
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, 2021

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	Trading Symbol(s)	Name of Each Exchange on which Registered
None	None	None

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: American Depositary Shares, each representing 50 Class H ordinary shares, par value RMB 1.00 per share

Indicate the number of outstanding shares of each of the Registrant's classes of capital or common stock as of December 31, 2021:

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*

* Includes 56,505,700 H shares in the form of American Depositary Shares.

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

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 every Interactive Data File required to be submitted 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 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 File ☐ Emerging Growth Company ☐

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.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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 "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 ☒

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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, such as the ongoing COVID-19 global pandemic, and political instability 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 that 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 RMB6.3726 to US\$1.00, the certified exchange rate for December 30, 2021 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.

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.
- “CRH” means a China Railway High-Speed train.
- “CSRC” means China Securities Regulatory Commission.
- “CSRG” means China State Railway Group Co., Ltd., f/k/a/ China Railway Corporation or “CRC”, which was 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 and was renamed to its current name with the approval of State Council of PRC on June 18, 2019.
- “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.
- “CSRG Group” means CSRG together with the subsidiaries transferred from MOR.
- “EMU” means electric multiple unit, a multiple unit train consisting of self-propelled carriages.
- “GMSR” means Guangmeishan Railway Limited Company.
- “GRCL” means Guangmeishan Railway Company Limited.
- “GRGC” means China Railway Guangzhou Group Co., Ltd., f/k/a Guangzhou Railway (Group) Company Limited, our largest shareholder.
- “GSR” means Ganzhou-Shaoguan Railway Company Limited.
- “GSRC” or “SR” means Guangdong Sanmao Railway Company Limited.
- “GZR” means Guangzhou-Zhuhai 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.
- “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 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.
- “SAMR” means the State Administration for Market Regulation of China.
- “SEC” means the U.S. Securities and Exchange Commission.
- “tonne” 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 Guangdong Yangcheng Railway Enterprise Co., Ltd., a wholly owned subsidiary of GRGC, or its predecessor, Guangzhou Railway Group Yangcheng Railway Enterprise Development 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

Selected Financial Data

The following selected consolidated data relating to our Consolidated Balance Sheets as of December 31, 2019, 2020 and 2021, and our Consolidated Comprehensive Income Statements and Consolidated Cash Flow Statements for each of the years ended December 31, 2019, 2020 and 2021 are derived from 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, 2017 and 2018 and our Consolidated Comprehensive Income Statements and Consolidated Cash Flow Statements for each of the years ended December 31, 2017 and 2018 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,					
	2017 RMB	2018 RMB	2019 RMB	2020 RMB	2021 RMB	US\$
in thousands except for per share/ADS data)						
Income Statement Data:						
Revenue from Railroad and Related Business						
- Passenger transportation	7,757,077	8,108,384	8,009,590	4,114,522	6,169,109	968,068
- Freight transportation	1,893,594	1,849,360	2,112,596	1,698,576	2,035,437	319,404
- Railway network usage and other transportation related services	7,644,230	8,865,635	9,903,382	9,572,330	10,814,585	1,697,045
Subtotal	17,294,901	18,823,379	20,025,568	15,385,428	19,019,131	2,984,517
Revenue from other businesses	1,036,521	1,004,639	1,152,783	963,938	1,187,026	186,270
Total revenue	18,331,422	19,828,018	21,178,351	16,349,366	20,206,157	3,170,787
Railroad and Related business operating expenses	(15,850,056)	(17,610,188)	(18,942,185)	(17,242,305)	(20,475,287)	(3,213,019)
Other businesses operating expenses	(1,082,531)	(1,048,025)	(1,134,229)	(944,485)	(1,099,355)	(172,513)
Other (losses)/gains-net	(48,477)	(108,613)	(29,096)	(3,841)	134,718	21,140
Operating profit/(loss)	1,350,358	1,062,253	1,072,841	(652,262)	(1,193,154)	(187,232)
Profit/(loss) attributable to equity holders of the Company	1,015,361	784,059	748,439	(557,876)	(973,119)	(152,704)
Operating profit/(loss) per share	0.19	0.15	0.15	(0.09)	(0.17)	(0.03)
Earnings/(losses) per share for profit attributable to equity holders of the Company						
- Basic and diluted	0.14	0.11	0.11	(0.08)	(0.14)	(0.02)
Dividends declared per share	0.08	0.06	0.06	—	—	—
Earnings/(losses) per ADS for profit attributable to equity holders of the Company	7.17	5.53	5.28	(3.94)	(6.87)	(1.08)
Balance Sheet Data (at year end):						
Working capital	892,911	(65,568)	226,893	(885,902)	(1,304,655)	(204,728)
Fixed assets-net	23,617,138	24,184,248	23,566,081	23,016,415	24,010,161	3,767,718
Leasehold land payments	1,980,278	1,924,496	—	—	—	—
Total assets	33,994,238	35,402,237	36,893,133	36,780,453	37,403,422	5,869,413
Equity attributable to equity holders of the Company	28,684,677	28,852,299	29,175,726	28,192,838	27,241,949	4,274,857
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	866,243
H shares	1,431,300	1,431,300	1,431,300	1,431,300	1,431,300	219,356
Cash Flow Statement Data:						
Net cash generated from operating activities	2,634,839	3,261,421	2,395,245	1,336,173	1,002,468	157,309
Net cash used in investing activities	(2,264,647)	(2,113,132)	(2,087,032)	(927,513)	(926,112)	(145,327)
Net cash used in financing activities	(569,333)	(570,032)	(484,632)	(485,762)	(62,126)	(9,749)
Payment for acquisition of fixed assets and construction-in-progress and prepayment for fixed assets; net of related payables	(2,273,426)	(2,683,053)	(2,441,116)	(853,347)	(1,060,262)	(166,378)
Dividends paid to the Company's shareholders	(569,333)	(566,683)	(425,012)	(425,012)	—	—
Other Data:						
Railroad transportation operating income/(loss)	1,444,845	1,510,218	1,083,383	(1,856,877)	(1,456,156)	(228,502)
Other businesses operating (loss)/income	(46,010)	(4,537)	18,554	19,453	87,671	13,757

