invalidate the meeting or the resolutions adopted therein. Where we convene an annual general meeting, we shall include in the agenda of the meeting any resolutions submitted by shareholders (including proxies) who either separately or in aggregate hold more than 3% of the total number of our shares, provided that these resolutions fall within the scope of powers of a shareholders' general meeting.

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

- work reports of the board of directors and the supervisory committee;
- profit distribution proposals and loss recovery proposals formulated by the board of directors;
- removal of members of the board of directors and the supervisory committee, their remuneration and methods of payment;
- our annual financial budget, final accounts, balance sheet, income statement and other financial statements; and
- matters other than those that are required by laws, administrative regulations or our Articles of Association to be adopted by way of special resolution.

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

- increase or reduction of our share capital and the issuance of shares of any class, warrants and other similar securities;
- issuance of Company debentures;
- division, merger, dissolution and liquidation of our Company;
- amendment to our Articles of Association;
- alteration to the form of our Company;
- acquisition or disposal within one year of material assets exceeding 30% of the total assets of our Company; and
- any other matter that, according to an ordinary resolution of the shareholders meeting, may have a significant impact on our Company and requires adoption by way of a special resolution.

Shareholders have the right to attend general meetings of shareholders and to exercise their voting rights, in person or by proxy, in relation to the amount of voting shares they represent. Each share carries the right to one vote. Any share of our Company held by our Company does not carry any voting right.

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

- by the chairman of the meeting;
- by at least two shareholders who possess the right to vote, present in person or by proxy; or
- by one or more shareholders (including proxies) representing either separately or in aggregate, not less than one-tenth of all shares having the right to vote at the meeting.

Unless a poll is demanded, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favor of or against that resolution, that the resolution has been carried. A demand for a poll may be withdrawn. A poll demanded on the election of the chairman, or on a question of suspension of the meeting, shall be taken at the meeting immediately. A poll demanded on any other questions shall be taken at such time as the chairman of the meeting directs, and any business other than that on which the poll has been demanded may be proceeded with. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. On a poll taken at a meeting, a shareholder should cast his or her vote(s) either at the meeting, online or through another way as permitted by the Articles of Association; a shareholder (including their proxies) entitled to two or more votes need not cast all his or her votes in the same way. In the case of a tie, the chairman of the meeting shall be entitled to one additional vote. Shareholders shall be entitled to designate two shareholder representatives to participate in counting the votes and supervising the voting process; provided that no person shall be permitted to serve as a shareholder representative to the extent such person has an interest in, or is otherwise impacted by, the resolutions being voted on, to the extent such interest or impact is disproportionate in comparison to other shareholders.

Board of Directors

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

Our directors' compensation is determined by resolutions approved at shareholders' general meetings. Our directors have no power to approve their own compensation.

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

At least one-third of our board members shall be independent directors. An independent director is a director who does not act in other capacities in our Company other than as a director, and who does not have any relationship with our Company or our Company's substantial shareholders which may affect the director in making independent and objective judgment. An independent director shall have certain special duties, including, among others, to approve a connected transaction of which the total consideration accounts for more than 5% of the latest audited net asset value of our Company before submission to the board of the directors for discussion, to propose the convening of a board meeting, to engage external auditors or consultants independently, and to make independent opinion on significant events of our Company. To ensure that the independent directors can effectively perform their duties, our Company shall provide them with certain working conditions.

Liquidation Rights

In the event of the termination or liquidation of our Company, our shareholders shall have the right to participate in the distribution of surplus assets of our Company in accordance with the type and number of shares held by those shareholders.

Liability of Shareholders

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

Increases in Share Capital

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

Reduction of Share Capital and Purchase by Us of Our Shares

We may, following the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase any of our issued shares under the following circumstances:

- (1) cancellation of shares for capital reduction;
- (2) merging with another company that holds our shares;
- (3) paying shares to our employees as bonus; or
- (4) repurchasing, upon request, any shares held by any shareholder who is opposed to our Company's resolution for merger or spin-off at a shareholders' general meeting.

Any repurchase of shares under items (1) to (3) of the foregoing paragraph shall be approved by shareholders' general meeting of our Company. After repurchase of the shares according to the foregoing paragraph by our Company, the shares repurchased under item 1 shall be cancelled within ten days from the date of the repurchase; and the shares repurchased under items 2 and 4 shall be transferred or cancelled within six months.

The shares repurchased by our Company under item 3 may not exceed 5% of the total of our Company's issued shares. Such repurchase shall be financed by our Company's profit after tax. The shares so repurchased shall be transferred to the employees within one year.

We may not accept our shares as the subject of any pledge.

In the event that the regulatory authorities at the place of listing of our overseas-listed foreign shares have different requirements, such requirements shall prevail.

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

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

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

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

Unless we are in the process of liquidation:

- where we repurchase our shares at par value, the amount of the total par value of shares so repurchased shall be deducted from our book balance distributable profits or out of the proceeds of a new issue of shares made in respect of the repurchase; and
- where we repurchase our shares at a premium, an amount equivalent to their total par value shall be deducted from our book balance distributable profits or the proceeds of a new issue of shares made in respect of the repurchase. Payment of the portion in excess of their par value shall be effected as follows:
 - if the shares being repurchased were issued at par value, payment shall be made out of our book balance distributable profits; and
 - if the shares being repurchased were issued at a premium, payment shall be made out of our distributable profits or out of proceeds of a new issue of shares made in respect of the repurchase, provided that the amount paid out of the proceeds of the new issue may not exceed the aggregate of premiums received by us on the issue of the shares repurchased or the current balance of our capital common reserve account (inclusive of the premiums from the new issue of shares).
- Payment by us in consideration for:
 - the acquisition of rights to repurchase our shares;
 - the variation of any contract to repurchase our shares; or
 - the release of any of our obligations under any contract to repurchase our shares; shall be made out of our distributable profits.

Restrictions on Controlling Shareholders

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

- to relieve a director or supervisor of his or her duty to act honestly in our best interests;

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

“Controlling shareholder” means a shareholder whose shareholdings represent over 50% of the total share capital of our Company, or if less than 50%, whose entitlement to voting rights is sufficient to materially affect the resolutions at general meetings of our Company.

Changing Rights of a Class of Shareholders

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

Duties of Directors, Supervisors and Other Senior Officers in Interested Transactions

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

Unless the interested director, supervisor, general manager deputy general manager or other senior officers has disclosed his or her interests and the contract or transaction is approved by the board of directors at a meeting in which the interested director, supervisor, general manager, deputy general manager or other senior officers has not been counted in the quorum and has refrained from voting, a contract or transaction in which that director, supervisor, general manager, deputy general manager or other senior officers is materially interested is voidable except as against a bona fide party to the contract or transaction acting without notice of the breach of duty by the interested director, supervisor, general manager, deputy general manager or other senior officers.

We shall not directly or indirectly make a loan to or provide any guarantees in connection with a loan to a director, supervisor, general manager, deputy general manager or other senior officers of our Company or of GRGC or any of their respective associates. However, the following transactions are not subject to this prohibition:

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

C. Material Contracts

Other than the Comprehensive Services Framework Agreement, dated as of November 1, 2016, all other material contracts we entered into during the fiscal years of 2016 and 2017 were made in the ordinary course of business.

D. Exchange Controls

The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. Effective January 1, 1994, the dual foreign exchange system in China was abolished in accordance with the notice of the PBOC concerning future reform of the foreign currency control system issued December 1993. The conversion of RMB into U.S. dollars in China currently must be based on the PBOC rate. The PBOC rate is set based on the previous day's Chinese interbank foreign exchange market rate and with reference to current exchange rates on the world financial markets. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. On April 14, 2012, the PRC government further allowed the floating band of RMB's trading prices against the U.S. dollar to widen from 0.5% to 1% on each business day effective from April 2012, and further widened such floating band to 2% in March 2014. In recent years, the PBOC has been working to develop a mechanism for formulating the midpoint rate of the RMB. On August 11, 2015, it announced the implementation of the RMB exchange rate formation mechanism reform to allow the market to play a bigger role in exchange rate determination. As a result thereof, the PBOC guided the RMB weaker by lowering the midpoint rate to reflect the prevailing market rate, while emphasizing the use of the closing rate on the preceding day as a reference when deciding the midpoint rate. In February 2016, the PBOC disclosed a mechanism for formulating the midpoint rate of the RMB based on the "closing rate on the preceding date + currency basket-based adjustment" rule.

Any future fluctuation of the RMB against the U.S. dollar (whether due to a decrease in the foreign currency reserves held by the PRC government or any other reason) will have an adverse effect upon the U.S. dollar equivalent and Hong Kong dollar equivalent of our net income and increase the effective cost of foreign equipment and the amount of foreign currency expenses and liabilities. In 2017, we incurred a foreign exchange loss of approximately RMB7.3 million mainly due to the depreciation of the Hong Kong dollar against the RMB. If the applicable market exchange rates were to change by 5%, this would result in a change in our net income of approximately RMB1.2 million. We have no plans to hedge our currency exposure in the future. No assurance can be given that the Hong Kong dollar to U.S. dollar exchange rate link will be maintained in the future. Furthermore, any change in exchange rate that has a negative effect on the market for the H shares in either the United States or Hong Kong is likely to result in a similar negative effect on the other market.

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, 2017, we maintained the equivalent of approximately RMB32.9million in U.S. dollar and Hong Kong dollar-denominated balances for purposes of satisfying our foreign currency obligations (e.g., to purchase foreign equipment) and paying dividends to our overseas shareholders. See Note 3.1(a)(i) to our audited consolidated financial statements included elsewhere in this annual report. We believe that we have or will be able to obtain sufficient foreign exchange to continue to satisfy these obligations. We do not engage in any financial contract or other arrangement to hedge our currency exposure.

E. Taxation

PRC Taxation

Tax Basis of Assets

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

Income Tax

In accordance with the Enterprise Income Tax Law of the PRC (hereinafter referred to as the “EIT Law”), which was adopted at the 5th Session of the 10th National People’s Congress of the PRC on March 16, 2007, enterprises and other organizations that earn income within the territory of the PRC are payers of enterprise income tax, which shall be paid in accordance with the provisions of EIT Law. The EIT Law and the implementation regulations for the EIT Law (the “Implementation Regulations”) both came into effect on January 1, 2008, meanwhile the Income Tax Law of the PRC for Foreign-invested Enterprises and Foreign Enterprises and the Interim Regulations of the PRC on Enterprise Income Tax have been simultaneously repealed.

Pursuant to the EIT Law, the income tax rate for PRC enterprises is reduced from the original 33% to 25%, same as the rate applied to foreign investment enterprises and foreign enterprises.

According to the EIT Law and the Notice Regarding Implementation of the Preferential Enterprise Income Tax in the Transition Period issued by the State Council, an enterprise established with approval prior to the promulgation of the EIT Law that enjoyed a preferential tax rate according to the provisions of tax laws and administrative regulations then in force could gradually transition to the tax rate provided for therein within five years after the implementation of the EIT Law. The preferential income tax rate of 15% that was applicable to companies incorporated in Shenzhen and other special economic zones was phased out over five years beginning on January 1, 2008. After such five-year period and since January 1, 2012, the tax rate applicable to us has been fixed at 25%, i.e., the unified income tax rate applicable to all domestic companies in the PRC (with limited exceptions). An enterprise enjoying regular tax reduction or exemption may continue to enjoy such tax reduction or exemption until the expiration of the term thereof pursuant to the provisions of the State Council; if it has not yet enjoyed such tax reduction or exemption because it fails to make a profit, the term of such tax reduction or exemption shall be calculated from the effective date of the EIT Law (that is January 1, 2008).

Value Added Tax

Pursuant to the Provisional Regulations of the PRC Concerning Value Added Tax effective from January 1, 1994, which was amended by the State Council on November 10, 2008 and the Detailed Rules for the Implementation of the Interim Regulations of the PRC on Value-Added Tax, which was promulgated on December 18, 2008, and revised on October 28, 2011, our passenger and freight transportation businesses are not subject to value added tax, while our other businesses are subject to value added tax at rates ranging from 3% to 17%, depending on the scale and nature of the businesses.

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Including Railway Transport and Postal Services under the Pilot Program of Replacing Business Tax with Value-Added Tax, which was promulgated on December 12, 2013, and came into effect on January 1, 2014, the value-added tax rate of 11% shall be levied on enterprises providing transport and postal services.

Tax on Dividends

For an Individual Investor. According to the Individual Income Tax Law of the PRC, an income tax at the rate of 20% shall be withheld on dividend payments from PRC enterprises to residents of the PRC. According to the Circular on Relevant Tax Policies on Pilot Shanghai-Hong Kong Stock Connect Scheme (Cai Shui [2014] No. 81) (hereinafter referred to as “Circular 81”) issued by the Ministry of Finance, State Tax Bureau and CSRC on October 31, 2014, which became effective November 17, 2014, a PRC company that pays dividends to a PRC individual investor, with respect to H shares listed on the HKSE through the Shanghai-Hong Kong Stock Connect, must first request from the China Securities Depository and Clearing Company Limited (hereinafter referred to as the “CSDC”) a list of PRC individual investors. The PRC company shall then withhold PRC individual income tax at a rate of 20% on payments to such individual investors. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a PRC company with A shares listed on the Shanghai Stock Exchange is normally subject to PRC withholding tax at a rate of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty. According to the Notice on the Issues Concerning the Collection and Administration of Individual Income Tax Following the Repeal of Circular 45 issued by the PRC State Tax Bureau, foreign non-resident individual shareholders receiving dividends from shares in a PRC non-foreign-invested enterprise may be subject to PRC withholding tax at a rate of 10%, subject to reduction under an applicable tax treaty. A non-PRC individual that is a resident of a country that has not entered into a tax treaty with the PRC or in any other case will be subject to PRC withholding tax at a rate of 20%. A PRC company that pays dividends to investors in Hong Kong (including enterprises and individuals), with respect to A shares listed on the Shanghai Stock Exchange, before the Hong Kong Securities Clearing Company Ltd is able to provide details of an investor’s identity and stock holding period to CSDC, must withhold PRC tax at a rate of 10%, rather than applying the exemptions based on the stock holding period discussed in the following paragraph, and should also apply for a withholding declaration from the appropriate PRC tax authority.

According to the Notice on the Issues concerning the Implementation of Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies promulgated on December 28, 2012, individual PRC resident holders of A shares who have held such shares for one month or less shall include all cash and share distributions in their taxable income. Individual PRC resident holders of A shares who have held such shares for more than one month, but not more than one year, shall temporarily include 50% of all cash and share distributions in their taxable income. In addition, individual PRC resident holders of A shares who have held shares for more than one year shall temporarily include 25% of all cash and share distributions in their taxable income.

For An Enterprise. According to Circular 81, PRC enterprise investors' dividends from investment in stocks listed on the HKSE through the Shanghai-Hong Kong Stock Connect shall be included in income and shall be subject to PRC enterprise income tax. However, a PRC enterprise investor's dividends in respect of H shares, which have been continuously held by such investor for a period of over 12 months, shall be exempt from PRC enterprise income tax. According to the EIT Law and its Implementation Regulations, and pursuant to the Notice on the Issues Regarding Withholding of the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H share Holders Which Are Overseas Non-resident Enterprises issued by State Administration of Taxation on November 6, 2008, when a non-PRC resident enterprise with no establishment or office in the PRC receives dividends from a company in the PRC, or a non-PRC resident enterprise with an establishment or office in the PRC receives dividends from a company in the PRC, and such dividends are not effectively connected with an establishment or office in the PRC, the non-PRC resident enterprise is normally subject to a PRC withholding tax at a rate of 10% under the EIT Law.

The Response to Questions on Levying Enterprise Income Tax on Dividends Derived by Non-resident Enterprise from Holding B-shares issued by the SAT on July 24, 2009 further provides that any PRC resident enterprise that is listed on an overseas stock exchange must withhold PRC enterprise income tax at a rate of 10% on dividends that it distributes to non-PRC resident enterprises, subject to reduction under an applicable tax treaty.

Capital Gains Tax

For An Individual Investor. According to the Notice Concerning the Continuation of Exemption from Individual Income Tax on the Income from Stock Transfer issued by the PRC Ministry of Finance and the PRC State Tax Bureau on March 30, 1998, effective from January 1, 1997, gains realized by individuals from transferring stock of listed companies are not subject to individual income tax.

After the latest amendment to the Individual Income Tax Law on June 30, 2011 and its implementation rules on February 18, 2008, the State Administration of Taxation has not stated whether it will continue to exempt from individual income tax income derived by individuals from the transfer of listed shares. However, on December 31, 2009, the Ministry of Finance, State Administration of Taxation and CSRC jointly issued the Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (Cai Shui [2009] No. 167), which states that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for shares of certain specified companies under certain situations which are subject to sales limitations (as defined in such Circular and its supplementary notice issued on November 10, 2010). Meanwhile, according to Notice on the Continuation of the Individual Income Tax Policy of the Trading Connectivity Mechanism in the Shanghai and Hong Kong Stock Markets (Cai Shui [2017] No. 78), PRC individual investors' gains from transferring stock of a company listed on the HKSE through the Shanghai-Hong Kong Stock Connect temporarily were exempted from PRC individual income tax from November 17, 2017 to December 4, 2019. Moreover, the gains received by individual investors from Hong Kong from transferring A shares listed on the Shanghai Stock Exchange also were temporarily exempted from income tax.

For An Enterprise. In accordance with the EIT Law and its Implementation Regulations, a non-resident enterprise is generally subject to PRC enterprise income tax at a rate of 10% with respect to PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or premises in the PRC or has an establishment or premises in the PRC but the PRC-sourced income is not connected with such establishment or premises in the PRC. According to Circular 81, the gains derived from transferring A shares listed on the Shanghai Stock Exchange received by Hong Kong enterprise investors through the Shanghai-Hong Kong Stock Connect shall be temporarily exempted from income tax. In addition, such gains may be exempted in the PRC if the tax treaty or agreement that the PRC concluded with the relevant jurisdiction, where applicable, states that the PRC may not tax capital gains.

In accordance with Circular 81, PRC enterprise investors' gains from transferring stocks listed on the HKSE through the Shanghai-Hong Kong Stock Connect shall be included in total income and shall be subject to enterprise income tax.

Tax Treaties

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

The Agreement Between the Government of the United States of America and the PRC Government for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income, together with related protocols, referred to herein as the "US-PRC tax treaty," currently limits the rate of PRC withholding tax upon dividends paid by our Company to a U.S. holder (as defined below under "U.S. Federal Income Taxation") who is a resident of the United States 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.

U.S. Federal Income Taxation

The following is a general discussion of the material U.S. 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 (the "Code"). This discussion does not address all of the U.S. federal income tax consequences relating to the purchase, ownership and disposition of the H shares or ADSs, and does not take into account U.S. holders who may be subject to special rules including:

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

This discussion is based on the Code, its legislative history, final, temporary and proposed United States Treasury regulations promulgated thereunder, published rulings and court decisions as in effect on the date hereof, all of which are subject to change, or changes in interpretation, possibly with retroactive effect. In addition, this discussion is based in part upon representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreements will be performed according to its terms. Tax legislation enacted in December 2017 (the “2017 Act”) made significant changes to the Code, many of which are open to interpretation and for which administrative guidance is not yet available. We urge you to consult with your own tax advisor as to the potential impact of the 2017 Act.

You are a “U.S. holder” if you are a beneficial owner of H shares or ADSs and are:

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

If a partnership (including any entity taxed as a partnership for U.S. federal income tax purposes) 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 U.S. federal estate or gift tax consequences, or any state, local or non-U.S. tax consequences of the purchase, ownership and disposition of the H shares or ADSs.

We urge you to consult your tax advisors regarding the U.S. federal, state, local and non-U.S. 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, (a “PFIC”), as discussed under “PFIC Rules” below.

Distributions on the H shares or ADSs

The gross amount of any distribution (without reduction for any PRC tax withheld) we make on the H shares or ADSs out of our current or accumulated earnings and profits will be includible in your gross income as dividend income when the distribution is actually or constructively received by you, in the case of the H shares, or by the depositary in the case of ADSs. Subject to certain limitations, 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
- a foreign corporation if its stock with respect to which a dividend is paid (or ADSs backed by such stock) is readily tradable on an established securities market within the United States,

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

Distributions by a corporation that exceed its current and accumulated earnings and profits (as determined for U.S. federal income tax purposes) generally are treated as a return of capital to the extent of a shareholder's basis in the corporation's shares, and thereafter as capital gain. We do not maintain calculations of our current and accumulated earnings and profits as determined for U.S. federal income tax purposes, and you should expect that the full amount of any distribution to you will be treated as a dividend for U.S. federal income tax purposes. Dividends paid by us will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from U.S. corporations unless the U.S. corporation holds stock representing at least 10% of the total voting power or a total value of all of our stock, in which case the U.S. corporation may be entitled to a 100% deduction for dividends we pay. The amount of any distribution of property other than cash will be the fair market value of such property on the date of such distribution.

If we make a distribution paid in Hong Kong dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/U.S. dollar rate on the date such distribution is received by you or by the depositary, regardless of whether you or the depositary convert the distribution into U.S. dollars on such date. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in your income to the date you or the depositary convert the distribution into U.S. dollars will be treated as foreign currency exchange gain or loss that is U.S.-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 U.S.—PRC tax treaty, may be creditable against your U.S. federal income tax liability. For foreign tax credit limitation purposes, dividends paid on the H shares or ADSs will be foreign source income, and will be treated as “passive category income” or, in the case of some U.S. holders, “general category income.” You may not be able to claim a foreign tax credit (and instead may claim a deduction) for non-U.S. 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 U.S. 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 U.S. source gain or loss for foreign tax credit limitation purposes. Capital gain of certain non-corporate U.S. holders, including individuals, is generally taxed at reduced rates where the H shares or ADSs have been held more than one year. Your ability to deduct capital losses is subject to limitations.

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

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

PFIC Rules

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

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

We believe that we were not a PFIC for our taxable year ended December 31, 2017 and do not currently believe that we will be treated as a PFIC for the current or subsequent taxable years. However, PFIC status cannot be determined until the close of a taxable year and, accordingly, there can be no assurance that we will not be a PFIC in the current or subsequent taxable years.

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

The foregoing rules with respect to excess distributions and dispositions may be avoided or reduced if you are eligible for and timely make a valid “mark-to-market” election. If your H shares or ADSs were treated as shares regularly traded on a “qualified exchange” for U.S. federal income tax purposes and a valid mark-to-market election was made, in calculating your taxable income for each taxable year you generally would be required to take into account as ordinary income or loss the difference, if any, between the fair market value and the adjusted tax basis of your H shares or ADSs at the end of your taxable year. However, the amount of loss you would be allowed is limited to the extent of the net amount of previously included income as a result of the market-to-market election. Your basis in the H shares or ADSs will be adjusted to reflect any such gain or loss. The NYSE on which the ADSs are traded is a qualified exchange for U.S. 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 generally will be required to file Internal Revenue Service (the “IRS”), Form 8621, as described in the instructions to Form 8621, subject to certain exceptions based on the value of PFIC stock held. We encourage you to consult your own tax advisor concerning the U.S. 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. In addition, you may, under some circumstances, be subject to “backup withholding” with respect to dividends paid on the H shares or ADSs or the proceeds of any sale, exchange or transfer of the H shares or ADSs, unless you:

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

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

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

Hong Kong Taxation

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

Dividends

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

Taxation of Capital Gains

No capital gain tax is generally imposed in Hong Kong in respect of capital gains from the sale of shares (such as the H shares). However, if trading gains from the sale of property by persons as part of profit making are regarded as carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, such trading gains will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment. Gains from sales of the H shares affected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares realized by persons carrying on a business of trading or dealing in Hong Kong in securities.

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

Hong Kong Stamp Duty

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

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

Hong Kong Estate Duty

Prior to February 11, 2006, estate duty was levied on the value of property situated in Hong Kong passing or deemed passing on the death of a person. H shares are regarded as property situated in Hong Kong for estate duty purposes. HK estate duty is not applicable with respect to estates of persons who passed away on or after Feb. 11, 2006.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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

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

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

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following paragraphs describe the various market risks to which we were exposed as of December 31, 2016 and 2017.

Currency Risks

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

The monetary assets and liabilities held by us that are denominated in U.S. dollars and Hong Kong dollars as of December 31, 2016 and 2017 are set forth below.

Monetary assets and liabilities	As of December 31,		
	Currency	2016	2017
	Denomination	(RMB thousands)	
Cash and cash equivalents	USD	96	146
Cash and cash equivalents	HKD	115,680	32,650
Other receivables	HKD	66	67
Other payables	HKD	—	—

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

We incurred a foreign exchange loss of RMB7.3 million for the year ended December 31, 2017. As of December 31, 2017, our assets denominated in Hong Kong dollars and U.S. dollars were translated into RMB at the applicable market exchange rates as of that date and amounted to approximately RMB32.9 million. If the applicable market exchange rates were to change by 5%, this would result in a change in fair value of approximately RMB1.2 million in these balances.

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

Interest Rate Risks

As of December 31, 2017, funds that we do not need in the short term are generally kept as temporary cash deposits in commercial banks in the form of fixed-term deposits. We do not hold any market risk-sensitive instruments for trading purposes. As we have no significant interest-bearing assets (except for deposits held in banks), our income and operating cash flows are not materially affected by the changes of market interest rates. Other than deposits held in banks, the Group does not have significant interest-bearing assets.

Credit Risks

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

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

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

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

Liquidity Risks

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

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

Except as described above and in Note 3 to our audited consolidated financial statements included elsewhere in this annual report, our management believes that as of December 31, 2017, at present and in our normal course of business, we are not subject to any other material market-related risks.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

JPMorgan Chase Bank, N.A. is the depositary for our ADSs. The depositary's office is located at 383 Madison Avenue, Floor 11, New York, NY 10179. On April 25, 2008, JPMorgan Chase Bank, N.A. signed an agreement with Equiniti Trust Company, pursuant to which Equiniti Trust Company will provide the depositary service for our ADSs on behalf of JPMorgan Chase Bank, N.A. Each of our ADRs represents 50 H shares of par value RMB1.00 per share.

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

In May 2015, we proposed certain amendments to the form of the deposit agreement and the American Depositary Receipts while keeping the terms of deposit the same as the terms disclosed in the Form F-6EF we filed with the SEC on April 24, 2009. For further information of the amended and restated deposit agreement and the American Depositary Receipts, see the Form F-6 we filed with the SEC on May 12, 2015.

Fees Payable by ADS Holders

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

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

- a fee of US\$1.50 per ADR for transfers of ADRs;
- a fee of US\$0.02 or less per ADS for any cash distribution made, or the cash distribution fee;
- a fee of US\$5.00 for each 100 ADSs (or portion thereof) for any security distribution;
- an aggregate fee of US\$0.02 per ADS per calendar year (or portion thereof), for services performed by the Depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders as of the record date or record dates set by the Depositary during each calendar year and shall be payable at the sole discretion of the Depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);
- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at the request of the ADS holders;

- transfer or registration fees for the registration or transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
- expenses of the depositary in connection with the conversion of foreign currencies into U.S. dollars.

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

Payments Received by Foreign Private Issuer

The depositary has agreed to reimburse and waive certain fees and expenses incurred by us in connection with our ADR program.

Direct Payments

The table below sets forth the types of expenses that the depositary has reimbursed us for the year ended December 31, 2017:

<u>Category of Expenses</u>	<u>Amount (US\$)</u>
Broker reimbursements	22,912.54
Miscellaneous	12,102.75
Total	35,015.29

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our Chairman of the Board, General Manager, Chief Accountant and Company Secretary, evaluated the effectiveness of the design and operation of our Company's disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Form 20-F. Based on this evaluation, our Chairman of the Board, General Manager, Chief Accountant and Company Secretary concluded that our Company's disclosure controls and procedures were effective as of December 31, 2017. Our Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file and furnish under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and regulations and such information is accumulated and communicated to our Company's management including the Chairman of the Board, General Manager, Chief Accountant and Company Secretary, as appropriate, to allow timely decision regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

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

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

For the year ended December 31, 2017 under the supervision, and with the participation, of our Chairman of the Board, General Manager, Company Secretary and Chief Accountant, our management has conducted an assessment of the effectiveness of our internal control over financial reporting based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework (2013)*. Based on this evaluation, our Company's management has concluded that its internal control over financial reporting was effective as of December 31, 2017.

The effectiveness of our Company's internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere in this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

On December 30, 2016, we appointed PricewaterhouseCoopers Zhong Tian LLP, or PwC China, as our independent registered public accounting firm, and dismissed PricewaterhouseCoopers, or PwC HK ("PwC HK" and "PwC China", collectively referred to herein as "PwC").

The following table presents the aggregate fees for professional services and other services rendered by PwC to us in 2016 and 2017.

	<u>2016</u>	<u>2017</u>
	<u>(RMB millions)</u>	
Audit Fees	8.08	8.40
Audit-related Fees	—	—
Tax Fees	—	—
All Other Fees	0.19	0.95
Total	<u>8.27</u>	<u>9.35</u>

Notes:

1. Traveling expenses and certain tax surcharge fees are included in the audit fees and do not require additional payment.
2. As of December 31, 2017, there did not exist any amount that became payable but remained outstanding.

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

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

Not applicable.

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

During the year ended December 31, 2017, there was no purchase, sale or redemption of our H shares or ADSs by us, or any of our subsidiaries.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

(a)(1) Previous independent registered public accounting firm.

(i) On December 30, 2016, we appointed PwC China, as our independent registered public accounting firm, and dismissed PwC HK.

(ii) The reports of PwC HK on the financial statements for the fiscal year ended December 31, 2015 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

(iii) Our Audit Committee participated in and approved the decision to change our independent registered public accounting firm.

(iv) During the fiscal year ended December 31, 2015 and the subsequent interim period through December 30, 2016, there were no disagreements with PwC HK on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of PwC HK would have caused them to make reference thereto in their reports on the financial statements for such years.

(v) During the fiscal year ended December 31, 2015 and the subsequent interim period through December 30, 2016, there were no “reportable events” (as defined in Item 16F(a)(1)(v) of Form 20-F).

(2) New independent registered public accounting firm.

PwC China was appointed to be our independent registered public accounting firm for the years ended December 31, 2016 and December 31, 2017. During the fiscal year ended December 31, 2015 and the subsequent interim period through December 30, 2016, other than in the ordinary course of the audit, we did not consult with PwC China regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Registrant's financial statements, and neither a written report nor oral advice was provided to us that PwC China concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement, as that term is defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions thereto, or a “reportable event”, as that term is defined in Item 16F(a)(1)(v) of Form 20-F.

(3) We have provided PwC HK with a copy of the foregoing disclosure, and requested that PwC HK furnish us with a letter addressed to the SEC stating whether or not it agrees with the above statements. A copy of such letter, dated April 26, 2017, was filed as Exhibit 16.1 to our annual report on Form 20-F filed with the SEC on April 26, 2017.

(b) Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

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

- we do not have the majority of our board of directors comprised of independent directors as defined under Section 303A.02 of the NYSE Manual;
- we do not have a nominating committee or a corporate governance committee similar to that required for U.S. domestic companies;
- we do not have a compensation committee wholly made up of independent directors. Our remuneration committee currently consists both executive directors and independent non-executive directors with the independent non-executive directors making up the majority of such committee;
- instead of having formal corporate governance guidelines similar to those required for U.S. domestic companies, we have, in accordance with applicable PRC laws and regulations and the HKSE Listing Rules, adopted the Articles of Association, the General Meeting System, the Working Ordinance for the Board of Directors, the Working Ordinance for the supervisory committee, the Working Ordinance for the General Manager, the Capital Management Measures, the Investment Management Measures, the Code of Ethics for Senior Officers and the Audit Committee Charter that contain provisions addressing (i) director qualification standards and responsibilities; (ii) key board committee responsibilities; (iii) director access to management and, as necessary and appropriate, independent advisors; (iv) director compensation; (v) management succession and (vi) director orientation and continuing education;
- as a company listed on the HKSE, we are required to comply with applicable corporate governance and other related requirements of the HKSE Listing Rules, including the Corporate Governance Code, unless an exemption is available; and
- we have not adopted a set of formal code of business conduct and ethics for our directors, officers and employees similar to that required for U.S. domestic companies. We have implemented code of business conduct and ethics for senior management, including our General Manager, Deputy General Manager, Chief Accountant and Company Secretary. In addition, our directors are required to comply with the Model Code for Securities Transactions by Directors of Listed Companies set out in the HKSE Listing Rules, which sets out standards with which directors are required to comply with respect to transactions involving our securities.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

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-81 following ITEM 19.

ITEM 19. EXHIBITS

- (a) See pages F-1 to F-81 following this item.
- (b) Index of Exhibits.

Documents filed as exhibits to this annual report:

<u>Exhibit Number</u>	<u>Description</u>
1.1	<u>Amended and Restated Articles of Association</u>
2.1(1)	<u>Amended and Restated Deposit Agreement</u>
2.2(1)	<u>Form of American Depositary Receipt</u>
4.1(2)	<u>English Translation of the Land Lease Agreement dated November 15, 2004 between Guangshen Railway Company Limited and Guangzhou Railway Group Company</u>
4.2(3)	<u>English Translation of the Comprehensive Services Framework Agreement, dated November 1, 2016, between Guangshen Railway Company Limited and China Railway Corporation</u>
4.3	<u>English Translation of the Resumption Compensation Agreement, dated April 19, 2018, between Guangshen Railway Company Limited, Guangzhou Land Development Center, and other vendors</u>
7.1	<u>Statements explaining how certain ratios are calculated in this annual report</u>
8.1	<u>List of subsidiaries of Guangshen Railway Company Limited as of December 31, 2017</u>
11.1(4)	<u>Code of Ethics for the Senior Management as amended on April 29, 2009</u>
12.1	<u>Section 302 principal executive officers' and principal financial officer's certifications</u>
13.1	<u>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</u>
16.1(3)	<u>Letter from PricewaterhouseCoopers to the SEC</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference from the Registrant's Form F-6 filed with the SEC on May 12, 2015.
- (2) Incorporated by reference from the Registrant's annual report on Form 20-F filed with the SEC on June 28, 2005.
- (3) Incorporated by reference from the Registrant's annual report on Form 20-F filed with the SEC on April 26, 2017.
- (4) Incorporated by reference from the Registrant's annual report on Form 20-F filed with the SEC on June 25, 2009.

SIGNATURE

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

GUANGSHEN RAILWAY COMPANY LIMITED

Date: April 25, 2018

By: /s/ Wu Yong

Wu Yong

Chairman of the Board of Directors

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Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Guangshen Railway Company Limited and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of cash flows, and of changes in equity for each of the two years in the period ended December 31, 2017, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2017 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

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Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
April 25, 2018

We have served as the Company's auditor since 2016.

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 statements of comprehensive income, of cash flows, and of changes in equity for the year ended December 31, 2015 present fairly, in all material respects, the results of operations and cash flows of Guangshen Railway Company Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. 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 audit. We conducted our audit of these financial statements in accordance with 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 audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers
Hong Kong
April 27, 2016

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GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2016 AND 2017
(Amounts in thousands)

			December 31		
	Note	2016	2017	2017	
		RMB	RMB	US\$*	
ASSETS					
Non-current assets					
Fixed assets-net	6	24,278,032	23,617,138	3,629,888	
Construction-in-progress	7	790,308	1,430,671	219,890	
Prepayments for fixed assets and construction-in-progress		60,095	54,368	8,356	
Leasehold land payments	8	1,624,859	1,980,278	304,363	
Goodwill	9	281,255	281,255	43,228	
Investments in associates	11	167,604	174,548	26,828	
Deferred tax assets	12	79,929	37,005	5,688	
Long-term prepaid expenses	13	7,824	33,401	5,134	
Available-for-sale investments	15	53,826	296,414	45,558	
Long-term receivable	16	31,406	31,274	4,806	
		<u>27,375,138</u>	<u>27,936,352</u>	<u>4,293,739</u>	
Current assets					
Materials and supplies	17	332,607	330,727	50,832	
Trade receivables	18	3,364,366	4,142,210	636,646	
Prepayments and other receivables	19	330,491	314,251	48,299	
Short-term deposits	20	108,000	108,000	16,599	
Cash and cash equivalents	20	1,359,656	1,160,515	178,368	
Assets classified as held for sale		—	2,183	336	
		<u>5,495,120</u>	<u>6,057,886</u>	<u>931,080</u>	
Total assets		<u>32,870,258</u>	<u>33,994,238</u>	<u>5,224,819</u>	
EQUITY AND LIABILITIES					
Capital and reserves attributable to the Company's equity holders					
Share capital	21	7,083,537	7,083,537	1,088,720	
Share premium		11,562,738	11,562,738	1,777,160	
Other reserves	22	2,825,593	3,109,516	477,924	
Retained earnings		<u>6,582,190</u>	<u>6,928,886</u>	<u>1,064,950</u>	
		<u>28,054,058</u>	<u>28,684,677</u>	<u>4,408,754</u>	
Non-controlling interests		<u>(24,003)</u>	<u>(27,596)</u>	<u>(4,241)</u>	
Total equity		<u>28,030,055</u>	<u>28,657,081</u>	<u>4,404,513</u>	
Liabilities					
Non-current liabilities					
Deferred tax liabilities	12	68,883	66,391	10,204	
Deferred income	23	106,810	105,791	16,260	
		<u>175,693</u>	<u>172,182</u>	<u>26,464</u>	
Current liabilities					
Trade payables	25	1,143,523	1,325,077	203,661	
Payables for fixed assets and construction-in-progress		1,765,185	2,214,547	340,370	
Dividends payable		15,542	12,893	1,982	
Income tax payable		121,513	149,227	22,936	
Accruals and other payables	26	<u>1,618,747</u>	<u>1,463,231</u>	<u>224,893</u>	
		<u>4,664,510</u>	<u>5,164,975</u>	<u>793,842</u>	
Total liabilities		<u>4,840,203</u>	<u>5,337,157</u>	<u>820,306</u>	
Total equity and liabilities		<u>32,870,258</u>	<u>33,994,238</u>	<u>5,224,819</u>	

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

* Translation of amounts from Renminbi ("RMB") into United States dollars ("US\$") for the convenience of the reader has been made at US\$1.00=RMB6.5063, the certified exchange rates for December 29, 2017 as published by the Federal Reserve Board of the United States. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at that rate on December 29, 2017 or on any other date.

Chairman

General Manager

Chief Accountant

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017
(Amounts in thousands, except per share and per ADS data)

		Years ended December 31			
	Note	2015 RMB	2016 RMB	2017 RMB	2017 US\$*
Revenue from Railroad and Related Business					
Passenger		6,997,562	7,358,851	7,757,077	1,192,241
Freight		1,761,449	1,718,260	1,893,594	291,040
Railway network usage and other transportation related services		5,874,727	7,093,198	7,644,230	1,174,897
		14,633,738	16,170,309	17,294,901	2,658,178
Revenue from other businesses		1,091,571	1,110,195	1,036,521	159,310
Total revenue		15,725,309	17,280,504	18,331,422	2,817,488
Operating expenses					
Railroad business					
Business tax and surcharge		(46,785)	(38,723)	(21,658)	(3,329)
Employee benefits	28	(4,767,083)	(5,654,869)	(6,300,223)	(968,327)
Equipment leases and services		(3,908,545)	(4,193,555)	(4,372,330)	(672,015)
Land use right leases	36(b)	(55,090)	(55,090)	(57,358)	(8,816)
Materials and supplies		(1,224,262)	(1,336,614)	(1,314,002)	(201,958)
Repair and facilities maintenance costs, excluding materials and supplies		(716,193)	(612,484)	(879,597)	(135,192)
Depreciation of fixed assets	6	(1,387,534)	(1,488,324)	(1,632,926)	(250,976)
Cargo logistics and outsourcing service charges		(158,947)	(206,195)	(246,563)	(37,896)
Amortisation of leasehold land payments	8	(17,949)	(27,338)	(34,348)	(5,279)
Social services expenses		(16,080)	(11,297)	—	—
Utility and office expenses		(63,602)	(55,718)	(60,360)	(9,277)
Others		(788,335)	(881,586)	(930,691)	(143,044)
		<u>(13,150,405)</u>	<u>(14,561,793)</u>	<u>(15,850,056)</u>	<u>(2,436,109)</u>
Other businesses					
Employee benefits	28	(443,014)	(564,478)	(541,997)	(83,303)
Materials and supplies		(341,386)	(360,552)	(313,990)	(48,259)
Depreciation of fixed assets	6	(24,208)	(30,646)	(29,534)	(4,539)
Amortisation of leasehold land payments	8	(10,464)	(11,332)	(11,332)	(1,742)
Utility and office expenses		(30,080)	(23,051)	(34,488)	(5,301)
Others		(157,178)	(86,147)	(151,190)	(23,238)
		<u>(1,006,330)</u>	<u>(1,076,206)</u>	<u>(1,082,531)</u>	<u>(166,382)</u>
Total operating expenses		(14,156,735)	(15,637,999)	(16,932,587)	(2,602,491)
Other losses - net	29	(114,627)	(108,270)	(48,477)	(7,451)
Operating profit		1,453,947	1,534,235	1,350,358	207,546
Finance(costs)/income-net	30	(4,608)	2,551	(10,170)	(1,563)
Share of results of associates, net of tax	11	2,499	7,223	6,944	1,067
Profit before income tax		1,451,838	1,544,009	1,347,132	207,050
Income tax expense	31	(388,530)	(390,309)	(335,364)	(51,544)
Profit for the year		<u>1,063,308</u>	<u>1,153,700</u>	<u>1,011,768</u>	<u>155,506</u>

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017
(Amounts in thousands, except per share and per ADS data)

	Note	Years ended December 31			
		2015 RMB	2016 RMB	2017 RMB	2017 US\$*
Profit for the year		1,063,308	1,153,700	1,011,768	155,506
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Changes in the fair values of available-for-sale financial assets	22	—	—	242,588	37,285
Deferred tax liabilities for the changes in the fair values of available-for-sale financial assets	22	—	—	(60,647)	(9,321)
Total comprehensive income for the year, net of tax		<u>1,063,308</u>	<u>1,153,700</u>	<u>1,193,709</u>	<u>183,470</u>
Profit attributable to:					
Equity holders of the Company		1,070,822	1,158,253	1,015,361	156,058
Non-controlling interests		(7,514)	(4,553)	(3,593)	(552)
		<u>1,063,308</u>	<u>1,153,700</u>	<u>1,011,768</u>	<u>155,506</u>
Total comprehensive income attributable to:					
Equity holders of the Company		1,070,822	1,158,253	1,197,302	184,022
Non-controlling interests		(7,514)	(4,553)	(3,593)	(552)
		<u>1,063,308</u>	<u>1,153,700</u>	<u>1,193,709</u>	<u>183,470</u>
Earnings per share for profit attributable to the equity holders of the Company during the year					
- Basic and diluted	32	<u>RMB 0.15</u>	<u>RMB 0.16</u>	<u>RMB 0.14</u>	<u>US\$ 0.02</u>
Earnings per equivalent ADS					
- Basic and diluted	32	<u>RMB 7.56</u>	<u>RMB 8.18</u>	<u>RMB 7.17</u>	<u>US\$ 1.10</u>

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

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Chairman

General Manager

Chief Accountant

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017
(Amounts in thousands)

	Note	Year ended December 31			
		2015 RMB	2016 RMB	2017 RMB	2017 US\$*
Cash flows from operating activities:					
Cash generated from operations	34(a)	2,520,379	2,212,863	2,962,704	455,359
Income tax paid		(260,688)	(571,625)	(327,865)	(50,392)
Net cash generated from operating activities		<u>2,259,691</u>	<u>1,641,238</u>	<u>2,634,839</u>	<u>404,967</u>
Cash flows from investing activities:					
Payments for acquisition of fixed assets, construction-in-progress and prepayment for fixed assets, net of related payables		(1,292,273)	(1,973,897)	(2,273,426)	(349,419)
Proceeds from disposal of fixed assets	34(b)	7,821	17,950	527	81
Government grants received		8,160	6,082	—	—
Interest received		2,895	1,949	1,779	273
Payment for investment in associates		(19,110)	—	—	—
Increase in short-term deposits with maturities more than three months, net		(2,000)	(2,000)	—	—
Dividends received		5,884	14,214	6,473	995
Payment for business combination, net of cash acquired		(60,612)	—	—	—
Net cash used in investing activities		<u>(1,349,235)</u>	<u>(1,935,702)</u>	<u>(2,264,647)</u>	<u>(348,070)</u>
Cash flows from financing activities:					
Dividends paid to non-controlling interests' shareholders		(533)	—	—	—
Dividends paid to the Company's shareholders		(354,177)	(566,683)	(569,333)	(87,504)
Net cash used in financing activities		<u>(354,710)</u>	<u>(566,683)</u>	<u>(569,333)</u>	<u>(87,504)</u>
Net increase/(decrease) in cash and cash equivalents		<u>555,746</u>	<u>(861,147)</u>	<u>(199,141)</u>	<u>(30,607)</u>
Cash and cash equivalents, at beginning of year		<u>1,665,057</u>	<u>2,220,803</u>	<u>1,359,656</u>	<u>208,975</u>
Cash and cash equivalents, at end of year	20	<u>2,220,803</u>	<u>1,359,656</u>	<u>1,160,515</u>	<u>178,368</u>

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

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Chairman

General Manager

Chief Accountant

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017
(Amounts in thousands)

Attributable to equity holders of the Company									
	Share capital RMB (Note 21)	Share premium RMB (Note 22)	Statutory surplus RMB (Note 22)	Discretionary surplus RMB (Note 22)	Other reserve RMB (Note 22)	Retained earnings RMB	Total RMB	Non- controlling interests RMB	Total equity RMB
Balance at January 1, 2015	7,083,537	11,562,738	2,292,724	304,059	—	5,502,785	26,745,843	40,617	26,786,460
Total comprehensive income	—	—	—	—	—	1,070,822	1,070,822	(7,514)	1,063,308
Profit for the year	—	—	—	—	—	1,070,822	1,070,822	(7,514)	1,063,308
Other comprehensive income	—	—	—	—	—	—	—	—	—
Special reserve-Safety Production Fund (Note 22)	—	—	—	—	—	—	—	—	—
Appropriation	—	—	—	—	—	—	—	—	—
Utilisation	—	—	—	—	192,860 (192,860)	(192,860) 192,860	—	—	—
Business combination	—	—	—	—	—	—	—	(49,902)	(49,902)
Appropriations from retained earnings (Note 22)	—	—	111,760	—	—	(111,760) (354,177)	—	—	(355,604)
Dividends relating to 2014	—	—	—	—	—	—	—	(1,427)	(1,427)
Balance at December 31, 2015	7,083,537	11,562,738	2,404,484	304,059	—	6,107,670	27,462,488	(18,226)	27,444,262
Balance at January 1, 2016	7,083,537	11,562,738	2,404,484	304,059	—	6,107,670	27,462,488	(18,226)	27,444,262
Total comprehensive income	—	—	—	—	—	1,158,253	1,158,253	(4,553)	1,153,700
Profit for the year	—	—	—	—	—	1,158,253	1,158,253	(4,553)	1,153,700
Other comprehensive income	—	—	—	—	—	—	—	—	—
Special reserve-Safety Production Fund (Note 22)	—	—	—	—	—	—	—	—	—
Appropriation	—	—	—	—	204,792 (204,792)	(204,792) 204,792	—	—	—
Utilisation	—	—	117,050	—	—	(117,050)	—	—	—
Appropriations from retained earnings (Note 22)	—	—	—	—	—	(566,683)	(566,683)	(1,224)	(567,907)
Transaction with owners:	—	—	—	—	—	(566,683)	(566,683)	(1,224)	(567,907)
Dividends relating to 2015 (Note 33)	—	—	—	—	—	(566,683)	(566,683)	(24,003)	(24,003)
Balance at December 31, 2016	7,083,537	11,562,738	2,521,534	304,059	—	6,582,190	28,054,058	28,030,055	28,030,055

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017
(Amounts in thousands)

	Attributable to equity holders of the Company						
	Discretionary			Non-			Total equity RMB
	Share capital RMB (Note 21)	Share premium RMB	Statutory surplus reserve RMB (Note 22)	Discretionary surplus reserve RMB (Note 22)	Other reserve RMB (Note 22)	Retained earnings RMB	
Balance at January 1, 2017	7,083,537	11,562,738	2,521,534	304,059	—	6,582,190	28,054,058
Total comprehensive income	—	—	—	—	181,941	1,015,361	1,197,302
Profit for the year	—	—	—	—	—	1,015,361	(3,593)
Other comprehensive income (Note 22)	—	—	—	—	181,941	—	181,941
Special reserve-Safety Production Fund (Note 22)	—	—	—	—	—	—	—
Appropriation	—	—	—	—	227,250	(227,250)	—
Utilisation	—	—	—	—	(227,250)	227,250	—
Appropriations from retained earnings (Note 22)	—	—	101,982	—	—	(101,982)	—
Transaction with owners	—	—	—	—	—	(566,683)	(566,683)
Dividend relating to 2016 (Note 33)	—	—	—	—	—	(566,683)	(566,683)
Balance at December 31, 2017	7,083,537	11,562,738	2,623,516	304,059	181,941	6,928,886	28,684,677
Balance at December 31, 2017(*)	US\$1,088,720	US\$ 1,777,160	US\$ 403,227	US\$ 46,733	US\$ 27,964	US\$1,064,950	US\$ 4,408,754
							US\$ (4,241)
							US\$ 4,404,513

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

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Chairman	General Manager	Chief Accountant
F-10		

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

1 GENERAL INFORMATION

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

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

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

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

Before March 2013, the Ministry of Railway of the PRC (“MOR”) was the controlling entity of the Company’s single largest shareholder (i.e. Guangzhou Railway Group). In addition, it was the government authority which governed and monitored the railway business centrally within the PRC.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

1 GENERAL INFORMATION (CONTINUED)

On 14 March 2013, pursuant to the approved plan of State Council Institutional Reform and Transformation of Government Functions and Approval On Setting Up China Railway Company by the State Council, the previous controlling entity of Guangzhou Railway Group, MOR, was dissolved. The administrative functions of MOR were transferred to the Ministry of Transport and a newly established authority called the National Railway Administration; while the business functions were transferred to the China Railway Corporation (“CRC”). Accordingly, the equity interests of Guangzhou Railway Group, which was wholly controlled by MOR previously, were also transferred to the CRC (“Reform”). The Reform was completed on 1 January 2017 and CRC has become the controlling entity of the Company’s principal shareholder since that date, Guangzhou Railway Group, CRC, together with subsidiaries which were wholly controlled by MOR previously (hereinafter collectively as “CRC Group”) became related parties of the Group.

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

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

The financial statements were authorised for issue by the board of directors of the Company on 25 April 2018.

The English names of all companies listed in the financial statements are direct translations of their registered names in Chinese if no registered names in English are available.

2 PRINCIPAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared under the historical cost convention except for certain available-for-sale investments.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2017:

- Income taxes- Amendments to IAS 12;
- Statement of cash flows- Amendments to IAS 7; and
- Disclosure of interest in other entities- Amendment to IFRS 12

The directors of the Company consider that the adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

(b) The following new standards, amendments and interpretations have been issued as at 31 December 2017 but are not effective for the financial statements for the year ended 31 December 2017:

Title of standard	Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
Nature of change	The amendments relate to the following areas: (1) the accounting for the effects of vesting conditions on cash-settled share-based payment transactions; (2) the classification of share-based payment transactions with net settlement features for withholding tax obligations; (3) the accounting for a modification to the terms and conditions of a share-based payment that changes the transaction from cash-settled to equity-settled.
Impact	Management has assessed the effects of applying the new standard on the Group's financial statements. Given there were no share based payment transactions undertaken by the Company and the Group, no significant impact has been identified.
Date of adoption by Group	These amendments will be effective for annual periods beginning on or after 1 January 2018.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

- (b) The following new standards, amendments and interpretations have been issued as at 31 December 2017 but are not effective for the financial statements for the year ended 31 December 2017 (continued):

Title of standard	IFRS 9 Financial Instruments
Nature of change	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.
Impact	<p>The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:</p> <ul style="list-style-type: none"> (i) The majority of the Group's equity instruments that were currently classified as available-for-sale investments as at 31 December 2017 will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no significant change to the accounting for these assets. The other financial assets held by the Group which include loans and receivables, will meet the conditions for classification as financial instruments recorded at amortised cost under IFRS9. Accordingly, the Group does not expect the new provision of the new standard would affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss upon sales of the instruments, but instead be reclassified from the FVOCI reserve to retained earnings. (ii) There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting of financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. (iii) The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39 Financial Instruments: Recognition and Measurement. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects an increase in the provision for impairment by approximately 1% of debt balances.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

- (b) The following new standards, amendments and interpretations have been issued as at 31 December 2017 but are not effective for IFRS financial statements for the year ended 31 December 2017 (continued):

Title of standard	IFRS 9 Financial Instruments
Impact	The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of adoption of the new standard.
Date of adoption by Group	Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules using modified retrospective method from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.
Title of standard	IFRS 15 Revenue from Contracts with Customers
Nature of change	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.
	The standard permits either a full retrospective or a modified retrospective approach for the adoption.
Impact	Management has assessed the effects of applying the new standard on the group's financial statements. Given the nature and mode of provision of services, revenue transactions are expected not to trigger significant differences in the accounting treatments under the requirements of the new standards, no significant impact has been identified.
Date of adoption by group	Mandatory for financial years commencing on or after 1 January 2018. The group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts expressed in Renminbi unless otherwise stated)

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

- (b) The following new standards, amendments and interpretations have been issued as at 31 December 2017 but are not effective for IFRS financial statements for the year ended 31 December 2017 (continued):

Title of standard	IFRS 16 Leases
Nature of change	IFRS16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Impact	The standard will affect primarily the accounting for the Group's operating leases. Management is currently assessing the impact of applying the new standard on the Group's financial statements.
Date of adoption by group	Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.
Title of standard	Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture
Nature of change	The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are within a subsidiary.
Impact	Management has assessed the effects of applying the new standard on the Group's financial statements and no significant impact has been identified.
Date of adoption by Group	The effective date of these amendments is to be determined pending the outcome of the IASB's research project on equity accounting.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

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

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

The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.9).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

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

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.3 Associates (continued)

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

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

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

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

In the Company's balance sheet, investments in associates are accounted for at cost less provision for impairment losses. Cost also includes direct attributable costs of investment. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2.4 Segment reporting

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

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency transaction

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Foreign exchange gains and losses are presented in the consolidated comprehensive income statement within "Finance (costs)/income-net".

2.6 Fixed assets

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

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

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

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.6 Fixed assets (continued)

Buildings (a)	20 to 40 years
Tracks, bridges and service roads (a)	16 to 100 years
Locomotives and rolling stock	20 years
Communications and signalling systems	8 to 20 years
Other machinery and equipment	4 to 25 years

- (a) The estimated useful lives of some buildings, tracks, bridges and service roads exceed the initial lease periods of the land use rights from operation lease (details contained in Note 36(b)); and the initial period of certain land use right acquired (Note 2.8), on which these assets are located.

The Group will renew the term of land use right upon its expiry in strict compliance with requirements of relevant laws and regulations. There is no substantive impediment for the renewal except for public interests. In addition, based on the provision of the land use right operating lease agreement entered into with Guangzhou Railway Group (Note 36(b)), the Company can renew the lease at its own discretion upon expiry of the operating lease term. Based on the above consideration, the directors of the company consider the current estimated useful lives of those assets to be reasonable.

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses—net", included in the consolidated comprehensive income statement.

2.7 Construction-in-progress

Construction-in-progress represents buildings, tracks, bridges and service roads under construction, and mainly includes the construction related costs for the associated facilities of the existing railway lines of the Group. Construction-in-progress is stated at cost, which includes all expenditures and other direct costs, site restoration costs, prepayments attributable to the construction and interest charges arising from borrowings used to finance the construction during the construction period, less impairment loss. Construction-in-progress is not depreciated until such assets are completed and ready for their intended use. From time to time, certain railway assets of the Group require major modifications and improvements. The carrying amounts are transferred from fixed assets to construction-in-progress. The carrying amounts, including costs of modifications, are transferred back to fixed assets upon completion of the improvement projects.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.8 Leasehold land payments

The Group acquired the right to use certain pieces of land for certain of its rail lines, railway stations and other businesses. The consideration paid for such land represents pre-paid lease payments, which are amortised over the lease terms of 36.5 to 50 years using the straight-line method.

2.9 Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of identifiable net assets acquired. Goodwill arising from acquisitions of subsidiaries' business is disclosed separately on the consolidated balance sheet.

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

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

2.10 Impairment of non-financial assets other than goodwill

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

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.11 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, financial assets and investment property that are carried at fair value, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held to maturity investment. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. In current year, the Group held loan and receivables and available-for-sale financial assets.

(a) Loans and receivables

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

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets (continued)

2.12.1 Classification (continued)

(b) Available-for-sale financial assets

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

2.12.2 Recognition and measurement

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

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as “other gain/losses—net”.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group’s right to receive payments is established.

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

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.14 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.14 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also an evidence that the assets are impaired. If any such evidence exists, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

2.15 Long-term prepaid expenses

Long-term prepaid expenses include the various expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure incurred, net of accumulated amortisation.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.16 Materials and supplies

Materials and supplies are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Materials and supplies are charged as fuel costs and repair and maintenance expenses when consumed, or capitalised to fixed assets when the items are installed with the related fixed assets, whichever is appropriate. The cost of materials and supplies may not be recoverable if they are damaged, become wholly or partially obsolete, or if their selling prices have declined due to various reasons. When such circumstances happen, cost of materials and supplies is written to net realisable value, which is the estimated selling price less applicable variable expenses.

2.17 Trade and other receivables

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

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

2.18 Cash and cash equivalents

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

2.19 Share capital

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

2.20 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

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

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.21 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, and associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, and associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.21 Current and deferred income tax(continued)

(c) Offsetting

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

2.22 Employee benefits

(a) Defined contribution plan

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

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.23 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

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

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and provision of services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the services are rendered and the amount of revenue can be reliably measured, future economic benefits will probably flow to the entity with reasonably certainty, and specific criteria have been met for each of the Group's activities as described below. The recognition also involves use of estimates exercised by management based on historical results, takes into consideration the different type of customers, transactions and the specifics of each arrangement.

(a) Revenue from railroad and related business

The operations of the railway business of the Group form part of the nationwide railway system in the PRC and they are supervised and governed by CRC. The Group renders the passenger transportation and freight transportation services in cooperation with other railway companies and the related service fees and charges are collected either by the Group itself or by other railway companies.

In addition, the Group also receives service fees and charges for on behalf of other railway companies. The respective fares and charges of the services, fee sharing basis, and processing of the respective revenue sharing among different railway companies are done centrally by a central clearance system operated by CRC.

Revenue from passenger transportation

Passenger transportation generally include transportation business of Guangzhou-Shenzhen inter-city express trains, long-distance trains and Guangzhou-Hong Kong city through trains. These services are provided in cooperation with other railway companies in mainland China and Hong Kong, and the corresponding revenue information is captured and processed by CRC through the central clearance system.

Revenues are recognized on a monthly basis when the train transportation services are rendered within the month, i.e. upon the passenger tickets with fixed prices and dates of travel, which are non-refundable and non-reschedulable, are sold and the respective trains have reached the prescribed destinations within that particular month; as well as upon approval and notification is made by CRC on a monthly basis (the "CRC Monthly Statement") for transactions completed within that month and when the amounts of revenue can be reliably measured and their collectability is certain. The revenue is presented net of value-added tax but before deduction of any sales handling commissions.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (continued)

(a) Revenue from railroad and related business (continued)

Revenue from freight transportation

The Group also operates with other railway companies in the PRC for the provision of freight transportation services. Service information and computation of the attributable revenues entitled by the Group are processed by the central clearance system of CRC on a monthly basis. Revenue from outbound and inbound freight transportation with ports of loading and discharge located at railway lines owned and operated by the Group; pass-through transportation with freight trains passing through railway lines owned and operated by the Group; as well as goods loading and discharge services rendered at ports located at railway lines owned by the Group, are recognized, on a monthly basis, when the goods are delivered to the ports of discharge within a month, or when the loading/discharge services are rendered, and when the amounts are approved and notified in the CRC Monthly Statement, upon which the amounts can be reliably measured and collectability is certain.

The revenues are presented at the gross amounts of the attributable freight charges computed from the standard freight charges imposed by CRC.

Revenue from railway network usage and other transportation related services

Revenue from railway network usage and other transportation related services, mainly consist of network usage services (locomotive traction, track usage and electric catenaries service, etc.) and railway operation services and other services, are rendered by the Group together with other railway companies in the PRC. The information relating to network usage service is captured and processed by the central clearance system of CRC. The revenue from network usage services are recognized on a monthly basis, when the services are rendered within that month and revenue can be reliably measured, i.e. upon approval and notification made in the CRC Monthly Statement, for the transactions completed within that month, when the respective revenue amounts can be reliably measured and when collectability is certain. Railway operation services and other services are rendered solely by the Group and they are recognized when the services are rendered and revenue can be reliably measured. All proceeds are collected by the Group directly.

The Group records revenues based on the amounts of attributable revenue approved and notified in the CRC Monthly Statement for services undertaken by the Group completed within the specific month, upon then the revenues can be reliably measured and collectability is certain. The respective share of revenues, in excess of amount collected by the Group itself, are credited by CRC to bank accounts maintained by the Group. In the case that the attributable amount is less than the amount collected by the Group, the Group remits the surplus to CRC.

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.24 Revenue recognition (continued)

(b) Revenue from other businesses

Revenue from other business mainly consist of on-board catering services, leasing, sales of materials, sale of goods and other businesses related to railway transportation. Revenues from on-board catering services are recognised when the related services are rendered. Revenues from sales of materials and supplies and sale of goods are recognised when the respective materials and goods are delivered to customers. Revenue from operating lease arrangements on certain properties and locomotives is recognised on a straight-line basis over the period of the respective leases.

2.25 Interest income

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

2.26 Dividend income

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

2.27 Government grants

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

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to fixed assets are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.28 Operating leases

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

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2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2.29 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factor

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

(a) Market risk

(i) Foreign currency risk

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

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

The following table shows the Group's foreign currency denominated monetary assets (in RMB thousands equivalent):

Monetary assets	Currency denomination	As at 31 December	
		2016 (RMB'000)	2017 (RMB'000)
Cash and cash equivalents	HKD	115,680	32,650
Cash and cash equivalents	USD	96	146
Other receivables	HKD	66	67
		<u>115,842</u>	<u>32,863</u>

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

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factor (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

As at 31 December 2017, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, profit after tax for the year would have been RMB1,232,000 (2016: RMB4,340,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD-denominated cash in banks. The impact of exchange fluctuations of USD is not expected to be significant.

(ii) Cash flow and fair value interest rate risk

Other than deposits held in banks, the Group does not have significant interest-bearing assets or liabilities. The average interest rate of deposits held in banks in the PRC throughout the year was approximately 1.54% (2016: 1.38%) per annum. Any change in the interest rate promulgated by the People's Bank of China from time to time is not considered to have a significant impact to the Group.

As at 31 December 2017 and 2016, the Group had no interest bearing debts, which may expose the Group to any interest rate risk.

(b) Credit risk

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

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

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Trade receivables		
Due from Guangzhou Railway Group and its subsidiaries	721,557	1,261,244
Due from CRC Group (excluding Guangzhou Railway Group and its subsidiaries)	1,314,352	1,106,311
Due from third parties	481,372	431,473
	<u>2,517,281</u>	<u>2,799,028</u>

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factor (continued)

(b) Credit risk (continued)

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Other receivables excluding prepayments		
Due from Guangzhou Railway Group and its subsidiaries	2,619	9,460
Due from CRC Group (excluding Guangzhou Railway Group and its subsidiaries)	3,846	381
Due from third parties	220,035	194,245
	<u>226,500</u>	<u>204,086</u>
Long-term receivable		
Due from a third party	<u>31,406</u>	<u>31,274</u>

For trade and other receivables, management performs ongoing credit evaluations of its customers/debtors' financial condition and generally does not require collateral from the customers/debtors. After assessing the expected realisability and timing for collection of the outstanding balances, the Group maintains a provision for impairment of receivables and actual losses incurred have been within management's expectation.

	As at December 31, 2016 RMB'000	As at December 31, 2017 RMB'000
Cash at bank and short-term deposits		
Placed in listed banks in the PRC	<u>1,467,616</u>	<u>1,268,478</u>

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

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

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

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the ability to close out market positions. Management monitors rolling forecasts of the Group's liquidity reserves (comprising cash and cash equivalents) on the basis of expected cash flows.

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factor (continued)

(c) Liquidity risk (continued)

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
At 31 December 2017			
Trade and other payables excluding other tax payables, employee salary and benefits payables and advances	2,356,953	—	—
Payables for fixed assets and construction-in-progress	2,214,547	—	—
Dividends payable	12,893	—	—
At 31 December 2016			
Trade and other payables excluding other tax payables, employee salary and benefits payables and advances	2,201,483	—	—
Payables for fixed assets and construction-in-progress	1,765,185	—	—
Dividends payable	15,542	—	—

3.2 Capital risk management

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

As at December 2017 and 2016, the directors considered that the Group's capital risk is manageable as the Group is continuously able to generate sufficient working capital from its daily operation.

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

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

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

As at 31 December 2017, the Group did not have any financial instruments that were measured at fair value except for certain available-for-sale financial assets (Note 15). As at 31 December 2016, the Group did not have any financial instrument that were measured at fair value.

As at 31 December 2017 and 2016, the fair values of other financial instruments approximated their carrying values.

(i) Fair value hierarchy

At 31 December 2017	Note	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale financial assets	15	—	—	280,088	280,088

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the recoverability of trade and other receivables with reference to the extent and duration that the amount will be recovered. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and the impairment charge in the period in which such estimate has been changed.

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4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Estimation of the fair value of certain available-for-sale financial assets

The Group makes estimates of the fair value of the available-for-sale financial assets with consideration of the assessed enterprise value, which is regarded as the best estimate of the fair value. The assessment of fair value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of available-for-sale financial assets and changes in the fair value of available-for-sale financial assets recorded in other comprehensive income.

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5 SEGMENT INFORMATION

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

Senior executives evaluate the business from a perspective of revenues and operating results generated from railroad and related business conducted by the Company ("the Railway Transportation Business"). Other segments mainly include on-board catering services, leasing, sales of materials, sale of goods and other businesses related to railway transportation provided by the subsidiaries of the Company. Senior executives of the Company assess the performance of the operating segments based on a measure of the profit before income tax. Other information provided, except as noted below, to senior executives of the Company is measured in a manner consistent with that in the consolidated financial statements.

The segment results for 2015, 2016 and 2017 are as follows:

	The Railway Transportation Business			All other segments			Elimination			Total		
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
Segment revenue												
- Railroad and Business	14,633,738	16,170,309	17,294,901	—	—	—	—	—	—	14,633,738	16,170,309	17,294,901
- Other Businesses	672,455	663,418	705,423	458,944	487,097	395,661	(39,828)	(40,320)	(64,563)	1,091,571	1,110,195	1,036,521
Total revenue	<u>15,306,193</u>	<u>16,833,727</u>	<u>18,000,324</u>	<u>458,944</u>	<u>487,097</u>	<u>395,661</u>	<u>(39,828)</u>	<u>(40,320)</u>	<u>(64,563)</u>	<u>15,725,309</u>	<u>17,280,504</u>	<u>18,331,422</u>
	<u>1,487,249</u>	<u>1,549,120</u>	<u>1,341,601</u>	<u>(28,549)</u>	<u>3,548</u>	<u>14,519</u>	<u>(6,862)</u>	<u>(8,659)</u>	<u>(8,988)</u>	<u>1,451,838</u>	<u>1,544,009</u>	<u>1,347,132</u>
Segment result	<u>4,448</u>	<u>(2,728)</u>	<u>10,011</u>	<u>160</u>	<u>177</u>	<u>159</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,608</u>	<u>(2,551)</u>	<u>10,170</u>
Finance costs/(income)—net	2,499	7,223	6,944	—	—	—	—	—	—	2,499	7,223	6,944
Share of results of associates, net of tax	1,404,439	1,511,570	1,655,657	7,303	7,400	6,803	—	—	—	1,411,742	1,518,970	1,662,460
Depreciation of fixed assets	17,949	27,338	34,348	10,464	11,332	11,332	—	—	—	28,413	38,670	45,680
Amortisation of leasehold land payments	13,842	6,729	3,256	337	239	(88)	—	—	—	14,179	6,968	3,168
Amortisation of long-term prepaid expenses	80,393	—	11,185	—	—	—	—	—	—	80,393	—	11,185
Impairment of fixed assets	2,434	5,662	—	—	—	—	—	—	—	2,434	5,662	—
Impairment of construction-in progress	—	—	—	45,073	—	—	—	—	—	45,073	—	—
Loss arising from business combination	—	—	—	—	—	—	—	—	—	—	—	—
Provision for/(reversal of) impairment of materials and supplies	<u>64,096</u>	<u>(5,209)</u>	<u>7,844</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>64,096</u>	<u>(5,209)</u>	<u>7,844</u>

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5 SEGMENT INFORMATION (CONTINUED)

A reconciliation of the segment results to profit of 2015, 2016 and 2017 is as follows:

	The Railway Transportation Business			All other segments			Elimination			Total		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment result	1,487,249	1,549,120	1,341,601	(28,549)	3,548	14,519	(6,862)	(8,659)	(8,988)	1,451,838	1,544,009	1,347,132
Income tax expense	(372,142)	(385,840)	(328,727)	(16,388)	(4,469)	(6,637)	—	—	—	(388,530)	(390,309)	(335,364)
Profit/(loss) for the year	1,115,107	1,163,280	1,012,874	(44,937)	(921)	7,882	(6,862)	(8,659)	(8,988)	1,063,308	1,153,700	1,011,768

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

	The Railway Transportation Business		All other segments		Elimination		Total	
	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000
Total segment assets	32,483,625	33,621,101	586,519	535,840	(199,886)	(162,703)	32,870,258	33,994,238
Total segment assets include:								
Investment in associates	167,604	174,548	—	—	—	—	167,604	174,548
Additions to non-current assets (other than financial instruments and deferred tax assets)	2,817,557	2,415,143	3,279	1,083	—	—	2,820,836	2,416,226
Total segment liabilities	4,398,759	4,908,103	588,128	545,500	(146,684)	(116,446)	4,840,203	5,337,157

Revenues of approximately RMB3,595,959,000 (2015: RMB2,508,916,000 and 2016: RMB3,407,998,000) were derived from Guangzhou Railway Group and its subsidiaries. These revenues are attributable to the Railway Transportation Business. Except that, no revenues derived from a single external customer have exceeded 10% of the total revenues.

GUANGSHEN RAILWAY COMPANY LIMITED

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6 FIXED ASSETS-NET

	Buildings RMB'000	Tracks, bridges and service roads RMB'000	Locomotives and rolling stock RMB'000	Communications and signalling systems RMB'000	Other machinery and equipment RMB'000	Total RMB'000
At 1 January 2016						
Cost	6,989,242	15,615,264	7,657,021	1,807,311	6,022,269	38,091,107
Accumulated depreciation	(2,336,451)	(2,980,811)	(3,587,690)	(1,341,344)	(3,769,890)	(14,016,186)
Impairment	—	—	—	—	(1,162)	(1,162)
Net book amount	<u>4,652,791</u>	<u>12,634,453</u>	<u>4,069,331</u>	<u>465,967</u>	<u>2,251,217</u>	<u>24,073,759</u>
Year ended 31 December 2016						
Opening net book amount	4,652,791	12,634,453	4,069,331	465,967	2,251,217	24,073,759
Additions due to business combination	—	—	565,493	11,859	71,538	648,890
Other additions	6,294	—	446,754	42,182	154,100	649,330
Transfer in from construction-in-progress (Note 7)	485,087	88,128	36,584	77,808	330,106	1,017,713
Transfer out to construction-in-progress for improvements/modifications (Note 7)	(4,743)	—	(189,888)	(2,958)	(8,797)	(206,386)
Transfer in from construction-in-progress after repair	10,451	2,088	430,050	6,613	21,833	471,035
Reclassifications	(10,141)	(94)	—	172	10,063	—
Reclassified to leasehold land payments	—	(715,003)	—	—	—	(715,003)
Disposals	(946)	(92,586)	(42,618)	(1,621)	(4,565)	(142,336)
Depreciation charges	(293,503)	(216,765)	(460,387)	(107,148)	(441,167)	(1,518,970)
Closing net book amount	<u>4,845,290</u>	<u>11,700,221</u>	<u>4,855,319</u>	<u>492,874</u>	<u>2,384,328</u>	<u>24,278,032</u>
At 31 December 2016						
Cost	7,468,977	14,887,093	8,557,841	1,917,478	6,514,493	39,345,882
Accumulated depreciation	(2,623,687)	(3,186,872)	(3,702,522)	(1,424,604)	(4,129,003)	(15,066,688)
Impairment	—	—	—	—	(1,162)	(1,162)
Net book amount	<u>4,845,290</u>	<u>11,700,221</u>	<u>4,855,319</u>	<u>492,874</u>	<u>2,384,328</u>	<u>24,278,032</u>
Year ended 31 December 2017						
Opening net book amount	4,845,290	11,700,221	4,855,319	492,874	2,384,328	24,278,032
Other additions	1,849	—	69,311	13,086	123,436	207,682
Transfer in from construction-in-progress (Note 7)	345,676	179,842	843,489	80,867	203,557	1,653,431
Transfer out to construction-in-progress for improvement/modifications (Note 7)	(305,208)	—	(987,236)	(299)	(18,903)	(1,311,646)
Transfer in from construction-in-progress after repair	310,885	—	875,497	299	16,697	1,203,378
Reclassifications	1,342	7,116	25	—	(8,483)	—
Reclassified to leasehold land payments	—	(403,282)	—	—	—	(403,282)
Disposals	(15,942)	(69,516)	(234,830)	(744)	(15,780)	(336,812)
Depreciation charges	(332,581)	(216,075)	(571,640)	(115,870)	(426,294)	(1,662,460)
Impairment charge	—	—	(9,865)	—	(1,320)	(11,185)
Closing net book amount	<u>4,851,311</u>	<u>11,198,306</u>	<u>4,840,070</u>	<u>470,213</u>	<u>2,257,238</u>	<u>23,617,138</u>
At 31 December 2017						
Cost	7,441,605	14,588,338	7,903,204	1,993,168	6,628,084	38,554,399
Accumulated depreciation	(2,590,294)	(3,390,032)	(3,053,269)	(1,522,955)	(4,368,375)	(14,924,925)
Impairment	—	—	(9,865)	—	(2,471)	(12,336)
Net book amount	<u>4,851,311</u>	<u>11,198,306</u>	<u>4,840,070</u>	<u>470,213</u>	<u>2,257,238</u>	<u>23,617,138</u>

GUANGSHEN RAILWAY COMPANY LIMITED

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6 FIXED ASSETS-NET (CONTINUED)

- (a) As at 31 December 2017, the ownership certificates of certain buildings of the Group with an aggregate carrying value of approximately RMB 1,858,288,000 (2016: RMB1,819,505,000) had not been obtained by the Group. After consultation made with the Company's legal counsel, the directors of the Company consider that there is no legal restriction for the Group to apply for and obtain the ownership certificates of such buildings and it should not lead to any significant adverse impact on the operations of the Group.
- (b) As at 31 December 2017, fixed assets of the Group with an aggregate net book value of approximately RMB155,125,000 (2016: RMB116,953,000) had been fully depreciated but they were still in use.

7 CONSTRUCTION-IN-PROGRESS

	2016 RMB'000	2017 RMB'000
At 1 January	569,573	790,308
Additions due to business combination	59,992	—
Transfer in from fixed assets for improvement/modifications (Note 6)	206,386	1,311,646
Other additions	1,448,767	2,185,526
Transfer to fixed assets (Note 6)	(1,017,713)	(1,653,431)
Transfer out to fixed assets after improvement/modifications (Note 6)	(471,035)	(1,203,378)
Impairment	(5,662)	—
At 31 December	<u>790,308</u>	<u>1,430,671</u>

Construction-in-progress as at 31 December 2017 mainly comprise of improvement projects for road existing railway equipment in the PRC.

For the year ended 31 December 2017, no interest expense (2016: Nil) had been capitalised in the construction-in-progress balance as there were no third party borrowings during the year.

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8 LEASEHOLD LAND PAYMENTS

The Group's interests in leasehold land represent prepaid operating lease payments in the PRC and its net book value are analysed as follows:

	RMB'000
At 1 January 2016	
Cost	1,274,082
Accumulated amortisation	(325,556)
Net book amount	<u>948,526</u>
Year ended 31 December 2016	
Opening net book amount	948,526
Transfer from fixed assets (Note 6)	715,003
Amortisation charges	(38,670)
Closing net book amount	<u>1,624,859</u>
At 31 December 2016	
Cost	1,989,085
Accumulated amortisation	(364,226)
Net book amount	<u>1,624,859</u>
Year ended 31 December 2017	
Opening net book amount	1,624,859
Transfer from fixed assets (Note 6)	403,282
Assets classified as held for sale	(2,183)
Amortisation charges	(45,680)
Closing net book amount	<u>1,980,278</u>
At 31 December 2017	
Cost	2,388,326
Accumulated amortisation	(408,048)
Net book amount	<u>1,980,278</u>

As at 31 December 2017, land use right certificates of certain pieces of land of the Group with an aggregate carrying value of approximately RMB1,318,686,000 (2016: RMB936,304,000) had not been obtained. After consultation made with the Company's legal counsel, the directors of the Company consider that there is no legal restriction for the Group or the Company to apply for and obtain the land use right certificates and it should not lead to any significant adverse impact on the operations of the Group or the Company.

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8 LEASEHOLD LAND PAYMENTS (CONTINUED)

The remaining lease period of leasehold land as at 31 December 2017 was as follows:

	2016 RMB'000	2017 RMB'000
Lease of between 10 to 20 years	873,411	1,257,346
Lease of between 20 to 30 years	751,448	722,932
	<u>1,624,859</u>	<u>1,980,278</u>

9 GOODWILL

	RMB'000
Year ended 31 December 2016 and 2017	
Opening net book amount	281,255
Additions	—
Impairment	—
Closing net book amount	<u>281,255</u>
At 31 December 2016 and 2017	
Cost	281,255
Accumulated impairment	—
Net book amount	<u>281,255</u>

As at 31 December 2017 and 2016, the outstanding balance of goodwill arose from the excess of a purchase consideration paid by the Company over the aggregate fair values of the identifiable assets, liabilities and contingent liabilities of the Yangcheng Railway Business acquired by the Company in 2009.

On 1 January 2009, the Group integrated the Yangcheng Railway Business with the Group's railway business in order to improve the operation efficiency. As a result, the management considers that the Yangcheng Railway Business and the Group's other railway business (collectively the "Combined Railway Business") represents the lowest level of CGUs within the Group at which goodwill is monitored for internal management purposes. As a result, the goodwill balance has been allocated to the CGU comprising the Combined Railway Business.

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

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9

GOODWILL (CONTINUED)

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

Railroad business	2016	2017
Gross margin	18.92%	17.76%
Growth rate	2.00%	2.00%
Discount rate	<u>12.44%</u>	<u>12.44%</u>

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

Even if the budgeted growth rate used in the value-in-use calculation for the CGU in railroad business had been 10% lower than management's estimates as at 31 December 2017, the Group would not need to recognise impairment charges against goodwill.

Even if the estimated pre-tax discount rate applied to the discounted cash flows for the CGU in railroad business had been 1% higher than management's estimates as at 31 December 2017, no impairment charges had to be recognised by the Group against goodwill.

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10 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2017:

Name of the entity	Place of incorporation and nature of legal entity	Principal activities and place of operation	Proportion of equity interests held by the Company (%)	Proportion of equity interests held by the Group (%)	Proportion of equity interests held by non-controlling interests (%)
Dongguan Changsheng Enterprise Company Limited	China, limited liability company	Warehousing in the PRC	51%	51%	49%
Shenzhen Fu Yuan Enterprise Development Company Limited	China, limited liability company	Hotel management in the PRC	100%	100%	—
Shenzhen Pinghu Qun Yi Railway Store Loading and Unloading Company Limited	China, limited liability company	Cargo loading and unloading, warehousing, freight transportation in the PRC	100%	100%	—
Shenzhen Nantie Construction Supervision Company Limited	China, limited liability company	Supervision of construction projects in the PRC	67.46%	76.66%	23.34%
Shenzhen Railway Property Management Company Limited	China, limited liability company	Property management in the PRC	—	100%	—
Shenzhen Shenhuasheng Storage and Transportation Company Limited	China, limited liability company	Warehousing, freight transport and packing agency services in the PRC	41.50%	100%	—
Shenzhen Guangshen Railway Economic and Trade Enterprise Company Limited	China, limited liability company	Catering management in the PRC	—	100%	—
Shenzhen Railway Station Passenger Services Company Limited	China, limited liability company	Catering services and sales of merchandise in the PRC	100%	100%	—

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10 SUBSIDIARIES (CONTINUED)

The following is a list of the principal subsidiaries at 31 December 2017 (continued):

Name of the entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Proportion of equity interests held by the Company (%)	Proportion of equity interests held by the Group (%)	Proportion of equity interests held by non-controlling interests (%)
Guangshen Railway Station Donggun Trade and Commerce Service Company Limited	China, limited liability company	Sales of merchandises in the PRC	100%	100%	—
Guangzhou Railway Huangpu Service Company Limited	China, limited liability company	Cargo loading and unloading, warehousing, freight transportation in the PRC	100%	100%	—
Zengcheng Lihua Stock Company Limited (“Zengcheng Lihua”) (i)	China, limited liability company	Real estate construction, provision of warehousing, cargo uploading and unloading services in the PRC	44.72%	44.72%	55.28%

- (i) According to the Articles of Association of Zengcheng Lihua, the remaining shareholders are all natural persons and none of these individuals holds more than 0.5% equity interest in Zengcheng Lihua. All directors of Zengcheng Lihua were appointed by the Company. After considering all shareholders of Zengcheng Lihua other than the Company are individuals with individual interest holding of less than 0.5% and such individuals do not act in concert, and also all directors of Zengcheng Lihua were appointed by the Company, the directors of the Company consider that the Company has the de facto control over the board and the substantial financial and operating decisions of Zengcheng Lihua.

As at 31 December 2017, the non-wholly owned subsidiaries individually and in aggregate is not significant to the Group. Therefore, financial information of the non-wholly owned subsidiaries are not disclosed.

GUANGSHEN RAILWAY COMPANY LIMITED

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11 INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2017 RMB'000
Share of net assets	167,604	174,548
Less: provision for impairment	—	—
	<u>167,604</u>	<u>174,548</u>

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

	2016 RMB'000	2017 RMB'000
Beginning of the year	168,711	167,604
Share of results after tax	7,223	6,944
Dividend	(8,330)	—
End of the year	<u>167,604</u>	<u>174,548</u>

As at 31 December 2017, the Group had direct interests in the following companies which are incorporated/established and are operating in the PRC:

Name of the entity	Percentage of equity interest attributable to the Company	Paid-in capital	Principal activities
Guangzhou Tiecheng Enterprise Company Limited ("Tiecheng")	49%	RMB343,050,000	Properties leasing and trading of merchandise
Shenzhen Guangzhou Railway Civil Engineering Company ("Shentu")	49%	RMB64,000,000	Construction of railroad properties

All the above associates are limited liability companies and they are unlisted companies. There are no significant contingent liabilities relating to the Group's interest in the associates and there are no significant restrictions on the transfer of assets or earnings from the associates to the Group.

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11 INVESTMENTS IN ASSOCIATES (CONTINUED)

Set out below are the summarised financial information for Tiecheng and Shentu which are accounted for using the equity method in the consolidated financial statements.

Summarised balance sheets

	Tiecheng		Shentu	
	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000
Current assets	87,733	105,556	921,761	780,104
Non-current assets	339,409	333,602	7,614	12,151
Total assets	427,142	439,158	929,375	792,255
Current liabilities	210,553	210,546	803,713	664,646
Non-current liabilities	202	—	—	—
Total liabilities	210,755	210,546	803,713	664,646
Equity	216,387	228,612	125,662	127,609
Share of net assets	106,030	112,020	61,574	62,528
Carrying amount of interest in associates	106,030	112,020	61,574	62,528

Summarized comprehensive income statements

	Tiecheng			Shentu		
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
Revenue	32,955	41,217	44,351	467,911	493,277	506,608
Net profit	4,516	8,800	12,225	583	5,941	1,947
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income for the year	4,516	8,800	12,225	583	5,941	1,947

Reconciliation of the summarised financial information presented to the carrying amount of its interests in associates as follows:

	Tiecheng		Shentu		Total	
	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000
Opening net assets	207,587	216,387	136,721	125,662	344,308	342,049
Profit for the year	8,800	12,225	5,941	1,947	14,741	14,172
Dividend	—	—	(17,000)	—	(17,000)	—
Closing net assets	216,387	228,612	125,662	127,609	342,049	356,221
Percentage of ownership interest	49%	49%	49%	49%	49%	49%
Carrying value	106,030	112,020	61,574	62,528	167,604	174,548

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12 DEFERRED TAX ASSETS/(LIABILITIES)

	2016 RMB'000	2017 RMB'000
Deferred tax assets	98,862	115,716
Less: Offsetting of deferred tax liabilities	(18,933)	(78,711)
Deferred tax assets(net)	<u>79,929</u>	<u>37,005</u>
Deferred tax liabilities	(87,816)	(145,102)
Less: Offsetting of deferred tax assets	18,933	78,711
Deferred tax liabilities(net)	<u>(68,883)</u>	<u>(66,391)</u>
	<u>11,046</u>	<u>(29,386)</u>

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

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Deferred tax assets:		
-Deferred tax assets to be recovered after more than 12 months	97,706	114,387
-Deferred tax assets to be recovered within 12 months	<u>1,156</u>	<u>1,329</u>
	<u>98,862</u>	<u>115,716</u>
Deferred tax liabilities:		
-Deferred tax liabilities to be recovered after more than 12 months	(83,937)	(142,159)
-Deferred tax liabilities to be recovered within 12 months	<u>(3,879)</u>	<u>(2,943)</u>
	<u>(87,816)</u>	<u>(145,102)</u>

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

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12 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	At 1 January 2016 RMB'000	(Charged)/ Credited to the comprehensive income statement RMB'000	At 31 December 2016 RMB'000	(Charged)/ Credited to the comprehensive income statement RMB'000	At 31 December 2017 RMB'000
Deferred tax assets:					
Impairment provision for receivables	7,828	(825)	7,003	(2,230)	4,773
Impairment provision for fixed assets and construction-in-progress	2,739	1,416	4,155	2,793	6,948
Impairment provision for materials and supplies	11,837	(5,843)	5,994	1,126	7,120
Differences in accounting base and tax base of government grants	24,952	768	25,720	(201)	25,519
Differences in accounting base and tax base of employee benefits obligations	35,207	4,448	39,655	992	40,647
Loss on disposal of fixed assets	30,805	(14,520)	16,285	14,424	30,709
Others	50	—	50	(50)	—
	<u>113,418</u>	<u>(14,556)</u>	<u>98,862</u>	<u>16,854</u>	<u>115,716</u>

	At 1 January 2016 RMB'000	Charged/ (Credited) to the comprehensive income statement RMB'000	At 31 December 2016 RMB'000	Charged/ (Credited) to the comprehensive income statement RMB'000	At 31 December 2017 RMB'000
Deferred tax liabilities:					
Differences in accounting base and tax base in recognition of fixed assets	9,607	(1,340)	8,267	(404)	7,863
Differences in accounting base and tax base in recognition of leasehold land payments	71,376	(2,493)	68,883	(2,493)	66,390
Changes in the fair value of available-for-sale financial assets	—	—	—	60,647	60,647
Others	10,562	104	10,666	(464)	10,202
	<u>91,545</u>	<u>(3,729)</u>	<u>87,816</u>	<u>57,286</u>	<u>145,102</u>

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12 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Deferred income tax assets are recognised for tax loss carry-forwards and other temporary difference to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of tax losses and other temporary difference amounting to RMB95,370,000 (2016: RMB89,630,000) arising from operations of subsidiaries which do not foresee to have enough tax deductible assessable profits in the near future.

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Tax losses that can be carried forward (Note a)	77,328	82,918
Deductible temporary differences	12,302	12,452
	<u>89,630</u>	<u>95,370</u>

Note a:

The tax loss carry-forwards in which no deferred income tax assets were recognised will expire in the following years:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
2017	15,405	—
2018	14,307	13,499
2019	6,516	6,371
2020	18,478	18,478
2021	22,622	22,325
2022	—	22,245
	<u>77,328</u>	<u>82,918</u>

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13 LONG-TERM PREPAID EXPENSES

The long-term prepaid expenses represented staff uniforms. The movements of long-term prepaid expenses are set forth as follows:

	2016 RMB'000	2017 RMB'000
At 1 January		
Cost	63,770	64,077
Accumulated amortisation	(49,285)	(56,253)
Net book amount	<u>14,485</u>	<u>7,824</u>
Year ended 31 December		
Opening net book amount	14,485	7,824
Additions	307	28,745
Amortisation	(6,968)	(3,168)
Closing net book amount	<u>7,824</u>	<u>33,401</u>
At 31 December		
Cost	64,077	92,822
Accumulated amortisation	(56,253)	(59,421)
Net book amount	<u>7,824</u>	<u>33,401</u>

14 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables RMB'000	Available- for-sale RMB'000	Total RMB'000
Financial assets as at 31 December 2017			
Available-for-sale investments (Note 15)	—	296,414	296,414
Long-term receivable (Note 16)	31,274	—	31,274
Trade and other receivables excluding prepayments (Notes 18 and 19)	4,417,317	—	4,417,317
Short-term deposits (Note 20)	108,000	—	108,000
Cash and cash equivalents (Note 20)	<u>1,160,515</u>	<u>—</u>	<u>1,160,515</u>
Total	<u>5,717,106</u>	<u>296,414</u>	<u>6,013,520</u>
Financial assets as at 31 December 2016			
Available-for-sale investments (Note 15)	—	53,826	53,826
Long-term receivable (Note 16)	31,406	—	31,406
Trade and other receivables excluding prepayments (Notes 18 and 19)	3,665,646	—	3,665,646
Short-term deposits (Note 20)	108,000	—	108,000
Cash and cash equivalents (Note 20)	<u>1,359,656</u>	<u>—</u>	<u>1,359,656</u>
Total	<u>5,164,708</u>	<u>53,826</u>	<u>5,218,534</u>

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14 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Other Financial liabilities
Financial liabilities as at 31 December 2017	
Trade and other payables excluding other tax payables, employee salary and benefits payables and advances (Notes 25 and 26)	2,356,953
Payables for fixed assets and construction-in-progress	2,214,547
Dividends payable	12,893
Total	4,584,393
Financial liabilities as at 31 December 2016	
Trade and other payables excluding other tax payables, employee salary and benefits payables and advances (Notes 25 and 26)	2,201,483
Payables for fixed assets and construction-in-progress	1,765,185
Dividends payable	15,542
Total	3,982,210

15 AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2017 RMB'000
Investments in unlisted companies	53,826	296,414

The available-for-sale investments mainly represent equity interests held by the Group in certain unlisted companies with percentage ownership less than 2% individually.

- (i) In 2017, one substantial investee company within available-for sale instruments sent a written proposal to all its shareholders, requesting for additional capital injections to be made according to the respective percentage of equity interests held by each investor at the assessed enterprise value of that investee company ("Assessed Fair Value"). Accordingly, the carrying amount of the whole investment in this investee company as at 31 December 2017 had been stated at fair value(RMB 280,088,000) determined based on the Assessed Fair Value and an amount of fair value changes of RMB 242,588,000 had been included in other comprehensive income (Note 22).

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15 AVAILABLE-FOR-SALE INVESTMENTS(CONTINUED)

The following table presents the changes in level 3 items for the periods ended 31 December 2017:

	Investments in unlisted companies RMB'000
Closing balance 31 December 2016	—
Transfer from cost	37,500
Fair value changes recognised in other comprehensive income	242,588
Closing balance 31 December 2017	280,088

- (ii) Due to the fact that there is no quoted market price in an active market available for the assessment of the fair values of other remaining investments, the directors of the Company are of the opinion that their fair values could not be reliably measured by any reasonable valuation methods. As a result, the investments in other unlisted companies had been carried at cost, subject to review for impairment loss. As at 31 December 2017, no impairment provision was considered necessary by the directors.

16 LONG-TERM RECEIVABLE

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

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

The balance approximated its fair value as at 31 December 2017.

17 MATERIALS AND SUPPLIES

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Raw materials	184,520	185,639
Reusable rail-line track materials	79,311	76,017
Accessories	67,236	67,493
Retailing consumables	1,540	1,578
	<u>332,607</u>	<u>330,727</u>

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17 MATERIALS AND SUPPLIES (CONTINUED)

The costs of materials and supplies consumed by the Group during the year were recognised as “operating expenses” in the amount of RMB1,627,992,000 (2016: RMB1,697,166,000 and 2015: RMB1,565,648,000).

As at 31 December 2017, the balance of the provision for writing down the materials and supplies to their net realisable values was approximately RMB28,466,000 (2016: RMB23,976,000). During the year, additional provision of RMB7,844,000 was made and RMB3,354,000 was written off arising from realization of losses in the disposal of these assets (2016: RMB18,163,000).

18 TRADE RECEIVABLES

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Trade receivables	3,369,331	4,148,413
Including: receivables from related parties	730,061	2,808,052
Less: Provision for impairment of receivables	(4,965)	(6,203)
	<u>3,364,366</u>	<u>4,142,210</u>

As at 31 December 2017 and 2016, the Group's trade receivables were all denominated in RMB. The majority of the trade receivable were from state-owned railroad companies or companies in transportation industry.

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

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Within 1 year (Note 3.1(b))	2,517,281	2,799,028
Over 1 year but within 2 years	588,640	763,812
Over 2 years but within 3 years	223,675	522,122
Over 3 years	39,735	63,451
	<u>3,369,331</u>	<u>4,148,413</u>

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18 TRADE RECEIVABLES(CONTINUED)

Management performs ongoing credit evaluations of its customers/debtors' financial condition and generally does not require collateral from the customers/debtors. After assessing the expected realisability and timing for collection of the outstanding balances, the Group maintains a provision for impairment of trade receivables and actual losses incurred have been within management's expectation.

As at 31 December 2017, the Group's trade receivables of approximately RMB1,343,182,000 (2016: RMB847,085,000) were past due but not impaired. These relate to a number of independent customers that are state-owned companies engaged in the railroad and transportation business, including High Speed train operations in the PRC. There had been continuous businesses transactions carried out with the Group with these customers and there was continuous repayment made and no history of default. The aging analysis of these trade receivables is as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Over 1 year but within 2 years	588,640	758,141
Over 2 years but within 3 years	223,675	522,122
Over 3 years but within 5 years	34,770	62,919
	<u>847,085</u>	<u>1,343,182</u>

As at 31 December 2017, the Group's trade receivables of approximately RMB6,203,000 (2016:RMB4,965,000) had been impaired and provided for. The related customers were in significant financial difficulties. The aging analysis of these receivables is as follows:

	2016 RMB'000	2017 RMB'000
Over 1 year but within 2 years	—	5,671
Over 5 years	4,965	532
	<u>4,965</u>	<u>6,203</u>

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

	2015 RMB'000	2016 RMB'000	2017 RMB'000
At 1 January	7,003	8,395	4,965
Provision for impairment loss	3,305	6	5,904
Reversal	(127)	—	—
Written-off	(1,786)	(3,436)	(4,666)
At 31 December	<u>8,395</u>	<u>4,965</u>	<u>6,203</u>

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18 TRADE RECEIVABLES(CONTINUED)

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

19 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Due from third parties	304,530	268,715
Due from related parties	25,961	45,536
	<u>330,491</u>	<u>314,251</u>

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Other receivables	314,616	288,432
Less: Provision for impairment loss	(13,336)	(13,325)
Other receivables, net (Note (a))	301,280	275,107
Prepayments (Note (b))	29,211	39,144
	<u>330,491</u>	<u>314,251</u>

- (a) Other receivables mainly represent miscellaneous deposits and receivables arising from the course of provision of non-railway transportation services by the Group. As of 31 December 2017, the input VAT with related invoices not been received or verified amounted to RMB122,190,000 (2016: RMB 156,072,000).

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

	2015 RMB'000	2016 RMB'000	2017 RMB'000
At 1 January	62,060	13,377	13,336
Provision for impairment loss	62	—	—
Reversal of impairment loss provision	(7,699)	(1)	(3)
Written-off	(28,734)	(40)	(8)
Elimination arising from business combination	(12,312)	—	—
At 31 December	<u>13,377</u>	<u>13,336</u>	<u>13,325</u>

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

GUANGSHEN RAILWAY COMPANY LIMITED

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19 PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

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

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
RMB	330,425	314,184
HKD	66	67
	<u>330,491</u>	<u>314,251</u>

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

20 CASH AND CASH EQUIVALENTS AND SHORT-TERM DEPOSITS

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Cash at bank and on hand	1,007,156	1,108,015
Term deposits with initial term not more than three months	352,500	52,500
Cash and cash equivalents	1,359,656	1,160,515
Term deposits with initial term of over three months (Note)	108,000	108,000
	<u>1,467,656</u>	<u>1,268,515</u>

Note: The original effective interest rate of term deposits was 1.56% per annum (2016: 1.65% per annum).

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

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
RMB	1,351,880	1,235,719
HKD	115,680	32,650
USD	96	146
	<u>1,467,656</u>	<u>1,268,515</u>

GUANGSHEN RAILWAY COMPANY LIMITED

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21 SHARE CAPITAL

As at 31 December 2017 and 2016, the total authorised number of ordinary shares is 7,083,537,000 shares with a par value of RMB1.00 per share. These shares are divided into A shares and H shares. They rank pari passu against each other and they were fully paid up.

	As at 31 December 2015 RMB'000	Movement RMB'000	As at 31 December 2016 RMB'000	Movement RMB'000	As at 31 December 2017 RMB'000
Authorised, issued and fully paid:					
Listed shares					
- H shares	1,431,300	—	1,431,300	—	1,431,300
- A shares	5,652,237	—	5,652,237	—	5,652,237
Total	<u>7,083,537</u>	<u>—</u>	<u>7,083,537</u>	<u>—</u>	<u>7,083,537</u>

22 RESERVES

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

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

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

GUANGSHEN RAILWAY COMPANY LIMITED

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22 RESERVES (CONTINUED)

For the year ended 31 December 2015, 2016 and 2017, the directors proposed the following appropriations to reserves of the Company:

	2015 Percentage	2015 RMB'000	2016 Percentage	2016 RMB'000	2017 Percentage	2017 RMB'000
Statutory surplus reserve	10%	111,760	10%	117,050	10%	101,982

In accordance with the provisions of the Articles of Association of the Company, the profit after appropriation to reserves and available for distribution to shareholders shall be the lower of the retained earnings determined under (a) PRC GAAP or (b) IFRS. Due to the fact that the statutory financial statements of the Company have been prepared in accordance with PRC GAAP, the retained earnings so reported may be different from those reported in the statement of changes in shareholders' equity prepared under IFRS contained in these financial statements. The main difference between the retained earnings of the Company determined under PRC GAAP and those determined under IFRS was relating to accounting policies in respect of investment in associates adopted under PRC GAAP and IFRS.

For the year 2015, 2016 and 2017, the movement of 'Special reserve - Safety Production Fund' of the Group are as below:

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Beginning of the year	—	—	—
Appropriation for retained earnings	192,860	204,792	227,250
Utilisation	(192,860)	(204,792)	(227,250)
End of the year	—	—	—

The Company is engaged in passenger and freight transportation business. In accordance with the regulations issued by Ministry of Finance and State Administration of Work Safety of the PRC, the Company is required to establish a special reserve ("Safety Production Fund") calculated based on the passenger and freight transportation revenue of the previous year using the following percentages:

- (a) 1% for regular freight business;
- (b) 1.5% for passenger transportation, dangerous goods delivery business and other special business.

GUANGSHEN RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts expressed in Renminbi unless otherwise stated)

22 RESERVES (CONTINUED)

The Safety Production Fund is mainly used for the renovation and maintenance of security equipment and facilities. For the purpose of the consolidated financial statements under IFRS, such reserve is established through an appropriation from retained earnings based on the aforementioned method. When the Safety Production Fund is actually utilised, the actual expenses incurred are charged to profit or loss.

For the year 2015, 2016 and 2017, the movement of other comprehensive income of the Group are as below:

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Beginning of the year	—	—	—
Addition due to fair value changes on available-for-sale investments	—	—	242,588
Addition due to deferred liabilities related to fair value changes on available-for-sale investments	—	—	(60,647)
End of the year	<u>—</u>	<u>—</u>	<u>181,941</u>

The additions of other comprehensive income in current year is attributable to the fair value changes of investment in an available-for-sale financial instrument as mentioned in Note 15.

23 DEFERRED INCOME

	2016 RMB'000	2017 RMB'000
Government grants	106,810	105,754
Others	—	37
Total	<u>106,810</u>	<u>105,791</u>

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

24 EMPLOYEE BENEFITS OBLIGATIONS

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Employee benefits obligations(Note 26)	34,043	30,745
Less: current portion included in accruals and other payables	<u>(34,043)</u>	<u>(30,745)</u>
	<u>—</u>	<u>—</u>

GUANGSHEN RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts expressed in Renminbi unless otherwise stated)

24 EMPLOYEE BENEFITS OBLIGATIONS (CONTINUED)

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

With the acquisition of the Yangcheng Railway Business in 2007 and Guangmeishan Railway Company Limited (“GRCL”) Business and Guangdong Sanmao Railway Company Limited (“GSRC”) Business in 2016 (Note37), the Group has also assumed certain retirement and termination benefits obligations associated with the operations of Yangcheng Railway Business, GSRL Business and GSRC Business. These obligations mainly include the redundancy termination benefits similar to those mentioned above, as well as the obligation for funding post-retirement medical insurance premiums of retired employees before the respective acquisitions.

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

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

	2016 RMB’000	2017 RMB’000
At 1 January	13,380	34,043
Additions	24,727	—
Payments	(4,064)	(3,298)
At 31 December	<u>34,043</u>	<u>30,745</u>

GUANGSHEN RAILWAY COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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(All amounts expressed in Renminbi unless otherwise stated)

25 TRADE PAYABLES

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Payables to third parties	610,472	614,822
Payables to related parties	533,051	710,255
	<u>1,143,523</u>	<u>1,325,077</u>

The aging analysis of trade payables was as follows:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Within 1 year	860,315	1,075,298
Over 1 year but within 2 years	258,227	180,294
Over 2 years but within 3 years	7,477	49,359
Over 3 years	17,504	20,126
	<u>1,143,523</u>	<u>1,325,077</u>

26 ACCRUALS AND OTHER PAYABLES

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Due to third parties	1,188,416	1,017,309
Due to related parties	430,331	445,922
	<u>1,618,747</u>	<u>1,463,231</u>

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Payables to GEDC assumed by business combination with Zengcheng Lihua	368,560	377,703
Advances received from customers	295,088	152,010
Other deposits received	242,104	226,453
Deposits received for construction projects	207,877	203,886
Salary and welfare payables	172,299	178,427
Amount received on behalf of Labour Union	68,914	73,463
Other taxes payable	59,357	70,173
Deposits received from ticketing agencies	36,018	34,298
Employee benefits obligations (Note 24)	34,043	30,745
Housing maintenance fund	15,692	15,740
Other payables	118,795	100,333
	<u>1,618,747</u>	<u>1,463,231</u>

GUANGSHEN RAILWAY COMPANY LIMITED

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27 AUDITORS' REMUNERATION

Auditors' remuneration in respect of audit and non-audit services provided by the auditors for the year ended 31 December 2017 were RMB8,400,000 and RMB950,000 respectively (2016: RMB8,080,000 and RMB190,000 respectively and 2015: RMB8,080,000 and RMB250,000, respectively).

28 EMPLOYEE BENEFITS

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Wages and salaries	3,672,234	4,362,506	4,848,830
Provision for medical, housing scheme and other employee benefits (a)	916,965	1,114,918	1,220,708
Contributions to the defined contribution scheme (b)	620,898	741,923	772,682
	<u>5,210,097</u>	<u>6,219,347</u>	<u>6,842,220</u>

(a) Housing scheme

In accordance with the PRC housing reform regulations, the Group is required to make contributions to a state-sponsored housing fund at 10% or 12% of the salaries of the employees. At the same time, the employees are also required to make a contribution at 10% or 12% of the salaries out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Group has no further legal nor constructive obligation towards housing benefits of these employees offered beyond the above contributions made.

(b) Defined contribution pension scheme

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (2016: one), three senior executives (2016: four) and one supervisor (2016: Nil).

The emolument range of each individual is within the band of Nil to RMB498,000 (2016: Nil to RMB 447,255).

GUANGSHEN RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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29 OTHER LOSSES— NET

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Loss on disposal of fixed assets—net	(49,008)	(133,073)	(77,026)
Interest income from banks	38,145	24,772	18,974
Dividend income on available-for-sale investments	5,884	5,884	6,473
Government grants	7,349	9,769	13,272
Impairment of fixed assets(Note 6)	(80,393)	—	(11,185)
Loss arising from business combination	(45,073)	—	—
Impairment of construction-in-progress(Note 7)	(2,434)	(5,662)	—
Income from compensation	1,167	749	295
Impairment of trade receivables (Note 18)	—	(6)	(5,904)
Unwinding of interest accrued on long-term receivable	—	2,602	2,868
Others	9,736	(13,305)	3,756
	<u>(114,627)</u>	<u>(108,270)</u>	<u>(48,477)</u>

30 FINANCE (COSTS)/INCOME—NET

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Bank charges	(7,387)	(3,823)	(2,866)
Amortisation of interest for employee benefit obligations (Note 24)	(226)	—	—
Net foreign exchange (losses)/gains	3,005	6,374	(7,304)
	<u>(4,608)</u>	<u>2,551</u>	<u>(10,170)</u>

GUANGSHEN RAILWAY COMPANY LIMITED

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31 INCOME TAX EXPENSE

In 2015, 2016 and 2017, the applicable income tax rate of the Company was 25%.

An analysis of the current year income tax expense is as follows:

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Current income tax	416,480	379,482	355,579
Deferred income tax (Note 12)	(27,950)	10,827	(20,215)
	<u>388,530</u>	<u>390,309</u>	<u>335,364</u>

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

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Profit before tax	<u>1,451,838</u>	<u>1,544,009</u>	<u>1,347,132</u>
Tax calculated at the statutory rate of 25% (2016 and 2015: 25%)	362,960	386,002	336,783
Effect of income not subject to tax	(2,096)	(3,277)	(3,354)
Effect of expenses not deductible for tax purposes	1,920	1,928	663
Effect of undeductible loss arising from business combination	11,268	—	—
Reversal of deferred tax assets for the impairment loss of investments in associates and other receivable recognized in prior years	10,500	—	—
Tax losses for which no deferred tax asset was recognised	4,619	5,656	5,561
Over provision of previous year's income tax	—	—	(3,886)
Utilisation of previously unrecognised tax losses	(641)	—	(403)
Income tax expense	<u>388,530</u>	<u>390,309</u>	<u>335,364</u>

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32 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to equity holders of approximately RMB1,015,361,000 (2015 and 2016: RMB1,070,822,000 and RMB1,158,253,000), divided by the weighted average number of ordinary shares outstanding during the year of 7,083,537,000 shares (2015 and 2016: 7,083,537,000 shares). There were no dilutive potential ordinary shares during each of the three years in the period ended December 31, 2017. The calculation of earnings per equivalent ADS is based on the net profit for the year attributable to equity holders, divided by the weighted average equivalent ADSs (one ADS represents 50 H Shares) outstanding during the year of 141,670,740 ADSs (2015 and 2016: 141,670,740 ADSs).

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Profit attributable to owners of the Company	1,070,822	1,158,253	1,015,361
Weighted average number of ordinary shares in issue	7,083,537	7,083,537	7,083,537
Weighted average equivalent ADSs	141,670	141,670	141,670
Basic and diluted earnings per share	RMB0.15	RMB0.16	RMB0.14
Basic and diluted earnings per equivalent ADS	RMB7.56	RMB8.18	RMB7.17

33 DIVIDENDS

The dividends paid to the ordinary shareholders of the Group in 2015, 2016 and 2017 were all RMB566,683,000 (RMB0.08 per share) respectively.

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Final, proposed, of RMB0.08 (2015 and 2016: RMB0.08) per ordinary share	566,683	566,683	566,683

At the meeting of the directors held on 28 March 2018, the directors proposed a final dividend of RMB0.08 per ordinary share for the year ended 31 December 2017, which is subject to the approval by the shareholders in general meeting. This proposed dividend was not reflected as a dividend payable in the Group's and the Company's financial statements as at 31 December 2017.

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34 CASH FLOW GENERATED FROM OPERATIONS

(a) Reconciliation from profit before income tax to net cash generated from operations:

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Profit before income tax:	1,451,838	1,544,009	1,347,132
Adjustments for:			
Depreciation of fixed assets (Note 6)	1,411,742	1,518,970	1,662,460
Impairment of fixed assets (Note 6)	80,393	—	11,185
Impairment of construction-in-progress (Note 7)	2,434	5,662	—
Loss arising from business combination	45,073	—	—
Provision for/ (reversal of) impairment of materials and supplies (Note 17)	64,096	(5,209)	7,844
Amortisation of leasehold land payments (Note 8)	28,413	38,670	45,680
Loss on disposal of fixed assets and costs on repairs	49,008	133,073	321,741
Amortisation of long-term prepaid expenses (Note 13)	14,179	6,968	3,168
Amortisation of interest for employee benefit obligations (Note 24)	226	—	—
Share of results of associates , net of tax (Note 11)	(2,499)	(7,223)	(6,944)
Dividend income on available-for-sale investments (Note 29)	(5,884)	(5,884)	(6,473)
Provision for impairment of receivables	(4,459)	5	5,901
Amortisation of deferred income	(2,529)	(3,258)	(3,282)
Interest income	(5,502)	(4,353)	(4,647)
Operating profit before working capital changes	3,126,529	3,221,430	3,383,765
Increase in trade receivables	(553,980)	(1,034,064)	(419,349)
Decrease in materials and supplies	34,843	14,432	6,121
Increase in prepayments and other receivables	83,553	(47,594)	(12,975)
Decrease in long-term receivable	2,000	2,000	3,000
Increase in trade payables	(270,151)	34,178	181,554
(Decrease)/increase in accruals and other payables	97,585	22,481	(179,412)
Net cash generated from operations	<u>2,520,379</u>	<u>2,212,863</u>	<u>2,962,704</u>

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34 CASH FLOW GENERATED FROM OPERATIONS (CONTINUED)

(b) In the cash flow statement, proceeds from disposal of fixed assets comprise:

	2015 RMB'000	2016 RMB'000	2017 RMB'000
Net book amount (Note 6)	83,944	142,336	336,812
Receivable arising from disposal of fixed assets	(21,627)	20,349	—
Payable arising from disposal of fixed assets	—	—	(2,457)
Transfer to materials and supplies	(5,488)	(11,662)	(12,087)
Loss on disposal of fixed assets and costs on repairs	(49,008)	(133,073)	(321,741)
Proceeds from disposal of fixed assets	<u>7,821</u>	<u>17,950</u>	<u>527</u>

35 CONTINGENCY

There were no significant contingent liabilities as at 31 December 2017 and up to the date of approval of these financial statements.

36 COMMITMENTS

(a) Capital commitments

As at 31 December 2017, the Group had the following capital commitments:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Contracted but not provided for	<u>769,013</u>	<u>1,341,055</u>
Authorised but not contracted for	<u>1,165,237</u>	<u>518,945</u>

A substantial amount of these commitments is related to the reform of stations or facilities relating to the existing railway lines of the Company, which would be financed by self-generated operating cash flow.

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36 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

In connection with the acquisition of Yangcheng Railway Business, the Company signed an agreement on 15 November 2004 with Guangzhou Railway Group for leasing the land use rights associated with the land on which the acquired assets of Yangcheng Railway Business are located. The agreement became effective upon the completion of the acquisition on 1 January 2007 and the remaining lease term is 20 years, renewable at the discretion of the Company. According to the terms of the agreement, the rental for such lease would be agreed by both parties every year with a maximum amount not exceeding RMB74,000,000 per year. During the year ended 31 December 2017, the related lease rental paid and payable was approximately RMB57,358,000 (2015 and 2016: RMB55,090,000).

37 BUSINESS COMBINATIONS

On 26 October 2016, the Company entered into agreements to acquire certain railway service businesses of Guangzhou Railway Group, Guangmeishan Railway Company Limited (“GRCL”) and Guangdong Sanmao Railway Company Limited (“GSRC”). GRCL and GSRC are subsidiaries of Guangzhou Railway Group which operate freight service business (the “Acquisition”).

The purchase considerations payable to Guangzhou Railway Group, GRCL and GSRC were approximately RMB28,657,000, RMB453,658,000 and RMB249,677,000, respectively.

On 26 October 2016, the Company obtain control over above mentioned railway service businesses and the directors of the Company determined that it was the completion date of the Acquisition. The results of the operations of the above-mentioned entities have been included in the Group’s consolidated comprehensive income statement from 26 October 2016 onwards accordingly.

The following table summarizes the consideration paid for Guangzhou Railway Group, GRCL and GSRC, the fair value of identifiable assets acquired and liabilities assumed at the date of the Acquisition:

	Guangzhou Railway Group RMB’000	GRCL RMB’000	CSRC RMB’000	Total RMB’000
Amount payables arising from the Acquisition(a)	28,657	453,658	249,677	731,992
Less: Employee benefits obligation undertaken to be borne by the Company	—	(9,024)	(15,703)	(24,727)
Total consideration(a)	<u>28,657</u>	<u>444,634</u>	<u>233,974</u>	<u>707,265</u>

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37 BUSINESS COMBINATIONS(CONTINUED)

- (a) The total consideration of approximately RMB707,265,000 had been offset against the trade receivables due from Guangzhou Railway Group, GRCL and GSRC to the Group. Therefore, no actual cash outflow occurred in the business acquisition.

As at the completion date of the Acquisition, the fair value of the identifiable assets and liabilities acquired were as below:

Inventories	23,110
Fixed assets (Note 6)	648,890
Construction-in-progress (Note 7)	59,992
Other liabilities	(24,727)
Total identifiable net assets	707,265
Total consideration	707,265
Goodwill	—

The directors of the Company made reference to the valuation report performed by an independent valuer on the acquired businesses when they determined the fair value of the identifiable assets and the liabilities acquired.

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38 RELATED PARTY TRANSACTIONS

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

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

See Note 10 for the principal subsidiaries.

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

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

- (i) Guangzhou Railway Group and its subsidiaries

Name of related parties

Relationship with the Company

Single largest shareholder and its subsidiaries

Guangzhou Railway Group

Single largest shareholder

Guangzhou Railway Group YangCheng Railway

Enterprise Development Company

Subsidiary of the single largest shareholder

GRCL

Subsidiary of the single largest shareholder

GEDC

Subsidiary of the single largest shareholder

Guangzhou Railway Material Supply Company

Subsidiary of the single largest shareholder

Yuehai Railway Company Limited

Subsidiary of the single largest shareholder

Shichang Railway Company Limited

Subsidiary of the single largest shareholder

Guangzhou Railway Station Service Centre

Subsidiary of the single largest shareholder

Changsha Railway Construction Company Limited

Subsidiary of the single largest shareholder

Guangdong Sanmao Enterprise Development Company
Limited

Subsidiary of the single largest shareholder

Guangzhou Yuetie Operational Development Company

Subsidiary of the single largest shareholder

GUANGSHEN RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts expressed in Renminbi unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (CONTINUED)

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

(i) Guangzhou Railway Group and its subsidiaries (continued):

Name of related parties	Relationship with the Company
Guangzhou Railway Rolling Stock Works	Subsidiary of the single largest shareholder
Foreign Economic & Trade Development Corporation of Guangzhou Railway Group	Subsidiary of the single largest shareholder
Guangdong Tieqing International Travel Agency Company Limited	Subsidiary of the single largest shareholder
Huaihua Railway Engineer Construction Company	Subsidiary of the single largest shareholder
Xiashen Railway Guangdong Company Limited	Subsidiary of the single largest shareholder
Ganshao Railway Company Limited	Subsidiary of the single largest shareholder
Hunan Changtie Industrial Development Co. Ltd.	Subsidiary of the single largest shareholder
Guangzhou Railway Real Estate Construction Company	Subsidiary of the single largest shareholder
Guangzhou Beiyang Information Technology Company Limited	Subsidiary of the single largest shareholder
Guangdong Sanmao Railway Capital Construction Company	Subsidiary of the single largest shareholder
Associates of the Group	
Tiecheng	Associate of the Group
Shentu	Associate of the Group

(ii) Relationship with CRC and other railway companies

On 14 March 2013, pursuant to the Approval, the previous controlling entity of Guangzhou Railway Group, MOR, had been dismantled. The administrative function of MOR were transferred to the Ministry of Transport and the newly established National Railway Bureau, and its business functions were transferred to the CRC. Accordingly, the equity interests of Guangzhou Railway Group which was wholly controlled by MOR previously were transferred to the CRC ("Reform"). The Reform was completed since 1 January 2017 and the Company disclosed details of transactions undertaken with CRC Group for both years of 2017 and 2016 for reference. Unless otherwise specified, the transactions with CRC Group disclosed below have excluded transactions undertaken with Guangzhou Railway Group and its subsidiaries.

GUANGSHEN RAILWAY COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts expressed in Renminbi unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with related parties:

(I) Material transactions undertaken with Guangzhou Railway Group and its subsidiaries:

	2015 RMB'000	2016 RMB'000	2017 RMB'000
<i>Provision of services and sales of goods</i>			
Transportation related services			
Provision of train transportation services to Guangzhou Railway Group and its subsidiaries (i)	751,956	1,425,538	1,505,348
Revenue collected by CRC for railway network usage and related services provided to Guangzhou Railway Group and its subsidiaries (ii)	1,180,852	1,400,876	1,428,752
Revenue from railway operation service provided to Guangzhou Railway Group's subsidiaries (iii)	550,168	579,253	660,847
	<u>2,482,976</u>	<u>3,405,667</u>	<u>3,594,947</u>
<i>Other services</i>			
Sales of materials and supplies to Guangzhou Railway Group and its subsidiaries (iv)	25,940	29,449	23,386
<i>Services received and purchase made</i>			
Transportation related services			
Provision of train transportation services by Guangzhou Railway Group and its subsidiaries (i)	888,903	989,778	1,048,524
Cost settled by CRC for railway network usage and related services provided by Guangzhou Railway Group and its subsidiaries (ii)	1,406,962	1,628,336	1,720,849
Operating lease rental paid to Guangzhou Railway Group for the leasing of land use rights (Note 36 (b))	55,090	55,090	57,358
	<u>2,350,955</u>	<u>2,673,204</u>	<u>2,826,731</u>
<i>Other services</i>			
Social services (employee housing and public security services and other ancillary services) provided by GEDC and Yangcheng Railway (iii)	16,080	11,297	—
Provision of repair and maintenance services by Guangzhou Railway Group and its subsidiaries (iv)	489,038	306,988	298,040
Purchase of materials and supplies from Guangzhou Railway Group and its subsidiaries (v)	384,262	469,273	455,716
Provision of construction services by Guangzhou Railway Group and its subsidiaries (vi)	226,089	347,409	272,390
	<u>1,115,469</u>	<u>1,134,967</u>	<u>1,026,146</u>

GUANGSHEN RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts expressed in Renminbi unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with related parties (continued):

(I) Material transactions undertaken with Guangzhou Railway Group and its subsidiaries:

- (i) The service charges are determined based on a pricing scheme set by the CRC or based on negotiation between the contracting parties with reference to actual costs incurred.
- (ii) Such revenues/charges are determined by the CRC based on its standard charges applied on a nationwide basis.
- (iii) The service charges are levied based on contract prices determined based on a “cost plus a profit margin” and agreed between both contracting parties.
- (iv) The prices are determined based on mutual negotiation between the contracting parties with reference to actual costs incurred.
- (v) The prices are determined based on mutual negotiation between the contracting parties with reference to procurement costs incurred plus a management fee ranged from 0.3% to 5% on the costs.
- (vi) Based on construction amount determined under national railway engineering guidelines.

(II) Material transactions with CRC and other railway companies

The Group work in cooperation with the CRC and other railway companies owned and controlled by CRC for the operations of certain long distance passenger train and freight transportation businesses within the PRC. The revenues generated therefrom are collected and settled by the CRC according to its central recording and settlement systems (see details in Note 2.24). The charges for the use of the rail lines and services provided by other railway companies are also instructed by the CRC and settled by the CRC based on its systems. Since March 2013, the collection, processing and distribution functions of revenues which were executed by MOR previously have been transferred to CRC. As at 31 December 2017, the cooperation mode and pricing model had not been subject to any material changes.

GUANGSHEN RAILWAY COMPANY LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts expressed in Renminbi unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with related parties (continued):

(II) Material transactions with CRC and other railway companies (continued):

In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with the CRC Group:

	2015 RMB'000	2016 RMB'000	2017 RMB'000
<i>Provision of services and sales of goods</i>			
<i>Transportation related services</i>			
Provision of train transportation services to CRC Group (i)	36,515	29,794	81,396
Revenue collected by CRC for services provided to CRC Group (ii)	1,752,666	1,777,640	1,877,719
Revenue from railway operation service provided to CRC Group (iii)	1,421,995	1,628,143	1,800,692
	<u>3,211,176</u>	<u>3,435,577</u>	<u>3,759,807</u>
<i>Other services</i>			
Provision of repairing services for cargo trucks to CRC Group (ii)	284,348	323,993	333,917
Sales of materials and supplies to CRC Group (iv)	38,395	7,073	7,185
Provision of apartment leasing services to CRC Group (iv)	762	641	722
	<u>323,505</u>	<u>331,707</u>	<u>341,824</u>
<i>Services received and purchases made</i>			
<i>Transportation related services</i>			
Provision of train transportation services by CRC Group (i)	277,138	292,754	306,208
Cost settled by CRC for services provided by CRC Group (ii)	1,365,352	1,376,047	1,395,591
	<u>1,642,490</u>	<u>1,668,801</u>	<u>1,701,799</u>
<i>Other services</i>			
Provision of repair and maintenance services by CRC Group (iv)	2,813	42,954	31,089
Purchase of materials and supplies from CRC Group (v)	33,591	15,220	19,258
Provision of construction services by CRC Group (vi)	13,538	4,385	—
	<u>49,942</u>	<u>62,559</u>	<u>50,347</u>

- (i) The service charges are determined based on a pricing scheme set by the CRC or based on negotiation between the contracting parties with reference to actual costs incurred.
- (ii) Such revenue/charges are determined by the CRC based on its standard charges applied on a nationwide basis.

GUANGSHEN RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts expressed in Renminbi unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with related parties (continued):

(II) Material transactions with CRC and other railway companies (continued):

In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with the CRC Group (continued):

- (iii) The service charges are levied based on contract prices determined based on a “cost plus a profit margin” and explicitly agreed between both contracting parties.
- (iv) The prices are determined based on mutual negotiation between the contracting parties with reference to actual costs incurred.
- (v) The prices are determined based on mutual negotiation between the contracting parties with reference to procurement costs incurred plus a management fee ranged from 0.3% to 5% on the costs.
- (vi) Based on construction amounts determined under national railway engineering guidelines.

(III) Revenues collected and settled through the CRC:

	2015 RMB'000	2016 RMB'000	2017 RMB'000
- Passenger transportation	6,642,129	6,960,491	7,295,985
- Freight transportation	1,022,025	1,105,061	1,266,122
- Other transportation related services	86,199	86,883	112,267
	<u>7,750,353</u>	<u>8,152,435</u>	<u>8,674,374</u>

GUANGSHEN RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts expressed in Renminbi unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) As at 31 December 2016 and 2017, the Group had the following material balances maintained with related parties:

(I) Material balances with Guangzhou Railway Group and its subsidiaries:

	2016 RMB'000	2017 RMB'000
Trade receivables	730,061	1,435,421
- Guangzhou Railway Group (i)	229,056	132,830
- Subsidiaries of Guangzhou Railway Group (i)	501,005	1,302,591
Prepayments and other receivables	25,961	44,329
- Guangzhou Railway Group	691	3,277
- Subsidiaries of Guangzhou Railway Group	25,270	41,052
Prepayments for fixed assets and construction-in-progress	225	4,352
- Guangzhou Railway Group	—	—
- Subsidiaries of Guangzhou Railway Group (ii)	225	4,352
Trade payables	533,051	681,587
- Guangzhou Railway Group (i)	61,486	61,899
- Subsidiaries of Guangzhou Railway Group (ii)	432,712	619,509
- Associates	38,853	179
Payables for fixed assets and construction-in-progress	249,308	342,519
- Guangzhou Railway Group	10,805	53,821
- Subsidiaries of Guangzhou Railway Group	168,038	220,377
- Associates	70,465	68,321
Accruals and other payables	430,331	439,509
- Guangzhou Railway Group	5,663	7,390
- Subsidiaries of Guangzhou Railway Group (iii)	422,877	430,041
- Associates (iv)	1,791	2,078

GUANGSHEN RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts expressed in Renminbi unless otherwise stated)

38 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) As at 31 December 2016 and 2017, the Group had the following material balances maintained with related parties (continued):

(I) Material balances with Guangzhou Railway Group and its subsidiaries:

- (i) The trade balances due from/to Guangzhou Railway Group, subsidiaries of Guangzhou Railway Group mainly represent service fees and charges payable and receivable balances arising from the provision of passenger transportation and cargo forwarding businesses jointly with these related parties within the PRC.
- (ii) The trade payables due to subsidiaries of Guangzhou Railway Group mainly represent payables arising from unsettled fees for purchase of materials and provision of other services according to various service agreements entered into between the Group and the related parties.
- (iii) The other payables due to subsidiaries of Guangzhou Railway Group mainly represent the performance deposits received for construction projects and deposits received from ticketing agencies.
- (iv) The other payables due to associates mainly represent the performance deposits received for construction projects operated by associates.

As at 31 December 2016 and 2017, all the balances maintained with related parties were unsecured, non-interest bearing and were repayable on demand.

(II) Material balances with CRC Group:

	As at 31 December	
	2016 RMB'000	2017 RMB'000
Due from CRC Group		
- Trade receivables	1,443,272	1,372,631
- Other receivables	4,672	1,207
Due to CRC Group		
- Trade payables and payables for fixed assets and construction-in-progress	65,496	62,620
- Other payables	15,901	6,413

As at 31 December 2017, all the balances maintained with CRC Group were unsecured, non-interest bearing and were repayable on demand.

GUANGSHEN RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts expressed in Renminbi unless otherwise stated)

39 SUBSEQUENT EVENTS

- (a) At the meeting of the directors held on 28 March 2018, the directors proposed a final dividend of RMB 0.08 per ordinary share for the year ended 31 December 2017, which is subject to the approval by the shareholders in general meeting (Note 33). This proposed dividend was not reflected as a dividend payable in the Group's and the Company's financial statements as at 31 December 2017.
- (b) On 27 December 2017, the directors of the Company proposed to hand over the land use rights of certain land parcels owned by the Company for resumption in accordance with laws in response to the urban renewal demand in Guangzhou City.

On 19 April 2018, the Company entered into the Resumption Compensation Agreement with the Guangzhou Land Development Center ("GLDC" or the "Purchaser") and other vendors, pursuant to which the Purchaser agreed to resume the land use rights over the land with an initial total compensation of RMB 6.00 billion (subject to adjustments), of which the initial compensation amount payable to the Company will be approximately RMB 1.30 billion (subject to adjustments). GLDC is a public institution under the Guangzhou Land Resources and Planning Commission, which is responsible for the administration of government land reserve. The transaction is subject to the certain conditions, including the approval from the shareholders at the general meeting of the Company, and such conditions may or may not be fulfilled. If the conditions required for the completion of the transaction are not fulfilled, the transaction may not proceed.

**ARTICLES OF ASSOCIATION OF
GUANGSHEN RAILWAY COMPANY LIMITED**

(Approved by Special Resolution passed by the Shareholders'
General Meeting held on March 14, 1996)
(Amended by Special Resolution Adopted at the Shareholders'
General Meeting Held on June 24, 1997)
(Amended by Special Resolution Adopted at the Interim Shareholders'
General Meeting Held on February 8, 2001)
(Amended by Special Resolution Adopted at the Shareholders'
General Meeting Held on June 28, 2002)
(Amended by Special Resolution Adopted at the Shareholders'
General Meeting Held on June 10, 2004)
(Amended by Special Resolution Adopted at the Interim Shareholders'
General Meeting Held on December 30, 2004)
(Amended by Special Resolution Adopted at the Shareholders'
General Meeting Held on May 12, 2005)
(Amended by Special Resolution Adopted at the Shareholders' General Meeting Held on May 11, 2006)
(Amended by Special Resolution Adopted at the Shareholders' General Meeting Held on June 28, 2007)
(Amended by Special Resolution Adopted at the Shareholders' General Meeting Held on June 26, 2008)
(Amended by Special Resolution Adopted at the Shareholders' General Meeting Held on June 25, 2009)
(Amended by Special Resolution Adopted at the Interim Shareholders' General Meeting Held
on September 27, 2012)
(Amended by Special Resolution Adopted at the Shareholders' General Meeting Held
on May 28, 2015)
(Amended by Special Resolution Adopted at the Shareholders' General Meeting Held
on May 26, 2016)
(Amended by Special Resolution Adopted at the Shareholders' General Meeting Held
on June 15, 2017)

June 2017

(Note: This English translation is provided for reference only. In the event of any conflict or discrepancy between the Chinese and English versions, the Chinese version shall prevail).

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**ARTICLES OF ASSOCIATION OF
GUANGSHEN RAILWAY COMPANY LIMITED**

(Approved by Special Resolution passed by the Shareholders’
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General Meeting Held on June 24, 1997)
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on September 27, 2012)
(Amended by Special Resolution Adopted at the Shareholders’ General Meeting Held
on May 28, 2015)
(Amended by Special Resolution Adopted at the Shareholders’ General Meeting Held
on May 26, 2016)
(Amended by Special Resolution Adopted at the Shareholders’ General Meeting Held
on June 15, 2017)

CHAPTER 1: GENERAL PROVISIONS

ARTICLE 1 The Company is a joint stock limited company established in accordance with the Company Law of the People’s Republic of China (the “Company Law”), “State Council’s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Shares” (the “Special Regulations”) and other relevant laws and administrative regulations of the State.

The Company was established by way of promotion with the approval under the document “Ti Gai Sheng” [1995] No. 151 of the Peoples’ Republic of China’s State Commission for Restructuring the Economic System. The Company is registered with and has obtained a business licence from the Administration Bureau of Industry and Commerce of Shenzhen, Guangdong Province, the PRC on the sixth (6) day of March 1996. The number of the Company’s business licence is 4403011022106.

The promoter of the Company is Guangzhou Railway (Group) Company.

ARTICLE 2 The Company’s registered name in Chinese is:”广深铁路股份有限公司” and in English is: GUANGSHEN RAILWAY COMPANY LIMITED

ARTICLE 3 The Company’s domicile: No. 1052, Heping Road, Shenzhen, China

Zip Code :	518010
Telephone :	(0755) 25584891
Facsimile :	(0755) 25591480

ARTICLE 4 The Chairman of the board of directors shall be the legal representative of the Company.

ARTICLE 5 The Company is a joint stock limited company in perpetual existence.

ARTICLE 6 In accordance with the Company Law, the Constitution of Communist Party of China, the Special Regulations, the Mandatory Provisions for the Articles of Association of Companies to be Listed Outside China (the “Mandatory Provisions”), the Guidelines for Articles of Association of Listed Companies (the “Guidelines on Articles of Association”), other relevant laws, administrative regulations and regulatory documents of the State, the articles of association adopted on 22 January 1996 and the amended articles of association approved at the respective shareholders’ general meetings held on 14 March 1996, 24 June 1997, 8 February 2001, 28 June 2002, 10 June 2004, 30 December 2004, 12 May 2005, 11 May 2006, 28 June 2007 and 26 June 2008, 25 June 2009, 27 September 2012, 28 May 2015 and 26 May 2016 (referred to as the “Original Articles of Association”), the Company formulates these articles of association of the Company 15 June 2017 (hereinafter referred to as these “Articles of Association of the Company” or “Articles of Association”) for the purpose of standardizing the organization and behaviour of the Company, protecting the legitimate interests of the Company and its Shareholders and enhancing the Communist Party’s guidance on the Company.

ARTICLE 7 The Original Articles of Association have taken effect since the completion of registration formalities with the Administration Bureau of Industry and Commerce of Shenzhen, Guangdong Province, the PRC.

These Articles of Association of the Company shall take effect after being approved by the government approval department authorized by the State Council and the Securities Committee of the State Council. The Original Articles of Association of the Company will be replaced by these Articles of Association of the Company when the latter take effect.

The Company shall, within the period stipulated by laws or administrative regulations, process the registration of alternation of mandatory registered items due to the amendment of the Original Articles of Association.

ARTICLE 8 From the date of these Articles of Association becoming effective, these Articles of Association shall be a legally binding document which regulates the Company's organization and activities, and defines the rights and obligations between the Company and its shareholders and among the shareholders inter se.

ARTICLE 9 These Articles of Association are binding on the Company, its shareholders, directors, supervisors, general manager, deputy general managers and other senior administrative officers of the Company; all of whom are entitled to claim rights concerning the affairs of the Company in accordance with these Articles of Association.

These Articles of Association are actionable by a shareholder against the Company and vice versa, by shareholders against each other and by a shareholder against the directors, supervisors, general manager, deputy general managers and other senior administrative officers of the Company.

The actions referred to in the preceding paragraph include court proceedings or arbitration proceedings.

Other senior administrative officers referred to in the first paragraph of this Article include the chief accountant, the chief economist, the chief engineer and the secretary to the board of directors.

ARTICLE 10 The Company can invest in other limited liability companies or joint stock limited companies, and its liabilities to an investee company shall be limited to the amount of its capital contribution to the investee company.

ARTICLE 11 On condition of adherence to the Guidance of the Communist Party of China and compliance with applicable laws and administrative regulations of the People's Republic of China ("PRC"), the Company has the power to raise and borrow money which power includes without limitation the issue of debentures, the charging or pledging of part or whole of the Company's business or properties and other rights permitted by PRC laws and administrative regulations.

CHAPTER 2: PURPOSES AND SCOPE OF BUSINESS

ARTICLE 12 The business purposes of the Company are: to utilise local and overseas social funding to improve the Company's standard of technology, the standard of the equipment, the quality of the service, and to improve the Company's market competitiveness, to ensure the safety of railway transportation, to accelerate the development of the railway transportation business, to become a first class international railway transportation enterprise so that all the shareholders may receive reasonable economic benefits as well as a satisfactory capital return.

ARTICLE 13 Scope of business of the Company shall be subject to the items approved by the company registration authority.

The scope of business of the Company covers: the provision of passenger and cargo railway transport services, the technology services of railway facilities, the agency for domestic cargo transport, the agency for railway cargo transport, leasing of railway equipment, locomotive maintenance (including repair and additional modification of wagon factory and division), the processing and repairing of mechanical equipment, the inspection, testing, repairing, refitting, leasing and installation of instruments and equipment specially used in railway, the construction management services in relation to railway projects, survey, design, construction and maintenance of construction on railways or surrounding areas, the leasing of properties owned by the Company, the utility maintenance and installation services, property management, the provision of warehousing, storage and cargo handling services, the agency for passenger railway tickets and advertisement business, the domestic supply and marketing entities for trade materials and resources (except for franchise, centralized control or exclusive agency), import and export of goods and technology and the reorganization and operation of various enterprises (separate declaration required for individual projects).

ARTICLE 14 The Company may, according to its ability to develop, and upon the approval by special resolution adopted by the shareholders' general meeting and the approval of the relevant state authority, adjust its business scope or investment direction and method etc.

CHAPTER 3: SHARES AND ISSUE OF SHARES

ARTICLE 15 The Company shall have ordinary shares at all times. Subject to the approval of the government approval department of the Company authorized by the State Council, the Company may, according to its requirements, create other classes of shares.

ARTICLE 16 The shares issued by the Company shall have par value and of Renminbi one yuan per share.

The Renminbi referred to in the preceding paragraph is the legal currency of the People's Republic of China.

ARTICLE 17 Subject to the approval of the securities regulatory authority of the State Council, the Company may issue shares to domestic investors and overseas investors for subscription.

Overseas investors referred to in the preceding paragraph shall mean those investors of foreign countries, Hong Kong, Macau and Taiwan who subscribe for shares issued by the Company. Domestic investors shall mean investors within the territory of the PRC (excluding investors of the regions referred to in the preceding sentence) who subscribe for shares issued by the Company.

ARTICLE 18 The shares issued by the Company to domestic investors for subscription in Renminbi shall be referred to as “Domestic-Invested Shares”. Domestic-Invested Shares include shares issued to the promoter by the Company upon its establishment and shares issued to the public in the PRC after its establishment. The shares issued by the Company to overseas investors for subscription in foreign currencies shall be referred to as “Foreign-Invested Shares”. Foreign-Invested Shares, which are listed overseas, are called “Overseas Listed Foreign-Invested Shares”.

Foreign currencies referred to in the preceding paragraph shall mean the lawful currencies of other countries or regions, other than Renminbi, which are recognized by the foreign exchange regulatory authority of the State and which can be used for payment of share subscription to the Company.

ARTICLE 19 Overseas Listed Foreign-Invested Shares issued by the Company and listed in Hong Kong shall be called “H Shares”. H Shares means the shares which are approved to be listed on The Stock Exchange of Hong Kong Limited (the “HK Stock Exchange”), the par value of which is denominated in Renminbi and which are subscribed for and traded in Hong Kong dollars.

ARTICLE 20 With the approval of the government approval department of the Company authorized by the State Council, the Company issued 2,904,250,000 shares to Guangzhou Railway (Group) Company (the “Promoter”) at the time of its establishment.

ARTICLE 21 The Company made its first increase of capital after its incorporation by issuing ordinary shares, namely a total of 1,431,300,000 H shares (including those by the exercise of over-allotment options).

Subsequent to the increase of capital by issuing shares as referred to in the preceding paragraph, the share capital structure of the Company is: 4,335,550,000 ordinary shares, of which 2,904,250,000 shares are held by the Promoter, representing 66.99 per cent of the total number of ordinary shares, and 1,431,300,000 shares are held by holders of H Shares, representing 33.01 per cent of the total number of ordinary shares.

As approved by the by China Securities Regulatory Commission on 6 December 2006, the Company made its initial public offering of 2,747,987,000 Renminbi-denominated ordinary shares in the PRC on 13 December 2006 and such shares were listed on the Shanghai Stock Exchange on 22 December 2006.

Subsequent to the increase of capital by issuing shares to the public in the PRC as referred to in the preceding paragraph, the share capital structure of the Company is: 7,083,537,000 ordinary shares, of which 2,904,250,000 shares are held by the Promoter, 2,747,987,000 shares are held by public shareholders in the PRC and 1,431,300,000 shares are held by holders of H Shares, representing 41.0 per cent, 38.8 per cent and 20.2 per cent of the total number of ordinary shares, respectively.

ARTICLE 22 Subject to the proposals of the Company to issue Overseas Listed Foreign-Invested Shares and Domestic-Invested Shares as approved by the securities regulatory authority of the State Council, the Company's board of directors may make implementing arrangements for separate issues.

The Company's proposal to issue Overseas Listed Foreign-Invested Shares and Domestic-Invested Shares separately pursuant to the preceding paragraph may be separately implemented within fifteen (15) months from the date of approval of the Securities Committee of the State Council.

ARTICLE 23 In respect of the total number of shares as stated in a shares issuing proposal, where the Company shall separately issue Overseas Listed Foreign-Invested Shares and Domestic-Invested Shares, these respective shares shall be fully subscribed for at their respective offerings. If the shares cannot be fully subscribed for at their offerings due to exceptional circumstances, subject to the approval of the Securities Committee of the State Council, these shares may be issued in batches.

ARTICLE 24 Subsequent to the increase in capital by issuing of shares to the public in the PRC as referred to in Article 21, the Company's registered capital is Renminbi 7,083,537,000.

ARTICLE 25 The Company may, based on its requirements for operation and development and in accordance with the relevant provisions of these Articles of Association, approve an increase in capital.

The Company may increase its capital in the following ways:

- (1) offering new shares to investors who are not specially designated for subscription;
- (2) offer of shares other than a public offering;
- (3) placing new shares to its existing shareholders;

- (4) issue of new shares to its existing shareholders;
- (5) conversion of common reserve funds to increase share capital;
- (6) other methods as permitted by laws, administrative regulations and as approved by the China Securities Regulatory Commission.

The Company's increase in capital by issuing new shares shall, after being approved in accordance with the provisions of these Articles of Association, be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations of the State.

ARTICLE 26 Unless otherwise provided by relevant laws and administrative regulations, the shares of the Company shall be freely transferable and free from any liens.

ARTICLE 27 The Company shall not accept those shares of the Company as the subject of a pledge.

ARTICLE 28 Shares of the Company held by the Promoter shall not be transferred within one year of the date of establishment of the Company. Shares of the Company held by the Promoter before the public offering of the Company shall not be transferred within one year of the date of trading of shares of the Company at a domestic stock exchange.

The directors, supervisors, general manager, deputy general managers and other senior administrative officers shall report to the Company on a regular basis as to the Company's shares held by them and any change thereof during their terms of office and no one shall transfer more than 25% of the total shares of the Company that he or she holds each year during his or her term of office; the shares held by such person shall not be transferred within one year of the date on which the Company's shares are listed and commence trading in the domestic stock exchange; no one shall transfer the shares of the Company that he or she holds within six months after leaving his or her respective offices.

ARTICLE 29 Where a shareholder of the Company holding more than 5 per cent of the shares carrying the right to vote pledges the shares held, he/she shall report to the Company in writing within three working days from the date on which the event occurs.

ARTICLE 30 Where a shareholder of the Company holding 5 per cent or more of the shares carrying the right to vote sells the shares held within six months from the date of acquisition of the shares or reacquires shares of the Company within six months from the date of sale of the shares, the profits deriving therefrom shall belong to the Company.

The provision in the preceding paragraph is applicable to the directors, supervisors, general manager, deputy general managers and other senior administrative officers of the Company.

If the board of directors fails to implement the provisions of the first paragraph of this Article, the shareholders shall have the right to require the board of directors to implement the provisions within 30 days. If the board of directors fails to implement the provisions within the prescribed period, the shareholders shall, in the interests of the Company and in his/their own name(s), have the right to initiate legal proceedings directly at a People's Court.

Where the board of directors fails to implement the provisions of the first paragraphs, the directors who are liable for such default shall assume joint liability in accordance with law.

In the event that the regulatory authorities of the place where the Overseas Listed Foreign-Invested Shares are listed have different requirements, such requirements shall prevail.

CHAPTER 4: REDUCTION OF CAPITAL AND REPURCHASE OF SHARES

ARTICLE 31 In accordance with the provisions of these Articles of Association, the Company may reduce its registered capital.

ARTICLE 32 When the Company reduces its registered capital, it shall draw up a balance sheet and a list of assets.

The Company shall notify its creditors within ten (10) days of the date on which the resolution for reduction of its registered capital is passed and shall publish a notice in a newspaper within thirty (30) days of the date of such resolution. A creditor within thirty (30) days of receiving the notice from the Company or, in the case of a creditor who does not receive the notice, within forty-five (45) days of the date of the public notice, is entitled to demand the Company to repay its debts or provide a corresponding guarantee for such debt.

The Company's registered capital after reduction of the capital shall not be less than the statutory minimum amount.

ARTICLE 33 The Company may, upon approval obtained in accordance with the procedures provided in these Articles of Association, and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

(1) cancellation of shares for the purpose of capital reduction of the Company;

(2) merger with another company that holds shares of the Company;

(3) issue of shares to its employees as bonus;

(4) repurchasing of any shares held by any shareholder who is opposed to the Company's resolution for merger or division at a shareholders' general meeting upon request.

Any repurchase of shares under items (1) to (3) of the foregoing paragraph shall be approved at the shareholders' general meeting of the Company. After repurchase of the shares according to the foregoing paragraph by the Company, the shares repurchased under item (1) shall be cancelled within ten days of the date of the repurchase; and the shares repurchased under items (2) and (4) shall be transferred or cancelled within six months.

The shares repurchased by the Company under item (3) of the first paragraph may not exceed 5 per cent of the total of the Company's issued shares. Such repurchase shall be financed by the Company's profit after tax. The shares so repurchased shall be transferred to the employees within one year.

In the event that the regulatory authorities at the place of listing of the Overseas Listed Foreign-Invested Shares have different requirements, such requirements shall prevail.

ARTICLE 34 The Company may, with the approval of the relevant State governing authority for repurchasing its shares, conduct the repurchase in one of the following ways:

(1) making a repurchase offer to all shareholders on a pro rata basis;

(2) repurchasing the shares through public dealing on a stock exchange;

(3) repurchasing the shares by an off-market agreement.

ARTICLE 35 Where the Company repurchases its shares by an off-market agreement, the prior approval of shareholders' general meeting shall be obtained in accordance with the provisions of these Articles of Association. The Company may terminate or vary a contract so entered into by the Company or waive its rights therein upon the prior approval of shareholders' general meeting obtained in the same manner.

A contract to repurchase shares referred to in the preceding paragraph includes (but not limited to) an agreement to become obliged to repurchase or an acquisition of the right to repurchase shares of the Company.

The Company shall not assign the contract for repurchasing its shares or any rights therein.

ARTICLE 36 Shares which shall be repurchased according to laws, regulations, Articles of Association or resolution of shareholders' general meeting after the repurchase by the Company in accordance with law, shall be cancelled within the period prescribed by laws and administrative regulations, and the Company shall apply to the original companies registration authority for registration of the change in its registered capital.

The aggregate par value of those cancelled shares shall be reduced from the amount of the Company's registered capital.

ARTICLE 37 Unless the Company is in the course of liquidation, the repurchase of issued shares by the Company shall be subject to the following provisions:

(1) for those shares repurchased at par value, payment shall be made out of book surplus distributable profits of the Company or out of proceeds of an issuance of new shares made for that purpose;

(2) for those shares repurchased at a premium to its par value, payment up to the par value thereof may be made out of the book surplus distributable profits of the Company or out of the proceeds of an issuance of new shares made for that purpose; payment of the portion in excess of the par value shall be dealt with in the following manners:

(i) for those repurchased shares which were issued at par value, payment shall be made out of the book surplus distributable profits of the Company;

(ii) for those repurchased shares which were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of the Company or out of the proceeds of an issuance of new shares made for that purpose, provided that the amount paid out of the proceeds of the issuance of new shares shall not exceed the aggregate of premiums received from the issuance of the shares repurchased, nor shall it exceed the current amount of the Company's capital common reserve fund account (including the amount of premiums from the issuance of new shares) of the Company at the time of such repurchase;

(3) The payment made by the Company for the following purposes shall be paid out of the Company's distributable profits:

(i) acquisition of rights in respect of repurchase of its shares;

(ii) variation of any contract in respect of repurchase of its shares;

(iii) discharging of any of its obligations under any repurchase agreement;

(4) after the reduction of the total nominal value of the shares which have been so cancelled from the registered capital of the Company in accordance with the relevant provisions, the amount which has been deducted from the distributable profits of the Company and used for repurchasing the nominal value portion of the shares shall be credited to the capital common reserve fund account.

CHAPTER 5: FINANCIAL ASSISTANCE FOR ACQUISITION OF THE COMPANY'S SHARES

ARTICLE 38 The Company or its subsidiaries shall not, at any time or in any manner, provide any financial assistance to any person who acquires or intends to acquire the shares in the Company. The person who acquires the shares of the Company as aforesaid includes the person who directly or indirectly incurs any obligations due to the acquisition of shares in the Company.

The Company or its subsidiaries shall not, at any time or in any manner, provide financial assistance to reduce or discharge such person as aforesaid from his or her obligations.

This Article shall not apply to the circumstances specified in Article 40 of this Chapter.

ARTICLE 39 For the purpose of this Chapter, "financial assistance" includes (but not limited to) the following:

(1) gift;

(2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (other than compensation made as a result of default on the part of the Company itself), discharge or waiver of rights;

(3) provision of loan or entering into contract under which the obligations of the Company are to be fulfilled before performance of the obligations by another party or the novation of the parties to, or the assignment of rights arising under, such loan or agreement;

(4) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or as a result of which the net assets would be reduced to a material extent.

For the purpose of this Chapter, “incurring any obligations” includes the incurring of obligations by the obligor through changing of the obligor’s financial position by way of contract or the making of arrangement (whether enforceable or not, and whether made on its own account or with any other person), or by any other means.

ARTICLE 40 The following shall not be deemed to be activities prohibited by Article 38 of this Chapter.

- (1) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interests of the Company, and the principal purpose in giving the financial assistance is not for the acquisition of shares in the Company, or the giving of the financial assistance is an incidental part of some overall plan of the Company;
- (2) the lawful distribution of the Company’s assets by way of dividend;
- (3) the allotment of bonus shares as dividends;
- (4) reduction of registered capital, repurchase of shares of the Company or a reorganization of the shareholding structure of the Company effected in accordance with these Articles of Association;
- (5) lending of money by the Company in the ordinary course of business which falls within its scope of business (provided that the net assets of the Company shall not be thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is made out of distributable profits of the Company);
- (6) provision of fund by the Company for contributions to staff and workers’ shares schemes (provided that the net assets of the Company shall not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is made out of distributable profits of the Company).

CHAPTER 6: SHARE CERTIFICATE AND REGISTER OF SHAREHOLDERS

ARTICLE 41 Share certificates of the Company shall be in registered form. The following items shall be expressly stated on the share certificate of the Company:

- (1) the Company’s name;
- (2) the date of registration of the Company;
- (3) the class of the share certificate, the par value and the number of shares represented by the share certificate;

(4) the serial number of the share certificate;

(5) other items required to be stated by the stock exchange on which the Company's shares are listed.

ARTICLE 42 Share certificates of the Company shall be signed by the Chairman of the Company's board of directors. Where the stock exchange on which the Company's shares are listed requires other senior administrative officer(s) of the Company to sign thereon, the share certificates shall also be signed by such senior administrative officer(s). The share certificates shall take effect after the designated securities seal of the Company have been affixed thereto or the designated securities seal has been affixed thereto in a printed form. The affixing of the Company's designated securities seal shall be authorized by the board of directors. The signatures of the Chairman of the board of directors or other senior administrative officer(s) of the Company on the share certificates may also be made in a printed form.

ARTICLE 43 The Company shall keep a register of its shareholders and enter in the register the following particulars:

(1) the name and address (residence), the occupation or nature of each shareholder;

(2) the class and number of shares held by each shareholder;

(3) the amount paid or payable for the shares held by each shareholder;

(4) the serial numbers of the shares held by each shareholder;

(5) the date when each shareholder is registered as a shareholder;

(6) the date when each shareholder ceased to be a shareholder.

Unless contrary evidence is shown, the register of shareholders shall be conclusive evidence of the shareholders' shareholdings in the Company.

ARTICLE 44 The Company may, in accordance with the mutual understanding and agreements between the securities regulatory authority of the State Council and overseas securities regulatory authorities, maintain the register of shareholders of Overseas Listed Foreign-Invested Shares overseas and appoint an overseas agent(s) to manage such share register.

The original copy of the register of holders of H Shares shall be maintained in Hong Kong.

A duplicate of the register for holders of Overseas Listed Foreign-Invested Shares shall be maintained at the Company's address. The appointed overseas agent(s) shall at all times ensure the consistency between the original and the duplicate of the register of holders of Overseas Listed Foreign-Invested Shares.

In the event of any inconsistency between the original and the duplicate of the register of holders of Overseas Listed Foreign-Invested Shares, the original shall prevail.

ARTICLE 45 The Company shall have a complete register of shareholders which shall comprise the following:

- (1) a part of the register of shareholders maintained at the Company's address other than those specified in sub-paragraphs (2) and (3) of this Article;
- (2) a part of the register of shareholders in respect of the holders of Overseas Listed Foreign-Invested Shares of the Company maintained in the place of the overseas stock exchange on which the shares are listed; and
- (3) any other parts of the register of shareholders maintained at such other place(s) as the board of directors may consider necessary for the purpose of listing the shares of the Company.

ARTICLE 46 The various parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.

All the fully paid up Domestic-Invested Shares and H Shares shall be transferable in accordance with provisions of laws and regulations and these Articles of Association. However, where H Shares are transferred, the board of directors may refuse to recognize any instrument of transfer without giving any reason unless all of the following conditions are satisfied:

- (1) a fee (for each instrument of transfer) of two dollars and fifty cents Hong Kong dollars or any higher fee as agreed by the Hong Kong Stock Exchange has been paid to the Company for registration of any instrument of transfer and any other document which is related to or will affect all ownership of the shares;
- (2) the instrument of transfer only involves H Shares;
- (3) the stamp duty chargeable on the instrument of transfer has been paid;
- (4) the relevant share certificate and upon the reasonable request of the board of directors any evidence showing that the transferor is entitled to transfer the shares have been produced;
- (5) if it is intended to transfer the shares to joint holders, then the number of joint holders shall not exceed four (4); and
- (6) the Company shall not have any lien on the relevant shares.

The alteration and rectification of each part of the share register shall be carried out in accordance with the laws of the place where each part of the register is maintained.

If the Company refuses to register the transfer of shares, the Company shall within two months after the date of submission of the formal transfer application provide the transferor and the transferee with a notice of refusal to register such transfer.

ARTICLE 47 No entry made to the shareholders' register due to the transfer of shares may be made within thirty (30) days before the date of a shareholder' general meeting or within five (5) days before the record date for the Company's distribution of dividends.

ARTICLE 48 Where the Company decides to convene a shareholders' general meeting, distribute dividends, enter into liquidation or carry out other activities for which it is necessary to ascertain the shareholding, the board of directors shall fix a record date for the purpose of determining shareholdings. A person who is registered in the register as shareholders of the Company at the end of the record date shall be a shareholder of the Company.

ARTICLE 49 Any person aggrieved and claiming to be entitled to have his name (or its name) entered in or removed from the register of shareholders may apply to a court of competent jurisdiction for rectification of the register.

ARTICLE 50 Any person who is a registered shareholder on the register of shareholders or who claims to be entitled to have his name (or its name) entered into the register of shareholders in respect of shares in the Company may, if his share certificate (the "original certificate") relating to the shares is lost, apply to the Company for a replacement for new share certificate in respect of such shares (the "Relevant Shares"). If a shareholder of domestic shares loses his share certificate and applies for a replacement for new certificate, the Company shall process the application in accordance with the Company Law.

If a shareholder of overseas listed foreign-invested shares loses his share certificate and applies for a replacement for new certificate, the Company shall process the application in accordance with the laws, rules of stock exchange, or other relevant regulations of the country/region where the original copy of the register of shareholders of such shareholder of overseas listed foreign-invested shares is maintained.

The replacement for share certificate applied by a holder of H Shares who has lost his share certificate shall be conducted in accordance with the following procedures:

(1) The applicant shall submit an application in a standard form prescribed by the Company and accompanied by a notarial certificate or a statutory declaration (i) stating the grounds upon which the application is made and the circumstances and the evidence of the loss of share certificate; and (ii) declaring that no other person is entitled to have his name entered in respect of the Relevant Shares.

(2) Before the Company decides to issue the new share certificate, no statement made by any person other than the applicant declaring that his name shall be entered in the register of shareholders in respect of such shares has been received.

(3) The Company shall, if it intends to issue a new share certificate to the applicant, publish a notice of its intention at least once every thirty (30) days in a period of ninety (90) consecutive days in such newspapers as may be prescribed by the board of directors.

(4) The Company shall have, prior to publication of its intention to issue a new share certificate, delivered to the stock exchange on which its shares are listed a copy of the notice to be published and may publish the notice upon receiving confirmation from such stock exchange that the notice has been exhibited in the premises of the stock exchange. Such notice shall be exhibited in the premises of Stock Exchange for a period of ninety (90) days.

In the case of an application made without the consent of the relevant registered holder of the Relevant Shares, the Company shall deliver by mail to such registered shareholder a copy of the notice to be published;

(5) Upon the expiration of the 90-day period for the publication of the said announcement as provided referred to in paragraphs (3) and (4) of this Article, if no objection is received by the Company from any person to the replacement of such certificate, the new share certificate shall be issued pursuant to the application of the applicant.

(6) Upon issuing the new share certificate under this Article, the Company shall forthwith cancel the original share certificate and enter the cancellation and issue in the register of shareholders accordingly.

(7) All expenses incurred by the Company in connection with the cancellation of the original share certificate and the issuance of the new share certificate shall be borne by the applicant and the Company is entitled to refuse to take any action until reasonable security is provided by the applicant.

ARTICLE 51 Upon the issuance by the Company of a new share certificate pursuant to these Articles of Association, the name of a bona fide purchaser gaining possession of such new share certificate or the person who is subsequently entered in the register of shareholders as holder of such shares (if being a bona fide purchaser) shall not be removed from the register of shareholders.

ARTICLE 52 The Company shall not be liable for any damages sustained by any person as a result of the cancellation of the original share certificates or issuance of the new share certificates, unless the claimant proves that the Company has acted fraudulently.

CHAPTER 7: SHAREHOLDERS' RIGHTS AND OBLIGATIONS

ARTICLE 53 A shareholder of the Company is a person who lawfully holds shares in the Company and whose name is entered in the register of shareholders.

A shareholder shall enjoy rights and bear obligations according to the class and proportion of the shares held by him; the shareholders of the same class of shares shall enjoy the same rights and shall bear the same obligations.

ARTICLE 54 The ordinary shareholders of the Company shall enjoy the following rights:

- (1) to receive dividends and other forms of profit distributions in proportion to the number of shares he holds;
- (2) to attend and to vote at shareholders' general meetings in person or by proxy in accordance with laws;
- (3) to supervise the business operation and activities of the Company, and to make proposals or inquiries in relation thereto;
- (4) to transfer, confer or pledge shares in accordance with laws, administrative regulations and the provisions of these Articles of Association;
- (5) to obtain relevant information in accordance with laws, regulations and the provisions of these Articles of Association, including:
 - (i) to obtain these Articles of Association upon payment of the cost thereof;
 - (ii) upon payment of reasonable charges, to inspect and make copies of:
 - (a) all parts of the register of shareholders;
 - (b) personal particulars of the Company's directors, supervisors, general manager, deputy general managers and other senior administrative officers, including:
 - (aa) present name and alias and any former name or alias;

- (bb) principal address (domicile);
- (cc) nationality;
- (dd) full-time occupation and all other part-time occupations and duties;
- (ee) identification document and the number thereof.
- (c) status of the Company's share capital;
- (d) reports showing the aggregate par value, quantity, highest and lowest prices paid in respect of each class of shares repurchased by the Company since the end of last accounting year and the aggregate amount paid by the Company for this purpose;
- (e) minutes of shareholders' general meetings;
- (f) the latest audited financial reports and the report of directors, auditors and supervisors thereon;
- (g) special resolutions of the Company;
- (h) a copy of the latest annual financial report filed with the national taxation department or other regulatory authorities;
- (6) in the event of the dissolution or liquidation of the Company, to participate in the distribution of the remaining assets of the Company in accordance with his shareholding;
- (7) other rights conferred by laws, administrative regulations and these Articles of Association.

ARTICLE 55 The ordinary shareholders of the Company shall assume the following obligations:

- (1) to observe these Articles of Association;
- (2) to pay the subscription price in accordance with the number of shares subscribed for and in the manner of subscription;
- (3) save as stipulated under laws and regulations, no withdrawal shall be allowed;

(4) other obligations imposed by the relevant laws, administrative regulations and these Articles of Association.

Shareholders shall not be liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

ARTICLE 56 Save for the obligations imposed by laws and administrative regulations or required by the listing rules of the stock exchange on which shares of the Company are listed, when exercising its rights as a shareholder, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of the shareholders as a whole or of part of the shareholders of the Company:

(1) to relieve a director or supervisor from his duty to act honestly in the best interests of the Company;

(2) to approve the expropriation by a director or supervisor (for his/her own benefit or for the benefit of another person), in any manner of the Company's assets, including (without limitation) opportunities beneficial to the Company;

(3) to approve the expropriation by a director or supervisor (for his/her own benefit or for the benefit of another person) of the personal rights of other shareholders, including (without limitation) any entitlement to distributions and voting rights save pursuant to a corporate restructuring submitted to the shareholders' general meeting for approval in accordance with these Articles of Association.

In the flows of operating capital between the controlling shareholder and other connected parties and the Company, appropriation of the Company's capital shall be stringently restricted. The controlling shareholder and other connected parties shall not request the Company to pay in advance for them salaries, benefits, insurance, advertisement and other fees, and they shall not bear the costs and other expenses on behalf of one another.

The Company shall not directly or indirectly provide capital to the controlling shareholder and other connected parties for use in the following ways:

(1) to lend capital of the Company to the controlling shareholder and other connected parties for use whether at a consideration or at nil consideration;

(2) to extend entrusted loans to the connected parties through banks or non-bank financial institutions;

(3) to entrust the controlling shareholder and other connected parties to conduct investment activities;

- (4) to issue a bill of acceptance without real transaction background for the controlling shareholder and other connected parties;
- (5) to pay off liability for the controlling shareholder and other connected parties;
- (6) other ways specified by China Securities Regulatory Commission.

ARTICLE 57 For the purpose of the foregoing Article, a “controlling shareholder” means a shareholder who holds fifty per cent or more of the shares of the Company, or in the case of less than fifty per cent, the voting rights represented by the shares held by whom are sufficient to exert a significant influence upon the resolutions of the shareholders’ general meeting.

ARTICLE 58 Subject to the compliance of relevant laws, regulations and rules, where the Company intends to issue preference shares, the rights and obligations of holders of such shares shall be resolved by the shareholders’ general meeting.

CHAPTER 8: SHAREHOLDERS’ GENERAL MEETINGS

ARTICLE 59 The shareholders’ general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law.

ARTICLE 60 The shareholders’ general meeting shall exercise the following functions and powers:

- (1) to decide on the Company’s operational policies and investment plans;
- (2) to elect and replace directors (other than those who are staff representatives) and decide on matters relating to the remuneration of the relevant directors;
- (3) to elect and replace the supervisors (other than those who are staff representatives) and decide on matters relating to the remuneration of supervisors;
- (4) to examine and approve reports of the board of directors;
- (5) to examine and approve reports of the supervisory committee;
- (6) to examine and approve the Company’s proposed annual preliminary and final financial budgets;
- (7) to examine and approve the Company’s profit distribution plans and plans for making up losses;
- (8) to resolve on increases or reductions in the Company’s registered capital;

- (9) to resolve on matters such as merger, division, dissolution and liquidation or change in the form of the Company;
- (10) to resolve on the issue of debentures by the Company;
- (11) to resolve on the appointment, dismissal or termination of engagement of the accounting firm of the Company;
- (12) to amend these Articles of Association;
- (13) to examine motions raised by shareholders who represent 3 per cent or more of the total shares of the Company carrying the right to vote;
- (14) to examine and approve the proposals for the establishment of strategy, audit, nomination, remuneration, appraisal, examination and other special committees of the board of directors of the Company;
- (15) to resolve on other matters which require resolutions of the shareholders' general meetings according to relevant laws, administrative regulations and provisions of these Articles of Association;
- (16) to decide on matters which the board of directors may be authorized or delegated to deal with by the shareholders' general meetings.

ARTICLE 61 The Company shall not, without prior approval of shareholders' general meeting, enter into any contract with any person other than a director, supervisor, general manager, deputy general manager or other senior administrative officer whereby the management and administration of the whole or any substantial part of the business of the Company is to be handed over to such person.

ARTICLE 62 Shareholders' general meetings shall be divided into annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the board of directors. Annual general meetings shall be convened once every year and shall be held within six (6) months after the end of the preceding accounting year.

In the event that the Company is not able to convene the annual general meeting within the aforesaid prescribed period for any reasons, it shall report to the relevant stock exchanges to explain the reasons and make an announcement.

Upon the occurrence of any of the following circumstances, the board of directors shall convene an extraordinary general meeting within two (2) months:

- (1) when the number of directors is less than the number of directors required by the Company Law or two-thirds of the number of directors specified in these Articles of Association;

- (2) when the unrecovered losses of the Company amount to one-third of the total paid-up share capital of the Company;
- (3) when the shareholder(s) individually or collectively holding 10 per cent or more of the Company's outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting;
- (4) whenever the board of directors considers necessary;
- (5) whenever the supervisory committee requests to convene the same.

ARTICLE 63 A shareholders' general meeting shall be convened by a written notice served by way of announcement or other means specified under these Articles of Association (if necessary) at least forty-five (45) days before the date of the meeting to notify all shareholders whose names are shown on the register of members of the matters to be considered and the date and venue of the meeting. A shareholder who intends to attend the shareholders' general meeting shall deliver his written reply concerning the attendance of the meeting to the Company twenty (20) days before the date of the meeting.

In order to assure the legality and validity of the shareholders' general meeting, the Company will provide convenience for shareholders to attend shareholders' general meetings through various means and approaches and will provide priority to modern information technology methods such as online voting platform.

ARTICLE 64 Shareholders individually or collectively holding more than three per cent of the Company's shares, are entitled to present a new proposal in written form to the board of directors at an annual general meeting. The Company shall include the matters in the proposal within the functions and powers of a shareholders' general meeting in the agenda of the meeting.

ARTICLE 65 The Company shall, pursuant to the written replies received twenty (20) days before the date of the shareholders' general meeting from the shareholders, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting reaches one half or more of the Company's total voting shares, the Company may hold the shareholders' general meeting; otherwise, the Company shall within five (5) days thereof give a further notice to the shareholders specifying the matters to be considered and the place and date of the meeting by way of an announcement. The Company may convene the shareholders' general meeting after giving such notice.

An extraordinary general meeting shall not resolve on any matter not expressly stated in the notice of such meeting.

ARTICLE 66 A notice of shareholders' general meeting shall meet the following requirements:

- (1) it shall be given by way of announcement or other means specified under these Articles of Association (if necessary);
- (2) it shall specify the place, the date and time of the meeting;
- (3) it shall state the matters to be considered;
- (4) it shall provide the shareholders with all such information and explanations as are necessary for the shareholders to make an informed decision on the proposals put before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase shares, to reorganize the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- (5) if any director, supervisor, general manager, deputy general manager or other senior administrative officer has a material interests in matters to be considered, he shall disclose the nature and the extent of such interest; and if the matters to be considered have an effect on such director, supervisor, general manager, deputy general manager or other senior administrative officer in his capacity as shareholder in so far as it is different from the effect on the interests of the shareholders of the same class, such differences shall be specified;
- (6) it shall contain the full text of any special resolution to be proposed for approval at the meeting;
- (7) it shall expressly specify in writing that all shareholders are entitled to attend the shareholders' general meeting. The shareholders entitled to attend and vote at the meeting shall have the right to appoint one or more proxies to attend on his behalf and to vote thereat and the proxy or proxies need not be a shareholder;
- (8) it shall specify the time and place for lodging proxy forms for the relevant meeting.
- (9) The voting time and voting procedures (if any) for online voting or other methods of voting.

ARTICLE 67 Notice of shareholders' general meeting shall be served to all shareholders (whether or not such shares carry the voting right at the shareholders' general meeting) by way of announcement or by personal delivery or by prepaid air mail to their addresses as shown in the register of shareholders.

Notice of shareholders' general meeting to holders of Domestic-Invested Shares shall be published at least forty-five (45) days prior to the date of the meeting in one or several newspapers designated by the securities regulatory authority of the State Council. Once the announcement has been made, all holders of domestic shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

Notice of shareholders' general meeting to holders of Overseas Listed Foreign-Invested Shares shall be published at least forty-five (45) days prior to the date of the meeting on the website of the Company (www.gsrc.com). Once the announcement has been made, all holders of Overseas Listed Foreign-Invested Shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

ARTICLE 68 The accidental omission to give notice of a meeting to, or the failure to receive the notice of a meeting by, any person entitled to receive the notice shall not invalidate the meeting and the resolutions made at such meeting.

ARTICLE 69 Any shareholder who is entitled to attend and vote at a shareholders' general meeting have the right to appoint one or more persons (whether being a shareholder or not) as his proxies to attend and vote at such meeting on his behalf. Such proxy or proxies may exercise the following rights pursuant to the authorization from that shareholder:

- (1) the shareholder's right to speak at the shareholders' general meeting;
- (2) the right to demand or join in demanding a poll;
- (3) the right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The board of directors, independent directors and shareholders that meet certain requirements may make a call to the shareholders for voting rights at the shareholders' general meeting in accordance with relevant provisions.

Information, such as precise voting preference, shall be fully disclosed to persons whose voting rights are solicited. No consideration or other form of de facto consideration shall be involved in soliciting voting rights from shareholders. The Company shall not impose any limitation related to minimum shareholdings on soliciting voting rights.

ARTICLE 70 A shareholder shall appoint his proxy in writing. The instrument appointing a proxy shall be signed by the appointer or his attorney duly authorized in writing, or if the appointer is a legal entity, the same shall be affixed with the seal of such legal entity or signed by its directors or a duly authorized representative.

ARTICLE 71 The instrument appointing a proxy shall be deposited at least 24 hours prior to the commencement of the relevant meeting at which the proxy is appointed to vote or 24 hours before the time appointed for voting at the address of the Company or such other place as the notice of meeting may specify, and, if the instrument appointing a proxy is signed by a person authorized by the appointer, the power of attorney or other instruments of authorization shall be notarized and deposited, together with the proxy form, at the address of the Company or such other place as the notice of meeting may specify at the same time as the instrument appointing the proxy is so deposited.

If the appointer is a legal person, such shareholder shall be represented at the shareholders' general meeting of the Company by its legal representative or the person authorized by its board of directors or other decision-making body of such appointer.

ARTICLE 72 The instrument delivered to a shareholder by the board of directors of the Company for appointing a proxy shall be in such form so as to enable the shareholder, according to his free will, to instruct the proxy to vote in favor of or against the resolution, and instruction shall be given in respect of each of the matters to be voted on at the meeting. Such instrument of proxy shall contain a statement that in the absence of instructions given by the shareholder, the proxy may vote in the way as he thinks fit.

ARTICLE 73 A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, incapacity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the meeting at which the proxy is used.

ARTICLE 74 A proxy who attends a shareholders' general meeting on behalf of a shareholder shall present his own identification document.

If a shareholder who is a legal person appoints its legal representative to attend the meeting, the legal representative shall present his own identification document and a notarially certified copy of the resolution or letter of authorization from the board of directors or other governing body of the appointer appointing such legal representative.

ARTICLE 75 Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing more than one half of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed.

To adopt a special resolution, votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favor of the resolution in order for it to be passed.

The shareholders (including proxies) present at the meeting shall expressly state their agreement with, objection to or abstention from every matter to be determined by voting, except for the securities registration and settlement institutions which, being the nominal holders of shares subject to Shanghai-Hong Kong Stock Connect, shall make declaration according to the intentions of actual holders. Any vote which is not completed, erroneously completed or illegible or uncast votes shall be counted as an abstention of voting rights by the voters and the voting results of the number of shares they hold shall be counted as “abstain”.

Where any shareholder is required to abstain from voting on a particular resolution or restricted to vote only in favor of or against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

ARTICLE 76 When shareholders (including their proxies) vote at the shareholders’ general meeting, they shall exercise their voting rights according to the number of voting shares that they represent. Each share shall carry one voting right. Any share of the Company held by the Company shall not carry any voting right. However, when electing directors or supervisors, the number of voting rights each share carries shall be the same as the number of directors or supervisors to be elected. The voting rights of shareholders may be exercised collectively in favor of one or several of the directors or supervisors.

When substantial matters that affect small and medium investors’ interests are reviewed in the general meeting, the votes of small and medium investors shall be counted separately. Results from the separate counting shall be disclosed to the public in due course.

ARTICLE 77 At any general meeting of shareholders, a resolution shall be passed by a show of hands, unless a poll is demanded by the following persons prior to or after a show of hands:

- (1) the chairman of the meeting;
- (2) at least two shareholders entitled to vote present in person or by proxy;
- (3) a shareholder or shareholders present in person or by proxy and individually or collectively representing 10 per cent or more of all shares carrying the right to vote at the meeting.

Unless a poll is so demanded, a declaration by the chairman 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. Proof of the number or proportion of the votes recorded in favor of or against such resolution is not required.

The demand for a poll may be withdrawn by the person who makes such a demand.

ARTICLE 78 Before a resolution is put to vote at a shareholders' general meeting, two (2) representatives of the shareholders shall be elected to participate in counting the votes as well as to act as scrutineer. If a shareholder has interest in the matter to be considered, such shareholder and its proxy shall not participate in the counting of the votes nor act as scrutineer.

When proposals are being voted at a shareholders' general meeting, lawyers, representatives of the shareholders and representatives of the supervisors shall be jointly responsible for the counting of votes and scrutinizing of the votes. The results of the voting shall be announced at the meeting and shall be recorded in the minutes of meeting.

Shareholders or their proxies who vote via internet or in other methods are entitled to check their own voting results through the relevant voting system.

ARTICLE 79 A poll demanded on the election of the chairman, or the adjournment of the meeting, such matters shall be resolved by poll immediately. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of such a poll shall be deemed as a resolution passed at the meeting.

ARTICLE 80 On a poll taken at a meeting, only one of the voting methods, namely voting on-site, voting online or other voting methods, can be selected for the same voting right. In case of duplicate voting for the same voting right, only the first voting result is considered as valid. A shareholder (including proxy) entitled to two or more votes need not cast all his votes in the same way.

ARTICLE 81 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall have one casting vote.

ARTICLE 82 The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- (1) work reports of the board of directors and the supervisory committee;
- (2) plans formulated by the board of directors in respect of distribution of profits and making up losses;

- (3) removal of the members of the board of directors and members of the supervisory committee, their remuneration and method of payment;
- (4) annual preliminary and final budgets, balance sheets and profit and loss statements and other financial statements of the Company;
- (5) matters other than those required by laws and administrative regulations or by these Articles of Association to be adopted by special resolution at a shareholders' general meeting.

ARTICLE 83 The following matters shall be resolved by a special resolution at a shareholders' general meeting:

- (1) increase or reduction in share capital of the Company, and the issue of shares of any class, warrants and other similar securities by the Company;
- (2) issue of debentures by the Company;
- (3) division, merger, dissolution and liquidation of the Company;
- (4) amendments to these Articles of Association;
- (5) change in the form of the Company;
- (6) any matter with respect to purchase or sale of any significant asset or guarantees within one year exceeding 30 per cent of the latest audited asset value of the Company;
- (7) other matters which are resolved by ordinary resolutions at the shareholders' general meeting to be of material effect to the Company, or which are to be passed by special resolutions.

ARTICLE 84 Where the shareholders' general meeting is considering matters related to a connection transaction, connected shareholders shall not participate in voting and the shares with voting rights which they represent shall not be counted in the total number of valid votes. Announcement on the resolutions passed at the shareholders' general meeting shall fully disclose the details of voting by the non-connected shareholders.

A connected transaction referred to in the preceding paragraph refers to an event whereby a transfer of resources or obligations takes place between connected parties, regardless of whether a consideration is paid, for instance:

- (1) the sale or purchase of merchandise;
- (2) the sale or purchase of assets other than merchandise;
- (3) outside investment, including entrust finance and entrust loans, etc;

- (4) provision of financial assistance;
- (5) provision of guarantees, excluding counter guarantees;
- (6) lease-in/lease-out of assets;
- (7) assets and business management trust;
- (8) giving or being given assets;
- (9) credit and debt restructuring;
- (10) signing of licence agreements;
- (11) transfer or receipt of research and development projects;
- (12) the provision or receipt of labour services;
- (13) sale or sale on consignment;
- (14) joint investment by connected parties.
- (15) other events whereby a transfer of resources or obligations takes place through agreement, or other transactions deemed by securities exchange institutions to be connected transactions.

Subject to the regulations, rules or codes formulated and/or implemented from time to time by the regulatory authorities where the Company's shares or securities are listed, the following transactions between the Company and the connected parties may be exempted from resolution and disclosure as connected transactions:

- (1) one party subscribes in cash for the shares, corporate bonds and debentures, convertible bonds or other derivatives offered publicly by the other party;
- (2) one party, as a member of a underwriting syndicate, underwrites the shares, corporate bonds and debentures, convertible bonds or other derivatives offered publicly by the other party;
- (3) a connected party receives dividends, bonuses or remuneration in accordance with a resolution of shareholders' general meeting of the other party;
- (4) connected transactions arising from any party participating in public biddings or auctions, etc.;
- (5) other transactions deemed by securities exchange institute.

A connected shareholder shall voluntarily abstain from voting and surrender his voting rights in the shareholders' general meeting. In the event that a connected shareholder does not voluntarily abstain from voting, the chairman of the meeting shall request the connected shareholder to abstain from voting. In case where the chairman needs to abstain from voting, the vice-chairman or other directors shall request the chairman and other connected shareholders to abstain from voting. Any shareholder who does not need to abstain from voting may request connected shareholders to abstain from voting.

Should a shareholder being requested to abstain from voting or other shareholders object to the nature of the connected transaction and the disclosure of interest, abstention from voting and surrender of voting rights in the meeting arising therefrom, an extraordinary board meeting of the directors who do not need to be abstained from voting may be sought to resolve on the matter. Such resolution shall be final. Should the dissenter still have an objection, he may file a complaint to the agency of the Securities Regulatory Commission or seek to solve the case in other ways after the shareholders' general meeting."

ARTICLE 85 Shareholders calling for an extraordinary general meeting or a class meeting shall follow the following procedures:

(1) Shareholder(s) individually or collectively holding an aggregate of 10 per cent or more of the shares carrying the right to vote at the proposed meeting may sign one or more written request(s) requiring the board of directors to convene an extraordinary general meeting or a class meeting and stating the object of the meeting therein. The board of directors shall as soon as possible proceed to convene the extraordinary general meeting or a class meeting thereof after receiving such request.

The number of shares held by the above shareholders shall be calculated as at the date of such request.

(2) If the board of directors fails to issue a notice of such a meeting within thirty (30) days from the date of receipt of such request, the shareholders making such request may convene such a meeting themselves within four (4) months of the date of receipt of such request by the board of directors. Procedures to be followed shall be as similar as possible as that in which shareholders' meetings are to be convened by the board of directors.

Any expenses reasonably incurred by such shareholders as a result of convening any such meeting due to the failure of the board of directors in convening such meeting shall be reimbursed by the Company and any sum so repaid shall be offset against any sum owed by the Company to the directors in default.

ARTICLE 86 The Chairman of the board of directors shall convene and take the chair of every shareholders' general meeting. If the Chairman is unable to attend the meeting for any reason, the vice-chairman of the board of directors shall convene and take the chair of the meeting. If both the Chairman and vice chairman of the board of directors are unable to attend the meeting, then a director as recommended by more than half of the members of the board shall convene and take the chair of the meeting. If no chairman of the meeting has been so designated, shareholders present shall choose one person to be the chairman of the meeting. If for any reason the shareholders fail to elect a chairman, the shareholders present in person or by proxy and holding the largest number of shares carrying the right to vote thereat shall be the chairman of the meeting.

ARTICLE 87 The conclusion of the on-site meeting shall not be earlier than the closing time of online voting or other methods. The chairman of the meeting shall be responsible for the determination of whether a resolution is passed. His decision, which is final and conclusive, shall be announced at the meeting and recorded in the minute book.

Before the formal announcement of the voting result, the related parties including companies, vote counters, scrutineers, major shareholders and network service providers at the meeting or participating in online voting or other methods of voting, shall bear the duty of confidentiality of the voting.

ARTICLE 88 The chairman of the meeting may have the votes counted if he has any doubt as to the result of a resolution. If the chairman of the meeting fails to have the votes counted, any shareholder who is present in person or by proxy and who objects to the result announced by the chairman of the meeting may demand that the votes be counted immediately after the announcement of the result and the chairman must do so immediately.

ARTICLE 89 If the votes are counted at a shareholders' general meeting, the result of counting of votes shall be recorded in the minutes of the meeting and signed by directors present at the meeting. The minutes of the shareholders' general meeting shall record the following matters:

- (1) the number of shares carrying the right to vote attending the shareholders' general meeting and its ratio to the total number of shares of the Company;
- (2) the date and venue of the meeting;
- (3) the name of the chairman of the meeting and the agenda;
- (4) the key points of each speaker on each matter for consideration;
- (5) the voting result of each resolution;

(6) details of the queries and suggestions of shareholders and the responses or explanations of the board of directors and supervisory committee;

(7) other contents that should be recorded in the minute book as believed by the shareholders' general meeting and required by these Articles of Association.

The minutes, the signature book of shareholders attending the meeting, the proxy forms and valid information of voting through online and other methods shall be kept at the address of the Company for no less than 10 years.

The announcement on the resolutions of a shareholders' general meetings shall include the number of public shareholders participating in the voting, the total number of shares they represent, the proportion in the number of public shares and the results of the resolution, and the disclosure of the shareholding and voting condition of the ten largest public shareholders participating in the voting.

ARTICLE 90 Copies of the minutes of any shareholders' general meeting shall, during business hours of the Company, be available for inspection by any shareholder without charge. If any shareholder demands from the Company a copy of such minutes, the Company shall send a copy of such minutes to him within seven (7) days after having received reasonable charge.

CHAPTER 9: SPECIAL PROCEDURES FOR VOTING BY A CLASS OF SHAREHOLDERS

ARTICLE 91 Shareholders who hold different classes of shares shall be classified as shareholders of different classes.

Apart from the holders of other classes of shares, the holders of the Domestic-Invested Shares and holders of Overseas Listed Foreign-Invested Shares shall be deemed to be shareholders of different classes.

A class of shareholders shall enjoy rights and bear obligations in accordance with laws, administrative regulations and these Articles of Association.

ARTICLE 92 Rights conferred on any class of shareholders in the capacity of shareholders ("class rights") may not be varied or abrogated unless approved by a special resolution of shareholders' general meeting and by holders of shares of that class at a separate meeting conducted in accordance with Article 93 to Article 97.

ARTICLE 93 The following circumstances shall be deemed as a variation or abrogation of rights of a certain class of shareholders:

- (1) increase or reduction of the number of shares of that class, or the increase or reduction of the number of shares in another class which carry the same or more voting right , right of distribution or other privileges;
- (2) conversion of all or part of the shares of that class into shares of another class, or conversion of all or part of the shares of another class into the shares of that class or granting of such right of conversion;
- (3) cancellation or reduction of the rights of shares of that class to receive accrued dividends or accumulated dividends declared;
- (4) reduction or cancellation of the preferential rights of shares of that class to receive dividends or to receive distribution of assets upon the liquidation of the Company;
- (5) increase, cancellation or reduction of the share conversion rights, options rights, voting rights, rights of transfer, pre-emptive rights and rights to acquire the securities of the Company attached to the shares of that class;
- (6) cancellation or reduction of the rights of shares of that class to receive payment payable by the Company in particular currency;
- (7) creation of a new class of shares which enjoys the same or more voting rights, distribution rights or other privileges than those enjoyed by the shares of that class;
- (8) restriction or increase the restriction on the transfer or the ownership of shares of that class;
- (9) the granting of subscription rights or conversion rights in respect of the shares of that class or another class;
- (10) increase of the rights and privileges of shares of another class;
- (11) reorganization of the Company that would cause different classes of shareholders to bear obligations disproportionately;
- (12) amendment or abrogation of the provisions in this Chapter.

ARTICLE 94 Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters mentioned in (2) to (8) and (11) and (12) of Article 92 of these Articles of Association provided that interested shareholder(s) shall not be entitled to vote at class meetings.

An interested shareholder mentioned in the preceding paragraph refers to:

(1) in the case of a repurchase of shares by offers to all shareholders in a proportionate manner in accordance with the provisions of Chapter 4 Article 34 of these Articles of Association or repurchases of shares on a stock exchange, the controlling shareholder as defined in Article 53 of these Articles of Association;

(2) in the case of a repurchase of share by an off-market contract in accordance with the provisions of Chapter 3 Article 30 of these Articles of Association, the shareholder having relations with such contract;

(3) in the case of a restructuring of the Company, the shareholder who assumes proportionally less obligations than other shareholders of the same class or who has an interest different from the interest of shareholders of that class.

ARTICLE 95 Resolutions of a class meeting of shareholders shall be passed in accordance with Article 93 only by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting.

Where any class shareholder is, under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, required to abstain from voting on a particular resolution of a class meeting or restricted to vote only in favor of or against any particular resolution of a class meeting, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

ARTICLE 96 A written notice of a class meeting shall be given by way of announcement or other means specified under these Articles of Association (if necessary) at least forty-five (45) days before the date of the class meeting to notify all shareholders whose names are shown in the register of the class of the matters to be considered, the date and venue of the class meeting. A shareholder who intends to attend the class meeting shall serve to the Company written replies concerning his attendance at the class meeting to the Company twenty (20) days before the date of the class meeting.

If the number of shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches more than one-half of the total number of shares of that class carrying the right to vote at that class meeting, the Company may convene the class meeting ; if not, the Company shall further notify the shareholders by way of announcement within five (5) days thereof specifying again the matters to be considered and the date and the place of the class meeting. The Company may convene the class meeting after giving such notice.

ARTICLE 97 Notice of class meetings need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in a manner as similar as possible to that of shareholders' general meetings. The provisions of these Articles of Association relating to the manner to conduct any shareholders' general meeting shall apply to any meeting of a class of shareholders.

ARTICLE 98 The special procedures for voting at a class of shareholders shall not apply to the following circumstances:

(1) where the Company issues, upon the approval by a special resolution of its shareholders at the general meeting, either separately or concurrently, once every twelve months, not more than 20 per cent of each of its outstanding Domestic-Invested Shares and Overseas Listed Foreign-Invested Shares;

(2) where the Company's plan to issue Domestic-Invested Shares and Overseas Listed Foreign-Invested Shares at the time of its incorporation is implemented within fifteen (15) months from the date of approval of the Securities Committee of the State Council.

CHAPTER 10: BOARD OF DIRECTORS

ARTICLE 99 The Company shall establish a board of directors. The board shall consist of 9 directors. The board shall have one Chairman. The board of directors is the decision-making body of the operation and management of the Company. The board of directors shall prioritize the discussion and study made by the Working Committee of the Party in making important decisions. In terms of any major operation and management problem, the Working Committee of the Party shall firstly discuss and study such problem before any decisions made by the board of directors.

ARTICLE 100 Directors shall be elected at the shareholders' general meeting and serve a term of 3 years. A director may serve consecutive terms if re-elected upon the expiration of his term.

The written notice of an intention to nominate a candidate of director and that of a willingness to accept the nomination by the candidate shall be delivered no earlier than the day after the dispatch of the notice of the meeting for election of the relevant director and end no later than 7 days prior to the date of such meeting

The Chairman of the board shall be elected and removed by the approval of more than half of all the directors of the board. The Chairman of the board shall serve a term of 3 years and may serve consecutive terms if re-elected upon the expiration of his term.

Subject to compliance with relevant laws and regulations, any director may be removed by ordinary resolution before the expiration of his term of office (but without prejudice to any claim for damages under any contract) at the shareholders' general meeting.

The directors shall not be required to hold shares of the Company.

Chairman and the Secretary of the Working Committee of the Party shall be the same person.

ARTICLE 101 The directors of the Company shall include independent directors and at least one-third of the board members shall be independent directors.

An independent director refers to a director who does not act in other capacities in the Company other than as a director, and who does not have any relationship with the Company or its substantial shareholders which may affect the director in making independent and objective judgment.

(1) The board of directors, supervisory committee of the Company or shareholder(s), individually or collectively holding 1 per cent or more of the issued shares of the Company may nominate a candidate as independent director which shall be elected at a shareholders' general meeting.

Independent directors shall serve a term of 3 years. A director may serve consecutive terms if re-elected upon the expiration of his term. However, an independent director shall not consecutively hold the office for more than six years.

(2) The board of directors may propose to the shareholders' general meeting to remove any independent director who is absent from the board meetings for three consecutive times. Except where a person shall not act as a director as stipulated in the Company Law, an independent director shall not be removed before expiration of his term without any reason. In the event of early removal from office, the Company shall disclose the same as a special disclosure matter. Should the independent director being removed from office consider the reason of removal to be improper, a public statement may be made.

(3) An independent director may resign before the expiration of his term. The independent director shall submit a written notice of resignation to the board of directors, and he shall state any matter that is related to his resignation or which he considers it necessary to bring to the attention of the shareholders and creditors of the Company. Should the resignation of the independent director cause the ratio of independent directors in the board of directors of the Company to fall below one-third, the resignation of the independent director shall become effective after the vacancy is filled by the succeeding independent director.

(4) An independent director shall have the following special duties:

- (i) a connected transaction of which the total consideration accounts for more than 5 per cent of the latest audited net asset value of the Company shall be approved by the independent directors before submission to the board of the directors for discussion;
- (ii) to propose to the board of directors the engagement or removal of accountants;
- (iii) to propose to the board of directors the convening of an extraordinary general meeting;
- (iv) to propose the convening of a board meeting;
- (v) to engage external auditors or consultants independently;
- (vi) should a matter proposed for discussion at a shareholders' general meeting by the board require independent financial report by an independent financial adviser, the independent financial adviser shall be engaged by the independent directors;
- (vii) to make a call for voting rights from the shareholders before the convening of the shareholders' general meeting;
- (viii) to make independent opinions on significant events of the Company.

To exercise the above duties, independent directors shall obtain approval of more than half of all independent directors.

ARTICLE 102 To ensure that the independent directors can effectively perform their duties, the Company shall provide to the independent director with all the necessary conditions as follows:

(1) The Company shall ensure that the independent directors have equal access to information as other directors. In respect of any significant matters subject to board decision, the Company shall give prior notice to the independent directors in accordance with the prescribed time and provide them with adequate information at the same time. Should the independent directors consider the information to be inadequate, they may request for supplemental information. In the case where 2 or more independent directors consider the information to be inadequate or the grounds to be unclear, they may jointly request the board of directors in writing to postpone the board meeting or delay the review of the relevant matters discussed by the board of the directors. Such request shall be accepted by the board of directors.

(2) The Company shall provide the independent directors with the necessary working conditions for the discharge of their duties. The secretary of the board of directors of the Company shall actively assist the independent directors with their discharge of duties, including briefing on the situation and provision of materials, etc..

(3) When the independent directors perform their duties, the relevant staff of the Company shall actively coordinate with them, and shall not refuse, hinder or conceal, nor interfere with their independence in discharging their duties. The Company shall make disclosure where the proposals of independent directors are not accepted or their duties cannot be performed.

(4) The fees required for the engagement of intermediaries and discharge of other duties by the independent directors shall be borne by the Company.

(5) The Company shall offer appropriate allowances to the independent directors. The budget for the standard of allowances shall be formulated by the board of directors and approved at a shareholders' general meeting. Apart from the above allowances, the independent directors shall not obtain other additional or undisclosed benefits from the Company and its substantial shareholders or an institution in which the independent directors have interests and its staff.

(6) The Company may establish a compulsory liability insurance system of the independent directors according to its needs.

ARTICLE 103 An independent director shall fulfill the following requirements:

(1) possessing the qualifications as an independent director of a listed company in accordance with laws, regulations and other related requirements;

(2) satisfying the criteria of independence as stipulated in laws, administrative regulations and regulatory documents;

(3) having the basic knowledge of the operations of a listed company, and is familiar with the relevant laws, administrative regulations, regulations and rules;

(4) possessing more than 5 years' working experience in practising law, finance or other experience necessary for discharging the duties as an independent director;

(5) other requirements as specified in these Articles of Association.

The following persons shall not act as an independent director:

- (1) an employee of the Company or its subsidiaries and his/her direct relatives and main social relations (direct relatives include spouse, parents and children while main social relations include siblings, parents-in-law, sons/daughters-in-law, spouses of siblings, siblings of spouse, etc.);
- (2) a natural person shareholder holding, directly or indirectly, more than 1 per cent of the shares of the Company in issue or being a top 10 shareholder of the Company and his/her direct relatives;
- (3) an employee of a corporate shareholder directly or indirectly holding more than 5 per cent of the issued shares of the Company or an employee of any of the top 5 corporate shareholders, and his/her direct relatives;
- (4) any person who falls within any of the above 3 categories in the most recent year;
- (5) any person who provides financial, legal, consultation services to the Company or its subsidiaries or an employee of such relevant institutions;
- (6) other persons stipulated by the law, rules and other regulations.

ARTICLE 104 The board of directors shall be responsible to the shareholders' general meeting and shall exercise the following duties and powers:

- (1) to convene shareholders' general meeting and to report on its work to the shareholders' general meeting;
- (2) to implement the resolutions passed at the shareholders' general meetings;
- (3) to determine the business plans and investment proposals of the Company;
- (4) to prepare the Company's annual preliminary and final financial budgets;
- (5) to formulate the Company's profit distribution plans and plans for making up losses;
- (6) to formulate proposals for increases or reductions in the Company's registered capital and the issue of debentures of the Company;
- (7) to draw up plans for merger, division or dissolution of the Company;
- (8) to formulate proposals for the establishment of strategy, audit, nomination, remuneration, appraisal and other special committees of the board of directors;
- (9) to decide on the establishment of the Company's internal management structure;

(10) to appoint or dismiss the Company's general manager, and pursuant to the general manager's nomination, to appoint or dismiss the deputy general manager and other members of the senior administrative officers (including the financial controller) of the Company and to determine matters relating to their remuneration;

(11) to establish the Company's basic management system;

(12) to draw up proposals for any amendments to the Company's Articles of Association;

(13) to exercise any other powers conferred by these Articles of Association or as authorized at the general meetings.

Except the resolutions in respect of the matters specified in sub-paragraphs (6), (7) and (12) of this Article which shall be passed by more than two-thirds of the directors, resolutions in respect of all other matters may be passed by more than one half of the directors.

The board of directors may formulate rules governing decision making in respect of the financial and investment management of the Company, the formulation of or amendment to such rules shall be passed by more than two-thirds of the directors (at least one of them shall be a non-executive director).

The directors connected with the subject of matters to be resolved at the meeting of the board of directors shall not vote on such resolution either in person or on behalf of any other director. The meeting of the board of directors may be held if more than half of the unconnected directors attend the meeting. The resolutions reached at such meeting of the board of directors shall be approved by more than half of the unconnected directors except the special resolutions that shall be passed by more than two thirds of the unconnected directors as stipulated in these Articles of Association. Where the number of unconnected directors attending the meeting of the board of directors is less than three, the board shall submit the matter to the shareholders' general meeting for consideration.

ARTICLE 105 The board of directors of the Company shall stringently control the offset of the Company's capital appropriated by a connected party with non-cash assets. In the event that a connected party intends to pay off the Company's capital appropriated by it with non-cash assets, the following provisions shall be observed:

(1) the assets used for compensation shall belong to the same business system of the Company and could help enhance the Company's independence and core competitiveness and minimize connected transactions. They shall not be assets which have not yet been put into operation or have no objective and clear net book values;

(2) the Company shall engage intermediaries with relevant securities and futures business qualifications to conduct a valuation on the assets which can be used to pay off liabilities. The value of the assets or the audited net book values of the assets to be used for paying off the liabilities shall be used to determine the basis of pricing. However, the final consideration shall not prejudice the interests of the Company, and shall be discounted after full consideration is given to the present value of the capital appropriated;

(3) the independent directors shall express independent opinions on the proposal of the connected party on offsetting its debt with assets; or shall engage intermediaries with relevant securities and futures business qualifications to issue an independent financial adviser report;

(4) the proposal of the connected party on offsetting its debt with assets shall be submitted to China Securities Regulatory Commission for approval;

(5) the proposal the connected party on offsetting its debt with assets shall be subject to consideration and approval at a shareholders' general meeting in which the connected shareholders shall abstain from voting.

ARTICLE 106 All directors of the Company shall cautiously handle and stringently control the risk of external debt. They shall be severally and jointly liable for the losses caused by an external guarantee given result of director's misconduct or violation of the regulations in accordance with laws. The controlling shareholder and other connected parties shall not compel the Company to provide a guarantee to third parties.

The provision of external guarantee by the Company shall comply with the following provisions:

(1) the subject of an external guarantee provided by the Company shall have a bank credit rating of an AA grade and shall not have any bad credit record with a bank;

(2) resolutions in respect of the Company's external guarantee must be passed by more than two-third of all directors; those beyond the authority of the board of directors shall be proposed to a shareholders' general meeting for approval;

(3) no guarantee shall be provided for shareholders, effective controller and connected parties unless it is considered and approved at the shareholders' general meeting;

(4) no guarantee shall be directly or indirectly provided for debts of any party whose asset-liability ratio is above 70 per cent;

(5) the total amount of external guarantees shall not exceed 5 per cent of the net asset value as stated in the Company's consolidated financial statements for the latest accounting year;

(6) the provision of a counter-guarantee in respect of an external guarantee shall be requested from the other party which would have actual ability to assume the obligations;

(7) the Company shall strictly observe the relevant provisions for the faithful discharge of the obligations of information disclosure in respect of the external guarantee provided. It should also honestly provide the information on all external guarantees to the registered accountant as required.

Any external guarantee subject to approval at the shareholders' general meeting shall be considered and approved at the meeting of the board of directors before being submitted to the shareholders' general meeting. Where the resolution on the guarantee provided for shareholders, effective controller or connected parties thereof is being considered at the shareholders' general meeting, the relevant shareholder or the shareholder controlled by the effective controller shall cease to vote on the resolution. The resolution shall be passed by more than half of the voting rights represented by the other shareholders attending the shareholders' general meeting.

The independent directors of the Company shall make special explanation and express independent opinions in respect of the Company's accumulated and current external guarantees and the situation in respect of the compliance with the above provisions in the annual report.

The board of directors shall set a limit for venture capital investments with the Company's assets, and establish stringent review and decision-making procedures. Evaluation by relevant experts and professionals shall be organized for significant investment projects, and approval shall be sought at a shareholders' general meeting.

ARTICLE 107 The board of directors shall not, without the prior approval of shareholders' general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the estimated value of the fixed assets proposed to be disposed of, and the consideration received by the Company for the disposal of fixed assets in the period of four (4) months immediately preceding the proposed disposal, exceeds 33 per cent of the value of the Company's fixed assets as shown in the last balance sheet placed before the shareholders' general meeting.

For the purpose of this Article, disposition includes an act involving the transfer of an interest in assets but does not include the provision of fixed asset by way of security.

The validity of a disposition of fixed assets by the Company shall not be affected by the breach of the first paragraph of this Article.

ARTICLE 108 The board of directors shall carry out its duties in compliance with national laws, administrative regulations, these Articles of Association and resolutions of the shareholders' general meetings.

ARTICLE 109 The Chairman of the board of directors shall exercise the following powers:

- (1) to preside over shareholders' general meetings and to convene and preside over meetings of the board of directors;
- (2) to review the implementation of the resolutions of the board of directors;
- (3) to sign securities certificates issued by the Company;
- (4) to exercise other powers conferred by the board of directors.

When the Chairman is unable to exercise his powers, the Chairman may designate a director to exercise such powers on the Chairman's behalf.

ARTICLE 110 Meetings of the board of directors shall be held at least four (4) times every year and shall be convened by the Chairman of the board of directors. Notice of the meeting shall be served to all directors and supervisors no less than fourteen (14) days before the date of the meeting. An extraordinary meeting of the board of directors may be convened if shareholders representing more than one-tenth of the shares carrying the right to vote or one-third or more of the directors, the Chairman, the supervisory committee or the general manager of the Company so request. The Chairman shall convene and preside at the extraordinary meeting of the board of directors within ten (10) days from the receipt of such request.

ARTICLE 111 Meetings of the board of directors shall be notified in the following ways:

- (1) The Chairman of the board of directors shall notify all directors and supervisors of the time and venue of the meeting by telex, telegram, fax, express post, registered mail or personal delivery at least fourteen (14) days prior to the meeting.
- (2) Notice shall be written in Chinese and, where necessary, have attached an English version thereof and shall include the agenda of the relevant meeting of the board of directors. Any director may waive his right to receive notice of the meeting of the board of directors.

ARTICLE 112 Any regular or extraordinary meeting of the board of directors may be held by means of telephone or similar communication equipment. So long as all the directors participating in such meeting can clearly hear and communicate with each other, all such directors shall be deemed to be present in person at such meeting.

ARTICLE 113 A meeting of the board of directors shall be held only if more than half of the directors (including any director present by proxy as stipulated in Article 114 thereafter) are present at the meeting.

Each director shall have one vote. Unless otherwise provided in these Articles of Association, resolutions of the board of directors shall be passed by a simple majority of the directors.

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

ARTICLE 114 Directors shall attend the meetings of the board of directors in person. Where a director is unable to attend a meeting for whatever reason, he may appoint another director by a written power of attorney to attend the meeting of the board of directors on his behalf. The power of attorney shall set out the scope of authority.

A director appointed to attend the meeting on behalf of another director shall exercise the rights of a director within the scope of authority conferred by the appointing director. Where a director is unable to attend a meeting of the board of directors and has not appointed a representative to attend the meeting on his behalf, he shall be deemed to have waived his right to vote at such meeting.

In respect of any matter requiring the resolution of any extraordinary meeting of the board of directors, a resolution approved in writing by at least such number of directors as may be required pursuant to Article 103 of these Articles of Association after the proposed resolution has been produced in writing and delivered to all directors, shall be deemed to be a valid resolution and a board meeting shall be dispensed with.

ARTICLE 115 The board of directors shall keep minutes of resolutions on matters discussed at meetings. The minutes shall be signed by the directors present at the meeting and the person who recorded the minutes. Directors shall be liable for the resolutions passed at the meeting of the board of directors. If a resolution of the board of directors violates laws, administrative regulations or these Articles of Association, as a result of which the Company sustains substantial losses, the directors participating in the adoption of such resolution shall be liable for compensating the Company. However, if it can be proven that a director expressly objected to the resolution that was put to vote and that such objection was recorded in the minutes of the meeting, such director may be released from such liability.

CHAPTER 11: SECRETARY OF THE BOARD OF DIRECTORS

ARTICLE 116 The Company shall have a secretary of the board of directors who shall be a senior administrative officer of the Company.

ARTICLE 117 The secretary to the board of directors of the Company shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the board of directors. The primary responsibilities of the secretary of the board of directors are:

- (1) to organize shareholders' general meetings and meetings of the board of directors of the Company;
- (2) to keep documents and minutes of shareholders' general meetings and meetings of the board of directors; to ensure that the Company prepares and submits the required reports and documents to relevant authorities in accordance with laws, and that the persons entitled to obtain the Company's relevant records and documents may receive such records and documents without delay;
- (3) to maintain information of the shareholders of the Company and to ensure that the Company's register of members is properly maintained;
- (4) to handle information disclosure issues.

ARTICLE 118 Directors or other senior administrative officers of the Company may hold the office of the secretary of the board of directors concurrently. The accountant(s) of the accounting firm retained by the Company shall not act as the secretary of the board of directors.

Where the office of secretary of the board of directors is held by a director, and an act is required to be done by a director and the secretary of the board of directors separately, such person who concurrently holds the office of director and secretary of the board of the directors shall not perform the act in dual capacity.

CHAPTER 12: GENERAL MANAGER

ARTICLE 119 The Company shall have one general manager, who shall be appointed or dismissed by the board of directors. The Company shall have several deputy general managers who should assist the general manager. The term of office of the general manager and deputy general managers shall be three (3) years and renewable upon re-election and reappointment.

ARTICLE 120 The general manager shall be accountable to the board of directors and shall exercise the following duties and powers:

- (1) to be in charge of the Company's production, operation and management and to organize the implementation of the resolutions of the board of directors;
- (2) to organize the implementation of the Company's annual business plan and investment plan;
- (3) to draft plans for the establishment of the Company's internal management structure;
- (4) to establish the Company's basic management system;
- (5) to formulate basic rules and regulations of the Company;
- (6) to propose the appointment or dismissal of the Company's deputy general manager(s), financial controller(s) and other senior administrative officers;
- (7) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the board of directors based on the opinion put forward by the Working Committee of the Party;
- (8) to determine rewards and punishments, promotion and demotion, increase and decrease of salaries, recruitment, appointment, termination of employment and dismissal of the staff and workers of the Company;
- (9) other powers conferred by these Articles of Association and the board of directors.

ARTICLE 121 The general manager and deputy general managers shall be present at meetings of the board of directors. The general manager and the deputy general managers who are not directors shall have no voting rights at the meetings.

ARTICLE 122 The general manager and deputy general managers shall not, in exercising their powers, vary the resolutions of shareholders' general meetings and those of the board of directors or exceed the scope of their authorities.

ARTICLE 123 The general manager and deputy general managers in performing their duties and powers shall act honestly and, diligently and in accordance with laws, administrative regulations and these Articles of Association.

CHAPTER 13: SUPERVISORY COMMITTEE

ARTICLE 124 The Company shall have a supervisory committee.

ARTICLE 125 The supervisory committee shall be composed of 5 to 7 supervisors. The term of office of supervisors shall be three (3) years renewable upon re-election and re-appointment.

The supervisory committee shall have one chairman who is subject to election or removal with the consent of two thirds or more of the members of the supervisory committee. The term of office of the chairman shall be three (3) years renewable upon re-election and re-appointment. Eligible members from the Working Committee of the Party and the discipline Working Committee may be nominated as supervisors.

ARTICLE 126 The supervisory committee shall comprise of representatives of shareholders and representatives of employees of the Company. The proportion of the latter shall not be less than one-third of the supervisory committee. Representatives of shareholders shall be elected or removed by the shareholders at a general meeting. Representatives of employees shall be elected democratically by employees at a meeting of the representatives of employees, employees' meeting or through other channels.

ARTICLE 127 The directors, general manager, deputy general managers and other senior administrative officers shall not act concurrently as supervisors.

ARTICLE 128 Meetings of the supervisory committee shall be held at least once every six months, and shall be convened and presided by the chairman of the supervisory committee. If the chairman is unable or fails to perform his/her duties, the meeting of the supervisory committee shall be convened and presided by one supervisor elected by over half of the supervisors. Supervisor(s) may propose to convene extraordinary meetings of the supervisory committee.

The supervisory committee shall take minutes on the matters discussed which shall be signed by supervisors present at the meeting.

ARTICLE 129 The supervisory committee shall be accountable to the shareholders' general meeting and shall exercise the following duties and powers in accordance with laws:

(1) to inspect the Company's financial position;

(2) to monitor the performance of duties of the directors, general manager, deputy general managers and other senior administrative officers and to propose the dismissal of directors, general manager, deputy general managers and other senior administrative officers who contravene any law, administrative regulations, these Articles of Association or the resolution of shareholders' general meetings;

(3) to require the directors, general manager, deputy general managers and other senior administrative officers to rectify such breach when the acts of such persons prejudice the Company's interest;

(4) to propose the convening of an extraordinary general meeting, and to convene and preside the shareholders' general meetings if the board of directors fails to perform such duties as stipulated in the company law;

(5) to propose motions to shareholders' general meetings;

(6) to lodge a complaint against the directors, general manager, deputy general manager and other senior administrative officers in accordance with Article 151 of the Company Law.

Supervisors may attend meetings of the board of directors and raise queries or give advice on the resolutions of the board of directors.

ARTICLE 130 Resolutions of the supervisory committee shall be passed by two-thirds or more of all of its members.

ARTICLE 131 The supervisory committee may conduct investigation if they find the operation of the Company unusual; and may engage professionals such as lawyers, certified public accountants or practicing auditors to assist if necessary. All reasonable fees so incurred shall be borne by the Company.

ARTICLE 132 A supervisor shall carry out his duties honestly and faithfully in accordance with laws, administrative regulations and these Articles of Association.

CHAPTER 14: THE QUALIFICATIONS AND DUTIES OF THE DIRECTORS, SUPERVISORS, GENERAL MANAGER, DEPUTY GENERAL MANAGERS AND OTHER SENIOR ADMINISTRATIVE OFFICERS OF THE COMPANY

ARTICLE 133 A person shall not serve as director, supervisor, general manager, deputy general manager or any other senior administrative officers of the Company if any of the following circumstances applies:

(1) a person who has no capacity or has restricted capacity for civil conducts under the law;

(2) a person who has committed an offence of corruption, bribery, embezzlement of property, misappropriation of property or violating the order of socialist market economy and has received a criminal sentence because of committing such an offence; or who has been deprived of his political rights because of committing an offence, in each case where less than five (5) years have elapsed since the date of the completion of the execution of his sentence;

(3) a person who is a former director or factory manager or manager of a company or an enterprise which was insolvent and liquidated and who was personally liable for the insolvency of such company or enterprise, where less than three (3) years have elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;

(4) a person who was the legal representative of a company or an enterprise whose business license has been revoked and was ordered to cease its business due to the violation of laws and who is personally liable for the revocation, where less than three years have elapsed since the date of the revocation of the business license of such company or enterprise;

(5) a person who has a relatively large amount of personal indebtedness which is overdue and outstanding;

(6) a person who is under criminal investigation or prosecution by judicial authorities due to possible violation of criminal laws which is not yet concluded;

(7) a person who is not eligible for enterprise leadership under the requirements of laws or administrative regulations;

(8) a person who is not a natural person;

(9) a person who is convicted of contravention of provisions of relevant securities regulations, which involved fraud and dishonest acts, by a relevant competent authority, where less than five years have elapsed since the date of such conviction.

Any election, appointment or engagement of a director, supervisor, general manager, deputy general manager or any other senior administrative officers in violation of the preceding paragraph shall be invalid.

The Company shall dismiss any director, supervisor, general manager, deputy general manager or any other senior administrative officers who falls within any of the circumstances set out in the sub-paragraph (1) of this Article during his term of office.

ARTICLE 134 The validity of an act of the director, general manager, deputy general manager or other senior administrative officers on behalf of the Company against a bona fide third party is not affected by any irregularity in his office, election or any defect in his qualification.

ARTICLE 135 In addition to the obligations imposed by laws, administrative regulations or the listing rules of the stock exchange on which the shares of the Company are listed, each of the Company's directors, supervisors, general manager, deputy general managers, and other senior administrative officers shall owe a duty to each shareholder in respect of the following obligations in the exercise of the duties and powers entrusted to them by the Company:

- (1) not to cause the Company to exceed the scope of business stipulated in its business licence;
- (2) to act honestly in the best interest of the Company;
- (3) not to expropriate the Company of its assets in any manner, including (but not limited to) usurpation of opportunities advantageous to the Company;
- (4) not to expropriate the personal interests of the shareholders including (but not limited to) rights to distribution and voting rights, save pursuant to a restructuring of the Company submitted to shareholders for approval at shareholders' general meetings in accordance with these Articles of Association.

ARTICLE 136 In exercising his rights or discharging his duties, each of the Company's directors, supervisors, general manager, deputy general managers and other senior administrative officers owe a duty to exercise the care, diligence and skill of a reasonable and prudent person acting in such circumstances.

ARTICLE 137 In discharging his duties, each of the Company's directors, supervisors, general manager, deputy general managers and other senior administrative officers shall observe the principle of fiduciary and shall not put himself in a position where his duty and his interest may conflict with the duties he assumes. Such principle shall include (but not limited to) discharging the following obligations:

- (1) to act honestly in the best interest of the Company;
- (2) to exercise powers within the scope of his powers and not to exceed those powers;
- (3) to exercise the discretionary power vested in him personally and not to allow himself to exercise such discretionary power under the direction or influence of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given at general meetings, not to delegate the exercise of his discretion;
- (4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (5) unless otherwise provided herein or with the informed consent of shareholders given at general meetings, not to enter into any contracts, transactions or arrangements with the Company;
- (6) without the informed consent of shareholders given at general meetings, not to use the Company's property in any manner for their own benefits;

- (7) not to exploit his position to accept bribes or other unlawful income nor to expropriate the Company of its property by any means, including (without limitation) opportunities advantageous to the Company;
- (8) without the informed consent of shareholders given at general meetings, not to accept any commission in connection with the Company's transactions;
- (9) to abide by these Articles of Association, to perform his official duties faithfully, to protect the Company's interests, and not to pursue personal benefits by exploiting his position and power in the Company to advance his own private interests;
- (10) not to compete with the Company in any way unless with the informed consent of shareholders given at general meetings;
- (11) not to misappropriate the Company's funds or to lend such funds to others, not to deposit the Company's assets in the accounts opened under his own name or the names of other persons, and not to use the assets of the Company as security for the liabilities of the shareholders of the Company or any other individual(s) ;
- (12) unless otherwise permitted by informed shareholders at general meetings, not to disclose any confidential information of the Company acquired by him in the course of and during his tenure and not to make use of such information except for the benefit of the Company, save that such information may be disclosed to a court of law or other governmental authorities under the following situations:
- (i) disclosure is required by laws;
 - (ii) disclosure is required in the public interest;
 - (iii) disclosure is required in the interests of such directors, supervisors, general manager, deputy general managers or other senior administrative officers.

ARTICLE 138 The directors, supervisors, general manager, deputy general managers or other senior administrative officers of the Company shall not knowingly cause any one of the following persons or organizations ("associates") to do such acts which such directors, supervisors, general manager, deputy general managers or other senior administrative officers are prohibited from doing:

- (1) the spouse or minor child of directors, supervisors, general manager, deputy general managers or other senior administrative officers of the Company;

(2) a person acting in the capacity of trustee of the directors, supervisors, general manager, deputy general managers or other senior administrative officers of the Company or of any person referred to in the preceding sub-paragraph (1) of this Article;

(3) a person acting in the capacity of partner of the directors, supervisors, general manager, deputy general managers or other senior administrative officers of the Company or of the persons referred to in sub-paragraphs (1) and (2) of this Article;

(4) a company in which the directors, supervisors, general manager, deputy general managers or other senior administrative officers, alone or jointly with one or more persons referred to in sub-paragraphs (1), (2) and (3) of this Article and other directors, supervisors, general manager, deputy general managers and other senior administrative officers have a de facto controlling interest;

(5) the directors, supervisors, general manager, deputy general managers and other senior administrative officers of the controlled company referred to in the preceding sub-paragraph(4) of this Article of Association; and

(6) any associates as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong limited.

ARTICLE 139 The fiduciary duties of the directors, supervisors, general manager, deputy general managers and other senior administrative officers of the Company do not necessarily terminate upon the expiration of their terms of office. The duty of confidence in relation to trade secrets of the Company survives the termination of their tenure. The continuance of other obligations shall be determined on a fair basis depending on the length of the time lapse between the departure from office and the act concerned and the circumstances and the conditions under which the relationships between them and the Company are terminated.

ARTICLE 140 The liabilities of directors, supervisors, general manager, deputy general managers or other senior administrative officers of the Company in respect of the breach of certain substantive obligations may be discharged with the informed consent by shareholders given at a general meeting except for the circumstances provided for in Article 56 of these Articles of Association.

ARTICLE 141 Where a director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the board of directors at the earliest opportunity, whether or not the relevant matters are subject to the approval of the board of directors in normal circumstances.

Unless the director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company so interested discloses his interests to the board of directors as required in this Article and the contract, transaction or arrangement is approved by the board of directors at a meeting in which the interested director, supervisor, general manager, deputy general manager or other senior administrative officer is not counted in the quorum and refrains from voting, a contract, transaction or arrangement in which that director, supervisor, general manager, deputy general manager or other senior administrative officer is materially interested is voidable at the instance of the Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested director, supervisor, general manager, deputy general manager or other senior administrative officer concerned.

A director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company is deemed to be interested in a contract, transaction or arrangement in which an associate of him is interested.

ARTICLE 142 If, before the Company first considers its entering into of the relevant contract, transaction or arrangement, a director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company gives to the board of directors a notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements to be entered into by the Company subsequently, such director, supervisor, general manager, deputy general manager or other senior administrative officer shall be deemed to have made such disclosure as stipulated in the preceding Article of the Chapter to the extent as stated in the notice.

ARTICLE 143 The Company shall not in any manner pay taxes for or on behalf of any of its directors, supervisors, general manager, deputy general managers or other senior administrative officers.

ARTICLE 144 The Company shall not directly or indirectly make a loan or provide any guarantee for a loan to its directors, supervisors, general manager, deputy general managers or other senior administrative officers of the Company or of the Company's holding company or any of their respective associates. However, the foregoing provisions shall not apply to the following circumstances:

(1) the provision by the Company of a loan or a guarantee of a loan to a company which is a subsidiary of the Company;

(2) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its directors, supervisors, general manager, deputy general managers and other senior administrative officers to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders at the general meeting;

(3) the Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant directors, supervisors, general manager, deputy general managers and other senior administrative officers or their respective associates on normal commercial terms if ordinary course of business of the Company includes the lending of money or the giving of guarantees.

ARTICLE 145 A loan made by the Company in breach of the preceding Article shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

ARTICLE 146 A guarantee for loan provided by the Company in breach of the provisions of Article 143 of these Articles of Association shall not be enforceable against the Company, unless:

(1) at the time when the guarantee in connection with a loan is provided to an associate of any of the directors, supervisors, general manager, deputy general managers and other senior administrative officers of the Company or of the Company's holding company, the lender has no knowledge of the relevant circumstances; or

(2) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

ARTICLE 147 The guarantee referred to in the preceding Article shall include the assumption of obligations by the guarantor or the provision of property provided to secure the performance of obligations by the obligor.

ARTICLE 148 In addition to any rights and remedies provided by laws and administrative regulations, where a director, supervisor, general manager, deputy general manager or other senior administrative officer of the Company is in breach of his duties to the Company, the Company shall be entitled to take the following measures:

(1) to claim damages from the relevant director, supervisor, general manager, deputy general manager or other senior administrative officer in compensation for losses sustained by the Company as a result of his breach of duty;

(2) to rescind any contracts or transactions entered into by the Company with the director, supervisor, general manager, deputy general manager or other senior administrative officer or with a third party (where such third party knows or should have known that the directors, supervisors, general manager, deputy general managers or other senior administrative officers representing the Company are in breach of the obligations to the Company);

(3) to demand the surrender of the profits made by the director, supervisor, general manager, deputy general manager or other senior administrative officer in breach of his duties;

(4) to recover from the director, supervisor, general manager, deputy general manager or other senior administrative officer the monies which should have been received by the Company, including (but not limited to) commissions; and

(5) to demand a refund from the director, supervisor, general manager, deputy general manager or other senior administrative officer of the interest earned or which may have been earned by the Company on the monies that should have been payable to it.

ARTICLE 149 The Company shall, with the prior approval of shareholders' general meeting, enter into a contract in writing with a director or supervisor in respect of remuneration. The remuneration matters as aforesaid shall include:

(1) remuneration for acting as a director, supervisor or senior administrative officer of the Company;

(2) remuneration for acting as a director, supervisor or senior administrative officer of a subsidiary of the Company;

(3) remuneration for the provision of other services in the management of the Company and its subsidiaries;

(4) the payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no legal proceedings shall be instituted by directors or supervisors against the Company for any benefits they may receive in respect of the aforesaid matters.

ARTICLE 150 The contract concerning the emoluments of the directors or supervisors of the Company between the Company and its directors or supervisors should provide that in the event of a takeover of the Company, the Company's directors and supervisors shall, subject to the prior approval of the shareholders at the general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A takeover of the Company referred to above shall mean one of the following situations:

(1) a takeover offer made by any person to the general body of shareholders;

(2) a takeover offer made by any person with a view to the offeror becoming a "controlling shareholder" as stipulated in Article 57 of these Articles of Association.

If the relevant director or supervisor does not comply with the provisions of this Article, any sum so received by him shall belong to those persons who have sold their shares as a result of the said offer made; the expenses incurred as a result of the pro rata distribution of such monies shall be borne by the relevant director or supervisor and such expenses shall not be deducted from such monies.

ARTICLE 151 When any of the circumstances in Article 146 of the Company Law occurs to a director during his term of office and where the director is prohibited from participating in the securities market by the China Securities Regulatory Commission, the board of directors shall immediately suspend the relevant director's duties from the date on which the board of directors becomes aware of the occurrence of such event and shall propose to the shareholders' general meeting to dismiss such director.

When any of the circumstances in Article 146 of the Company Law occurs to a supervisor during his term of office and where the supervisor is prohibited from participating in the securities market by the China Securities Regulatory Commission, the supervisory committee shall immediately suspend the relevant supervisor's duties from the date on which the supervisory committee becomes aware of the occurrence of such event and shall propose to the shareholders' general meeting to dismiss such supervisor.

When any of the circumstances in Article 146 of the Company Law occurs to a general manager, a deputy general manager or any other senior administrative officer during his term of office and where the general manager, the deputy general manager or any other senior administrative officer is prohibited from participating in the securities market by the China Securities Regulatory Commission, the board of directors shall immediately suspend his or her duties from the date on which the board of directors becomes aware of the occurrence of such event and shall convene a board meeting to dismiss him or her.

CHAPTER 15: FINANCIAL AND ACCOUNTING SYSTEMS AND PROFIT DISTRIBUTION

ARTICLE 152 The Company shall establish its financial and accounting system and internal audit system in accordance with laws, administrative regulations and the PRC accounting standards formulated by the finance regulatory authorities of the State Council.

ARTICLE 153 The Company shall prepare a financial report at the end of each accounting year and the same shall be audited by an accounting firm in accordance with the relevant law.

The financial reports shall be prepared in accordance with laws, administrative regulations and the requirements of the finance department of the State Council.

ARTICLE 154 The financial reports prepared by the Company in accordance with the relevant laws, administrative regulations and regulatory documents issued by competent local government or regulatory authorities shall be submitted by the board of directors to shareholders at every annual meeting. .

ARTICLE 155 The Company's financial reports shall be made available at the registered address of the Company for shareholders' inspection within twenty (20) days prior to the holding of shareholders' annual general meeting. Each shareholder of the Company shall be entitled to obtain a copy of the financial reports referred to in this Chapter.

The Company shall deliver or send to each shareholder of Overseas Listed Foreign-Invested Shares by prepaid mail at the address registered in the register of shareholders the said reports not later than twenty-one (21) days before the date of every annual general meeting of shareholders.

ARTICLE 156 The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, also be prepared in accordance with either the international accounting standards, or those of the place outside the PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the notes to those financial statements. For the purpose of distributing the profit after tax of the Company in respect of the relevant accounting year, the lower amount of the profit after tax stated in the two sets of financial statements as aforesaid shall be taken to be the amount of the profit after tax.

ARTICLE 157 The interim results or financial information published or disclosed by the Company shall be prepared in accordance with PRC accounting standards and regulations, and also in accordance with either the international accounting standards or those of the place outside the PRC where the Company's shares are listed.

ARTICLE 158 The Company shall publish its financial reports twice in every accounting year, that is, the interim financial report shall be published within sixty (60) days after the expiration of the first six (6) months of each accounting year; the annual financial report shall be published within one hundred and twenty (120) days after the expiration of each accounting year.

ARTICLE 159 The Company shall not keep accounts other than those provided by law.

ARTICLE 160 The Company shall implement an internal auditing system and establish an internal auditing organization or engage internal auditing personnel to undertake the internal auditing and supervision over the Company's income and expenses and other economic activities under the supervision of the board of directors.

ARTICLE 161 The Company's profit after tax shall be distributed in the following order of priority:

- (1) making up for losses;
- (2) allocation to the statutory common reserve fund;
- (3) allocation to the discretionary common reserve fund upon the approval of shareholders at a general meeting;
- (4) payment of dividends in respect of ordinary shares.

The board of directors shall, in accordance with laws and administrative regulations of the State (if any) and the Company's operation and development requirements, determine the proportions of profit distributions in items (3) and (4) of this Article and seek the approval of shareholders at the general meeting.

ARTICLE 162 Capital common reserve fund shall include the following items:

- (1) premium on shares issued at a premium price;
- (2) any other income required by the competent financial department of the State Council to be so included into capital common reserve fund.

ARTICLE 163 The common reserve fund of the Company shall be applied for the following purposes:

- (1) making up for losses;
- (2) expansion of the production and operation of the Company;
- (3) conversion into the capital.

Upon the approval of shareholders at a general meeting, the Company shall either issue new shares to shareholders in proportion to their existing shareholdings or increase the par value of each share, provided that when the statutory common reserve fund is converted into share capital, the amount remaining in such statutory common reserve fund shall not be less than 25 per cent of the registered capital of the Company before such conversion.

The capital common reserve fund shall not be used to make up for losses of the Company.

ARTICLE 164 The Company shall not distribute any dividend before making up for its losses and allocating funds into the statutory common reserve fund.

ARTICLE 165 The policy of profit distribution in the Company shall be as follows:

(1) Based on the principles of offering reasonable investment return to shareholders and meeting reasonable capital requirements of the Company, the Company shall distribute dividends in a proactive manner. The dividends distribution policy of the Company shall be continuous and stable.

(2) Dividends can be paid by way of cash, shares or other ways permitted by law and regulations. If there are no significant investment plans or significant expenses in cash, the Company shall distribute dividends by way of cash.

(3) Under the aforesaid condition of dividends distribution in cash, the Company principally shall distribute dividends in cash once each year and the annual dividend distribution rate shall not be less than 30 percent. Within three consecutive years, the accumulated profits distributed in cash shall be not less than 30 percent of the three-year average annual distributable profits. Unless otherwise stipulated by laws or administrative regulations, the amount of interim dividends distributed shall not exceed 50 percent of the distributable profits as stated in the interim profits statement of the Company. The Company may distribute interim dividends in cash.

(4) Upon occurrence of any illegal appropriation of the Company's funds by shareholders, the Company shall deduct the cash dividend payable to such shareholders to make up for the funds appropriated by such shareholders.

(5) When it is necessary for the Company to adjust its profit distribution policy, based on the circumstances of production and operation, investment plans and needs of long-term development, the adjusted profit distribution policy shall not violate the provisions of relevant laws and regulations.

(6) The Company shall disclose the information related to implementation of the cash dividend policy and other relevant circumstances in its periodical reports in accordance with relevant provisions.

ARTICLE 166 The profit distribution decision-making procedure and mechanism shall be as follows:

(1) Formulation of and amendment to the profit distribution policy and specific profit distribution plan shall be proposed to the shareholders' general meeting by the board of directors. In the process of formulating the profit distribution policy and profit distribution plan, the board of directors shall discuss with independent directors, taking full account of a continuous, stable and scientific return to all shareholders of the Company and a sustainable development of the Company. When reviewing the profit distribution policy and specific profit distribution plan at the shareholders' general meeting, the Company shall communicate and exchange opinions with shareholders, especially minority shareholders in a proactive manner and through various channels, fully consider the advices and appeals from minority shareholders and respond timely to the issues concerned by them.

(2) Formulation of and amendment to the policy of distribution of profits and specific profit distribution plan shall be passed by more than 50% the directors and passed by more than 50% independent directors. The independent directors shall give independent views on the formulation of and amendment to the profit distribution policy and specific profit distribution plan.

(3) Formulation of and amendment to the policy of distribution of profits and specific profit distribution plan shall be proposed to the shareholders' general meeting. Formulation of and amendment to the policy of distribution of profits shall be passed by more than two-thirds of the voting rights held by the shareholders present at the shareholders' general meeting. Formulation of and amendment to the specific profit distribution plan shall be passed by more than 50% voting rights held by the shareholders present at the shareholders' general meeting. When it is necessary for the Company to adjust its profit distribution policy, based on the circumstances of production and operation, investment plans and needs of long-term development, when it is necessary to adjust the policy for profit distribution in cash, the adjustment shall be passed by more than two-thirds of the voting rights held by the shareholders present at the shareholders' general meeting.

(4) Where the Company make profit in a year but fails to propose to distribute profit in cash for such year, the board of directors shall explain the reasons and the purposes and application plan of the funds not distributed by way of cash dividend in details in annual report. The independent directors shall provide their independent views thereon.

ARTICLE 167 Dividends or other payments declared by the Company to be payable to holders of Domestic-Invested Shares shall be declared, calculated and paid in Renminbi; and those payable to holders of Overseas Listed Foreign-Invested Shares shall be declared and calculated in Renminbi, but paid in the local currency where such Foreign-Invested Shares are listed (if there is more than one place of listing, then the local currency aforesaid will be the currency of the principal place of listing of which shall be determined by the board of directors).

Foreign currency required by the Company for payment of dividends or other payments to holders of Foreign-Invested Shares shall be dealt with in accordance with the relevant foreign exchange control regulations of the State. If there is no applicable regulation, the applicable exchange rate shall be the average of the closing rate for the relevant foreign currency announced by the Peoples' Bank of China for the week prior to the announcement of the payment of dividend or other sums.

ARTICLE 168 The Company shall, in accordance with PRC tax law, withhold and make payments on behalf of shareholders in respect of their tax payable on their dividends income.

ARTICLE 169 The Company shall appoint receiving agents on behalf of the holders of the Overseas Listed Foreign-Invested Shares. Receiving agents shall receive on behalf of the relevant shareholders dividends distributed and other monies payable by the Company in respect of the Overseas Listed Foreign-Invested Shares.

The receiving agents appointed by the Company shall comply with the relevant requirements of the law of the place and the relevant regulations of the stock exchange where the Company's shares are listed.

The receiving agents appointed by the Company on behalf of holders of H Shares shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

CHAPTER 16: APPOINTMENT OF ACCOUNTING FIRM

ARTICLE 170 The Company shall engage an independent accounting firm which is qualified under the relevant regulations of the State to audit the Company's annual financial report and review the Company's other financial reports.

The first accounting firm of the Company may be engaged by the inaugural meeting of the Company before the first annual general meeting of shareholders and the accounting firm so appointed shall hold office until the conclusion of the first annual general meeting of shareholders.

If the inaugural meeting fails to exercise its powers under the preceding paragraph, those powers shall be exercised by the board of directors.

ARTICLE 171 The accounting firm engaged by the Company shall hold office from the conclusion of the last annual general meeting of shareholders until the conclusion of the next annual general meeting of shareholders.

ARTICLE 172 The accounting firm engaged by the Company shall have the following rights:

(1) to inspect the books and accounts, records and vouchers of the Company at any time and to require directors, general manager, deputy general managers and other senior administrative officers of the Company to provide the relevant information and explanation;

(2) to require the Company to take all reasonable steps to obtain from its branch offices and subsidiaries such information and explanation as are necessary for such accounting firm to carry out its duties;

(3) to attend shareholders' general meetings and to receive notices and other information relating to such meeting which any shareholder is entitled to receive and to speak at any shareholders' general meeting in relation to the matters concerning its role as the Company's accounting firm.

ARTICLE 173 If the office of the accounting firm becomes vacant, the board of directors shall, before convening of the shareholders' general meeting, have the right to appoint an accounting firm to fill such vacancy, and if there is another accounting firm in office for the Company during the vacancy period, such accounting firm may act its role.

ARTICLE 174 The shareholders at general meeting may by ordinary resolution remove an accounting firm before the expiration of its term of office, notwithstanding anything contained in the contract entered into between the Company and the firm, but without prejudice to the accounting firm's right to claim, if any, for damages in respect of such removal.

ARTICLE 175 The remuneration of an accounting firm or the manner in which such firm is to be remunerated shall be determined by the shareholders at general meetings. The remuneration of the accounting firm appointed by the board of directors shall be determined by the board of directors.

ARTICLE 176 The decision of the Company to appoint, dismiss or not to re-appoint an accounting firm shall be resolved by the shareholders at general meetings and shall be filed with the securities regulatory authority of the State Council.

Where a resolution is proposed to be passed at a shareholders' general meeting to appoint a firm other than an incumbent firm to fill any vacant office of an accounting firm, or re-appoint an accounting firm who has been appointed by the board of directors of the Company to fill a casual vacancy, or to remove an accounting firm before the expiration of its term of office, the following provisions should apply:

(1) Before the notice of shareholders' general meeting is given to the shareholders, the proposal relating to the appointment and vacation of office shall be sent to the accounting firm the Company is going to engage or the accounting firm which intends to vacate or has vacated from its office in the relevant accounting year (vacating office includes leaving by removal, resignation and retirement).

(2) If the accounting firm which is vacating its office makes a representation in writing and requests the Company to notify the shareholders of such representations, the Company shall, unless the written representation is received too late, take the following measures:

(i) in any notice of the resolution given to the shareholders, state the fact of the representation having been made; and

(ii) send a copy of the representation to the shareholders as the attachment of the notice in the manner as stipulated in these Articles of Association.

(3) If the Company does not circulate the representation of the relevant accounting firm under provision (2) of this Article, such accounting firm may require that the representation be read out at the shareholders' general meeting and make further appeal.

(4) An accounting firm which is vacating its office shall be entitled to attend the following meeting:

(i) the shareholders' general meeting at which its term of office would otherwise have expired;

(ii) the shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and

(iii) the shareholders' general meeting convened due to its resignation;

The accounting firm vacating its office shall be entitled to receive all notices or other relevant information of the said meetings, and speak at the said meetings in relation to matters concerning its role as the former accounting firm of the Company.

ARTICLE 177 Prior to the removal or the non-renewal of the appointment of the accounting firm, notice of such removal or non-renewal shall be given to the accounting firm and such firm shall be entitled to make representations at the shareholders' general meeting. Where the accounting firm proposes resigning its post, it shall make clear to the shareholders' general meeting whether or not there are any irregularities in the Company.

An accounting firm may resign its office by depositing at the Company's registered address a written notice of resignation. The notice shall be effective on the date when the notice is deposited at the registered address of the Company or on such later date as may be stipulated in such notice. Such notice shall include the following statements:

(1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or

(2) a statement of any such circumstances.

Where the Company receives the written notice referred to in the aforesaid Article, it shall within fourteen (14) days thereof send a copy of the notice to the supervisory authority. If the notice contains a statement under the preceding subparagraph (2), copies of such statement shall be placed at the Company for shareholders' inspection. A copy of such representation shall be sent by prepaid mail to each holder of Overseas Listed Foreign-Invested Shares who is entitled to receive the issuer's financial status report of the Company. The address of the recipient shall be as recorded in the register of shareholders.

Where the accounting firm's notice of resignation contains a statement of any circumstances which shall be brought to the notice of the shareholders or creditors of the Company, the accounting firm may require the board of directors to convene an extraordinary general meeting for the purpose of hearing its explanation of the circumstances connected with its resignation.

CHAPTER 17: INSURANCE

ARTICLE 178 The effecting, types of coverage, the insured amounts and periods of the Company's insurance shall be decided at a meeting of the board of directors based on the circumstances of the Company and the practices of similar industries in other countries and the practices and legal requirements in China.

CHAPTER 18: LABOUR AND PERSONNEL MANAGEMENT SYSTEMS

ARTICLE 179 The Company shall, in accordance with the relevant provisions of the Labour Law of the People's Republic of China and other relevant laws or administration regulations of the State, formulate its labour and personnel management systems which shall be appropriate to its particular circumstances.

CHAPTER 19: THE WORKING COMMITTEE OF THE PARTY

ARTICLE 180 According to the Constitution of The Communist Party of China, the Working Committee of Guangshen Railway Company Limited of the Communist Party of China (hereinafter referred to as “the Working Committee of the Party”) shall be established. The Working Committee of the Party, as an agency of the Party Committee of Guangzhou Railway (Group) Company, shall be under the direct control of the Party Committee of Guangzhou Railway (Group) Company. One Secretary and one deputy secretary of the Working Committee of the Party shall be placed, and the number of committee members shall be determined by the approval from the Party Committee of Guangzhou Railway (The leadership system of “Dual Entry and

ARTICLE 181 The leadership system of “Dual Entry and Cross Appointment” shall prevail. Eligible members of the Party committee shall be appointed to the board of directors, the supervisory committee and the management through legal procedures; eligible Party members of the board of directors, the supervisory committee and the management shall be appointed to the Working Committee of the Party based on relevant regulations and procedures.

ARTICLE 182 The Working Committee of the Party shall establish the Party-civil relations department (belonging to the same institution with Comprehensive Management Department of the Company), under which is the primary organization of the Party.

ARTICLE 183 The Working Committee of the Party shall execute political, thoughtful and organizational leadership, and hold the general direction, control the general situation and ensure the implementation.

(1) Play a critical role in politics, mainly including the supervision of the actual implementation of the Party and the national policies, the participation in the Company’s major decision-making process, the implementation of placing human resources and talents under Party supervision, the enhancement of the Company’s leadership supervision, and the leadership of the Company’s ideological and political work and the construction of spiritual civilization.

(2) The Working Committee of the Party shall study and decide any important matters relating to the Party’s construction and ideological and political work, major appointment and removal and Party-civil work and any proposed important item planned to be deliberated or approved by the congress of employee representatives. The Working committee of the Party shall study and discuss major issues in operation and management.

(3) The general procedures for the Working Committee of the Party to participate in the Company's decision-making process are: the Working Committee of the Party meeting is convened to discuss major issues put forward by the board of directors and the management and make opinions and suggestions; the Working Committee of the Party can put forward additional proposals for the decision of the board of directors and the management when necessary; the members of Working Committee of the Party holding the office of directors and the management, in particular serving as of Chairman and General Manager of the Company, shall communicate with the board of directors, the management and other members about the relevant opinions put forward by the Working Committee of the Party before such proposal is formally submitted; the members of Working Committee of the Party holding the office of directors or management of the Company shall express relevant opinions and suggestions on behalf of the Working Committee of the Party during the decision-making process of the board of directors and the management, and report the decision to the Working Committee of the Party in a timely manner.

(4) The Working Committee of the Party shall take the lead to comply with the regulations and rules established by the Company, and mobilize Party members and masses to implement the Company's major decisions.

(5) The Working Committee of the Party shall carry out the Internal Supervision Provisions of the Communist Party of China and relevant regulations; for any violation against the Party and the national policies and laws/ regulations, the Working Committee of the Party shall provide the clear opinions and feedback for the board of directors and the management of the Company. If the situation is not corrected, the Working Committee of the Party shall report to the higher Party organization in a timely manner.

ARTICLE 184 The Working Committee of the Party shall organize corresponding Party organization and Party members to carry out relevant works, and play the primary party organization's fundamental role and the Party member's exemplary and vanguard role.

ARTICLE 185 The Discipline Inspection Committee of The Communist Party of China of Guangshen Railway Company Limited, as the specialized organization for internal supervision, shall fulfill its responsibilities of supervision, discipline execution and accountability.

ARTICLE 186 The Party-civil department and organization shall be incorporated into the Company's management department and organization. Full-time political staffs shall be assigned based on requirements. Fulltime political staffs shall be entitled to the same compensation as the operation and management personnel at the same level.

ARTICLE 187 The Company shall provide funding of an amount no less than 0.5% of the total annual wages of employees to political works. Such expenditure shall be included in the Company's budget management and disbursed from the Company's management costs. The Working Committee of the Party shall be responsible for overall planning.

CHAPTER 20: TRADE UNION ORGANIZATION OF THE COMMUNIST YOUTH LEAGUE

ARTICLE 188 The Company shall establish the trade union and conduct all relevant works according to the Trade Union Law of the People's Republic of China, and establish the system of the congress of workers and staffs to implement the democratic management. The Company shall provide the trade union with all necessary conditions for its operation and activities and allocate funds to the trade union in accordance with the Trade Union Law of the People's Republic of China. Such fund shall be used by the trade union of the Company in accordance with the "Measures for the Management of Trade Union Funds" formulated by the All China Federation of Trade Unions.

The representatives of the trade union of the Company may, on behalf of the employees of the Company, enter into any collective agreement with the Company in relation to issues including wages, working hours, benefits, insurance, and labor safety and health in accordance with the law. The Company shall seek advice from the trade union before making any material decision on its reform and operation and formulation of regulations and shall convene trade union representatives' meeting or by other means to collect opinions and suggestions of the employees.

CHAPTER 21: MERGER AND DIVISION OF THE COMPANY

ARTICLE 189 The Company shall adhere to the Constitution of The Communist Youth League of China to establish the organization of the Communist Youth League, implement relevant works and give full support to the role played by the youth members. The Company shall hold relevant activities for the Communist Youth League and provide necessary conditions for the youth member's development.

ARTICLE 190 The trade union and the Organization of The Communist Youth League shall actively accept the guidance of the Working Committee of the Party at the same level, the higher trade union and the higher Organization of The Communist Youth League.

ARTICLE 191 In the event of the merger or division of the Company, a plan shall be presented by the Company's board of directors and shall be approved in accordance with the procedures stipulated in these Articles of Association, after which the relevant review and approval formalities shall be processed as required by law. A shareholder who objects to the proposal of merger or division shall have the right to demand the Company or the shareholders who consent to the proposal of merger or division to acquire their shares at a fair price.

The contents of the resolution of merger or division of the Company shall be compiled as a special document for shareholders' inspection. The document mentioned above shall be sent by mail to holders of Overseas Listed Foreign-Invested Shares.

ARTICLE 192 The merger of the Company may be in the form of either merger of absorption or merger by establishment of a new company.

In the event of a merger of the Company, the parties involved in the merger shall enter into a merger agreement and prepare a balance sheet and a list of assets. The Company shall notify its creditors within ten (10) days from the date of the Company's resolution in respect of the merge and shall make announcement in newspapers within thirty (30) days therefrom. A creditor shall within thirty (30) days of the date of receipt of such notice, and that who has not received the notice shall within forty-five (45) days from the date of the first public notice, be entitled to demand the Company to settle the debts owed to it or to provide a guarantee accordingly. After the completion of the merger, the creditor's right and indebtedness in the original parties shall be inherited by the new company.

ARTICLE 193 In the event of a division of the Company, its assets shall be split accordingly.

In the event of a division of the Company, parties to such division shall enter into a division agreement and prepare a balance sheet and a list of assets. The Company shall notify its creditors within ten (10) days from the date of the Company's resolution in respect of such division and shall publish a public notice in a newspaper within thirty (30) days from the date of such resolution.

Unless a written agreement has been entered into by the Company and its creditors in relation to the repayment of debts before the division, companies surviving such division shall jointly assume the indebtedness of the Company which has been incurred before such division.

ARTICLE 194 Where there is a change in any of the registered items of the Company as a result of its merger or division, the Company shall carry out procedures necessary for changing its registered items with the companies registration authority in accordance with the law. In case of dissolution, the Company shall cancel its registration in accordance with the law. When a new company is established, its establishment shall be registered in accordance with the law.

CHAPTER 22: DISSOLUTION AND LIQUIDATION

ARTICLE 195 The Company shall be dissolved upon occurrence of any one of the following events:

- (1) a resolution is passed by the shareholders at a general meeting to dissolve the Company;
- (2) dissolution of the Company is necessary due to a merger or division of the Company;
- (3) revocation of business licence of the Company or the Company being ordered to close or being dissolved in accordance with the law;
- (4) dissolution by the People's Court according to Article 183 of the Company Law;
- (5) the Company is unable to repay its due debts in full and is declared insolvent in accordance with the law.

ARTICLE 196 Where the Company is dissolved under sub-paragraphs (1), (3) and (4) of the preceding Article, a liquidation committee shall be set up within fifteen (15) days from the event of dissolution of the Company to proceed with the liquidation. The composition of the liquidation committee of the Company shall be determined by the directors or an ordinary resolution of shareholders' general meeting. If no liquidation committee is set up within the prescribed period to commence the liquidation, creditors may apply to the People's Court to designate relevant persons to form a liquidation committee in order to carry out the liquidation.

Where the Company is dissolved under sub-paragraph (5) of the preceding Article, the People's Court shall, in accordance with the provisions of the relevant laws, organise and establish a liquidation committee to proceed with the liquidation.

ARTICLE 197 Where the board of directors decides to liquidate the Company (except for liquidation as a result of the declaration of insolvency by the Company), it shall include a statement in its notice of convening the shareholders' general meeting for such purpose to the effect that, after making full inquiry into the status of the Company, the board of directors is of the opinion that the Company will be able to pay off its debts within twelve (12) months from the commencement of the liquidation.

Except where the Company has declared that it is insolvent, the liquidation group shall be appointed or dismissed by ordinary resolution of shareholders at a general meeting.

Upon the passing of the resolution by the shareholders at a general meeting in respect of liquidation of the Company, all duties and powers of the board of directors shall forthwith cease.

The liquidation committee shall act in accordance with the instructions of the shareholders at general meetings to make a report at least once every year at the shareholders' general meeting in respect of the income and expenditure of the liquidation committee, the business of the Company and the progress of the liquidation and to submit a final report at the shareholders' general meeting on completion of the liquidation.

ARTICLE 198 The liquidation committee shall notify the creditors within ten (10) days from its establishment and announce the same in the newspapers within sixty (60) days from its establishment. A creditor shall make any claims with the liquidation committee within thirty (30) days upon receipt of the notification, or within forty-five (45) days of the announcement in case of not receiving the notification..

When creditors make claims, they shall describe the relevant matters in respect of their claim and provide evidence thereof. The liquidation committee shall register creditors' claims and no settlement can be made to the creditors by the liquidation committee during the period for declaration of creditors' claims.

ARTICLE 199 During the liquidation period, the liquidation committee shall exercise the following duties and powers:

- (1) to dispose of the Company's properties, to prepare a balance sheet and a list of assets respectively;
- (2) to serve notices or make announcements to creditors;
- (3) to handle and solve any relevant uncompleted business of the Company;
- (4) to effect payment of all outstanding taxes;
- (5) to settle claims and debts;
- (6) to dispose of the assets remaining after settlement of debts by the Company;
- (7) to represent the Company in any civil proceedings.

ARTICLE 200 After the Company's assets have been disposed of and the balance sheet and an inventory of assets have been completed, the liquidation committee shall formulate a liquidation plan and present the same to a shareholders' general meeting or the relevant supervisory authority for confirmation.

To the extent that the Company's assets are sufficient to pay off its debts, they shall be used to pay all liquidation expenses, wages of staff and workers, labour insurance fees, outstanding taxes and the Company's debts.

The remaining assets of the Company after settlement in accordance with the provisions aforesaid shall be distributed to its shareholders according to the class and proportion of their shareholdings.

During the liquidation period, the Company shall not commence any new operational activities.

ARTICLE 201 Where the Company is liquidated due to dissolution, if the liquidation committee, after the disposal of the assets of the Company and preparation of the balance sheet and a list of assets, discovers that the Company's assets are insufficient to repay the Company's debts in full, it shall immediately apply with the People's Court for a declaration of insolvency.

After the declaration of insolvency by the People's Court, the liquidation committee shall transfer the liquidation matters to the People's Court.

ARTICLE 202 Following the completion of liquidation of the Company, the liquidation committee shall prepare a report on liquidation, statement of the income and expenditure and the financial accounts for the liquidation which, upon verification by an accountant registered in PRC, shall be submitted to the shareholders' general meeting or the relevant supervisory authorities for confirmation.

The liquidation committee shall within thirty (30) days after the confirmation by the shareholders' general meeting or the relevant supervisory authorities submit the documents referred to in the preceding paragraph to the company's registration authority and apply for cancellation of registration of the Company, and announce the termination of the Company.

CHAPTER 23: PROCEDURES FOR AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION

ARTICLE 203 The Company may amend these Articles of Association in accordance with laws, administrative regulations and the provisions of these Articles of Association.

ARTICLE 204 For the amendment of the Company's Articles of Association, the following procedures shall be followed:

(1) the board of directors shall, in accordance with provisions of these Articles of Association, adopt a resolution to propose the shareholders' general meeting to amend the Company's Articles of Association, and formulate the draft amendments to the Articles of Association;

(2) notice of the draft amendments to these Articles of Association referred to in the preceding sub-paragraph shall be sent to the Company's shareholders, and a shareholders' general meeting shall be convened to vote on the contents of the amendments;

(3) subject to the compliance of the relevant regulations of these Articles of Association and the Mandatory Provisions, a special resolution for approval of the draft amendments to these Articles of Association shall be passed by shareholders' general meeting.

ARTICLE 205 The amendments to the Company's Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by the vetting authority authorized by the State Council and the Securities Committee of the State Council. If the amendments involve the registered items of the Company, the Company shall apply for registration of changes to the registered items in accordance with law.

CHAPTER 24: DISPUTES RESOLUTIONS

ARTICLE 206 The Company shall comply with the following rules to settle disputes:

(1) Whenever any disputes or claims relating to the affairs of the Company arise from the rights and obligations arising between holders of the Overseas Listed Foreign-Invested Shares and the Company; holders of the Overseas Listed Foreign-Invested Shares and the Company's directors, supervisors, general manager, deputy general managers or other senior administrative officers; or holders of the Overseas Listed Foreign-Invested Shares and holders of Domestic-Invested Shares arising from these Articles of Association or any rights or obligations conferred or imposed by the Company Law or any other relevant laws and administrative regulations the parties involved shall refer such disputes or claims of rights to arbitration.

The disputes or claims of rights referred to in the preceding paragraph is referred to arbitration shall be the entire claim or dispute; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation must be a party involved into such disputes or claims; the Company, Company's shareholders, directors, supervisors, general manager, deputy general managers or other senior administrative officers, shall abide by the arbitration. Disputes in relation to the ownership certification as shareholders and disputes in relation to the shareholders' register need not be resolved by arbitration.

(2) A claimant may refer the matter to the China International Economic and Trade Arbitration Commission for arbitration in accordance with its Arbitration Rules or, alternatively, to the Hong Kong International Arbitration Centre for arbitration in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at the Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

(3) The laws of the People's Republic of China shall govern the arbitration of disputes or claims described in sub-paragraph (1), save as otherwise provided in laws and administrative regulations.

(4) The award of an arbitration body shall be final and conclusive and binding on all parties thereto.

CHAPTER 25: SUPPLEMENTARY

ARTICLE 207 Notice of the Company (including notice of meetings, corporate communication or other written materials given to shareholders) may be served in the following manners: (1) by way of announcement; (2) personal delivery; (3) pre-paid post; (4) other means required under laws and regulations or listing rules of the place of listing or otherwise permitted by a supervisory authority.

Any reference in these Articles of Association to the newspaper in which announcement is published shall be such newspaper as designated or required by relevant laws, administrative regulations or rules. In respect of the way by which corporate communication is required to be provided or given to holders of Overseas Listed Foreign-Invested Shares under the Listing Rules of Hong Kong, such corporate communication may be provided or given to holders of Overseas Listed Foreign-Invested Shares through the website of the Company (www.gsrc.com) or other electronic means subject to the laws and regulations and listing rules of the place of listing and these Articles of Association.

The corporate communication refers to any document provided or to be provided to any holder of securities of the Company for reference or further action, including but not limited to (1) reports of the board of directors, annual accounts, auditors reports and summary of financial reports (if applicable) of the Company; (2) interim reports and summary of interim reports (if applicable); (3) notice of the meetings; (4) listing documents; (5) circulars; (6) proxy forms (as defined in the listing rules of the stock exchange located in the place where shares of the Company are listed).

ARTICLE 208 The “accounting firm” referred to in these Articles of Association shall have the same meaning as “auditor”.

ARTICLE 209 The board of directors of the Company shall be responsible to interpret these Articles of Association.

RESUMPTION COMPENSATION AGREEMENT

The major terms of the Resumption Compensation Agreement are as follows:

Dates	April 19, 2018
Parties	<p>The Purchaser: (1) the GLDC;</p> <p>The Vendors: (2) the Company; and</p> <p>(3) the Other Vendors</p> <p>To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the GLDC, the Other Vendors and their respective ultimate beneficial owners are independent third parties independent of the Company and its connected persons (as defined in the Listing Rules).</p>
Information on the Land	<p>The Land has a total area of approximate 170,688 sq. m., of which the Relevant Land Parcel owned by the Company is initially determined to account for approximately 37,116.63 sq. m.</p> <p>The actual areas of the Land and the Relevant Land Parcel owned by the Company are subject to the Surveying and Mapping Technical Document.</p> <p>The Land is currently used as industrial land and is proposed to be re-designated as commercial, residential and business and production land.</p>
Resumption compensation	<p>The GLDC agrees to pay an one-off compensation to the Company and the Other Vendors in accordance with the principle set out in the Resumption Notice. The initial total compensation is RMB6 billion (subject to adjustments), of which the initial Compensation Amount Payable to the Company is RMB 1,304,717,363.49 (subject to adjustments).</p> <p>The final Compensation Amount Payable to the Company will be adjusted and determined based on the ratio of the actual area of the land that the Company hands over for resumption to the actual total area of the Land for resumption.</p> <p>Such compensation amount covers the compensation for the land to be resumed under the Resumption Compensation Agreement, the buildings erected thereon and fixture attached thereto, relocation and temporary rehousing, loss from disruption of business and production, demolition costs and fees incurred from restoration of the land.</p>
Conditions on payment of the resumption compensation	<p>The GLDC will pay the Compensation Amount Payable to the Company in the following manner:</p> <ol style="list-style-type: none">1) 40% of the Compensation Amount Payable to the Company, being RMB 521,886,945.40, shall be paid within 30 days after the Resumption Compensation Agreement becoming effective and having been approved by the Guangzhou Municipal Development and Reform Commission (廣州市發展改革委員會).2) 5% of the Compensation Amount Payable to the Company, being RMB 65,235,868.18, shall be paid within 30 days after the proposals in respect of the demolition and relocation of the housing-reform houses on the Land having been finalized and having been confirmed by the GLDC.3) 10% of the Compensation Amount Payable to the Company, being RMB 130,471,736.35, shall be paid within 30 days after the work involving employee relocation, clearance of tenants, relocation of equipment, removal of buildings (except housing-reform houses) on and fixtures to the Land having been completed and having been confirmed by the GLDC.

- 4) 15% of the Compensation Amount Payable to the Company, being RMB195,707,604.52, shall be paid within 30 days upon the completion of the removal and compensation of the relocation of the housing-reform houses on the Land and the deregistration of the land and buildings erected thereon as well as fixtures attached thereto.
- 5) Depending on the results of the initial environmental investigation of the Land:
 - a) in case the Land is found to be uncontaminated, 15% of the Compensation Amount Payable to the Company, being RMB195,707,604.52, shall be paid within 30 days after reply from the relevant government authority in relation to the report on the initial environmental investigation having been obtained and having been confirmed by the GLDC;
 - b) in case the Land is found to be contaminated, 10% of the Compensation Amount Payable to the Company, being RMB130,471,736.35, shall be paid within 30 days after reply from the relevant government authority in relation to the implementation proposal on contamination control and restoration works having been obtained and having been confirmed by the GLDC.
- 6) the remaining balance of the final Compensation Amount Payable to the Company as confirmed by GLDC shall be paid within 30 days after the handover of the Land.

1 DEFINITIONS

The following expressions have the following meanings, unless the context requires otherwise:

“Company”	Guangshen Railway Company Limited(廣深鐵路股份有限公司), a joint stock limited company incorporated in the PRC, the H Shares of which are listed on the Stock Exchange, the American depositary shares (each representing 50 H Shares) of which are listed on The New York Stock Exchange, Inc. and the A Shares of which are listed on the Shanghai Stock Exchange
“Compensation Amount Payable to the Company”	the amount of compensation payable to the Company by the GLDC in respect of the Relevant Land Parcel owned by the Company pursuant to the Resumption Compensation Agreement
“Directors”	the directors of the Company
“GLDC”	Guangzhou Land Development Center (廣州市土地開發中心), a public institution under the Guangzhou Land Resources and Planning Commission (廣州市國土資源和規劃委員會)

“Group”	the Company and its subsidiaries
“H Share”	overseas listed foreign shares of the Company with a par value of RMB1.00 issued in Hong Kong and listed on the Stock Exchange, denominated in Hong Kong dollar
“Land”	the land located at the intersection between Guangyuan East Road (廣園東路) and Keyun Road (科韻路) with its boundaries reaching Keyun Road (科韻路) in the east, Guangyuan Road (廣園路) in the south, Huanan Expressway (華南快速) in the west and Wushan Road (五山路) in the north and a total area of approximately 170,688 sq. m.
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Other Vendors”	two subsidiaries of a state-owned enterprise in the PRC that is principally engaged in the provision of integrated service in relation to railway operation industry and steel trading, all of which are independent third party of the Company
“PRC”	the People’s Republic of China and in this announcement excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Relevant Land Parcel owned by the Company”	the land parcel located at Guangzhou East Shipai Old Goods Yard (廣州東石牌舊貨場) with an area initially determined to be approximate 37,116.63 sq. m. owned by the Company
“Resumption Compensation Agreement”	the compensation agreement in relation to the resumption of state-owned land use rights (《國有土地使用權收儲補償協議》) dated April 19, 2018 entered into amongst the GLDC (as purchaser), the Company and the Other Vendors
“Resumption Notice”	Notice on the Publication of the Implementation Plan regarding the Resumption of Land Parcel Located at Guangyuan East Road of China Railway Logistics by the Guangzhou Land Resources and Planning Commission (《廣州市國土資源和規劃委員會關於印發中鐵物流廣園東路地塊徵收儲備實施方案的通知》)
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of a par value of RMB1.00 each in the share capital of the Company
“sq. m.”	square meter(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Surveying and Mapping Technical Document”	boundary coordinate plans for land use rights (《權屬界址座標附圖》) or the technical reports of land survey and demarcation (《土地勘測定界技術報告書》) to be issued by a qualified surveying and mapping institution
“Transaction”	the proposed handover for resumption to GLDC the land use rights over the Relevant Land Parcel owned by the Company pursuant to the Resumption Compensation Agreement

Statement Explaining How Certain Ratios Were Calculated in the Annual Report

The operating expenses ratio of Guangshen Railway Company Limited, or the Company, is the ratio of its total railway operating expenses in 2017 (in the amount of RMB15,850.1 million, compared to RMB14,561.8 million in 2016) to its railroad and related business revenue in 2017 (in the amount of RMB17,294.9 million, compared to RMB16,170.3 million in 2016).

EXHIBIT 8.1**List of Subsidiaries of Guangshen Railway Company Limited**

The following table lists information concerning the significant subsidiaries of Guangshen Railway Company Limited, or the Company, as of December 31, 2017:

<u>Name</u>	<u>Country of Incorporation</u>	<u>Percentage of Interest held by our Company</u>
Dongguan Changsheng Enterprise Company Limited	PRC	51%
Shenzhen Fu Yuan Enterprise Development Company Limited	PRC	100%
Shenzhen Pinghu Qun Yi Railway Store Loading and Unloading Company Limited	PRC	100%
Shenzhen Nantie Construction Supervision Company Limited	PRC	76.66%
Shenzhen Railway Property Management Company Limited	PRC	100%
Shenzhen Shenhua Sheng Storage and Transportation Company Limited	PRC	100%
Shenzhen Guangshen Railway Economic and Trade Enterprise Company Limited	PRC	100%
Shenzhen Railway Station Passenger Services Company Limited	PRC	100%
Guangshen Railway Station Dongqun Trade and Commerce Service Company Limited	PRC	100%
Guangzhou Railway Huangpu Service Company Limited	PRC	100%
Zengcheng Lihua Stock Company Limited (1)	PRC	44.72%

**CERTIFICATION OF CO-PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Wu Yong, co-principal executive officer of Guangshen Railway Company Limited (“Guangshen”), certify that:

1. I have reviewed this annual report on Form 20-F of Guangshen;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and
5. The company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company’s auditors and the audit committee of the company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company’s internal control over financial reporting.

Date: April 25, 2018

/s/ Wu Yong

Wu Yong

Chairman of the Board of Directors

CERTIFICATION OF CO-PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Hu Lingling, co-principal executive officer of Guangshen Railway Company Limited (“Guangshen”), certify that:

1. I have reviewed this annual report on Form 20-F of Guangshen;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and
5. The company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company’s auditors and the audit committee of the company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company’s internal control over financial reporting.

Date: April 25, 2018

/s/ Hu Lingling
Hu Lingling
General Manager

CERTIFICATION OF CO-PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Tang Xiangdong, principal financial officer of Guangshen Railway Company Limited (“Guangshen”), certify that:

1. I have reviewed this annual report on Form 20-F of Guangshen;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and
5. The company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company’s auditors and the audit committee of the company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company’s internal control over financial reporting.

Date: April 25, 2018

/s/ Tang Xiangdong
Tang Xiangdong
Chief Accountant

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Guangshen Railway Company Limited, or the Company, on Form 20-F for the period ending December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof, or the Report, the undersigned hereby certifies that to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 25, 2018

/s/ Wu Yong

Wu Yong

Chairman of the Board of Directors

A signed original of this written statement required by Section 906 has been provided to Guangshen Railway Company Limited and will be retained by Guangshen Railway Company Limited and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Guangshen Railway Company Limited, or the Company, on Form 20-F for the period ending December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof, or the Report, the undersigned hereby certifies that to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 25, 2018

/s/ Hu Lingling

Hu Lingling

General Manager

A signed original of this written statement required by Section 906 has been provided to Guangshen Railway Company Limited and will be retained by Guangshen Railway Company Limited and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE U.S. SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Guangshen Railway Company Limited, or the Company, on Form 20-F for the period ending December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof, or the Report, the undersigned hereby certifies that to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 25, 2018

/s/ Tang Xiangdong

Tang Xiangdong
Chief Accountant

A signed original of this written statement required by Section 906 has been provided to Guangshen Railway Company Limited and will be retained by Guangshen Railway Company Limited and furnished to the Securities and Exchange Commission or its staff upon request.