- (1) Translation of amounts from RMB into US\$, for the convenience of the reader has been made at RMB6.3726 to US\$1.00, the certified exchange rate for December 30, 2021 as published by the Federal Reserve Board of the United States. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at that rate on December 31, 2021 or on any other date.

Dividends

The Company did not issue any dividend for the year ended December 31, 2021. Under the impact of the COVID-19 pandemic, the Company faced great operating and financial pressure. Taking into consideration the current operating position of the Company and the capital requirements for maintaining the normal operation of the Company, the Board proposed not to make profit or dividend distribution or capitalize capital reserve into share capital for 2021. This proposal has been considered and approved at the eleventh meeting of the ninth session of the Board of the Company, and will be delivered to the annual general meeting of shareholders to be held in June 2022 (the “2021 Annual General Meeting”) for approval. The independent directors of the Company unanimously agree that the proposal is in compliance with the relevant regulatory rules and the Articles of Association, conforms to the Company’s current actual situation, will enhance the Company’s sustainable and stable development, and will not damage the interests of small and medium shareholders, and agree to submit the proposal to the Company’s 2021 Annual General Meeting for consideration.

In accordance with our Articles of Association, dividends for our domestic shares are paid in RMB while dividends for our H shares are calculated in RMB and paid in Hong Kong dollars. Hong Kong dollar dividend payments are 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.

A. Reserved

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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 our results of operations. For example, in August 2020, the NDRC approved plans for further improving the intercity rail system in the Greater Bay Area of southern China, and our Company was given a primary responsibility for developing the necessary infrastructure and connecting it with our existing network. In addition, the PRC government has been accelerating the transition of freight shipping from the road network to the rail network in order to reduce costs and pollution emissions and improve the transportation system generally, which is also expected to have a positive effect on our Company. However, these plans and policies may not be fully implemented, may not achieve the desired effects or may be impacted by other governmental policies and priorities in the future. Therefore, the expected positive impact on our Company may not be fully realized, which could have a material adverse impact on our operations and the value of our ADSs. In addition, if the focus of the PRC government shifts in terms of societal or economic priorities in the transportation sector, new policies could be enacted that could have a directly negative impact on our Company.

Since our largest shareholder, GRGC, and its actual controller, CSRG, are state-owned enterprises, the PRC government may adjust the operations of GRGC and/or CSRG at any time, both directly and indirectly through regulatory changes and increased enforcement of existing laws and regulations. Such adjustment could also take the form of managerial changes, or changes in strategic focus areas of our Company, any of which could materially affect our results of operations, financial condition or the strategic development of our Company.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value. Since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties.

In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, the interpretation and enforcement of these laws and regulations involve uncertainties. Rules and regulations in China can also change quickly with little advance notice.

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, we operate in the infrastructure and transportation sector, which is still highly subject to central planning initiatives, and certain changes in governmental policies from time to time may negatively affect our business and operations. Given the PRC government's significant oversight and discretion over the conduct of our business through GRGC, the PRC government may substantially influence our operations in a variety of ways at any time, including through regulation of the prices of our services, allocation of railway lines, setting of industry safety, worker welfare, environmental and other standards, regulating or restricting imports of equipment we require, or regulating travel generally in the PRC, which could result in a material change in our operations and/or the value of our ADSs. For example, increasingly strict environmental standards could require us to phase out our remaining internal combustion engine trains before we originally planned. In addition, changing safety standards could require us to make additional investments in our safety systems and equipment, including overpasses, guardrails, signage and other systems, the costs of which may adversely impact the value of our ADSs. As another example, in 2016, the NDRC delegated its authority to set baseline ticket pricing standards for high-speed trains to CSRG. If CSRG increases or decreases the ticket prices for trains in our operation area, our revenue from railroad businesses will be affected accordingly. In April 2019, the PRC government lowered the value-added tax rate for railway transportation services from 10% to 9%, and CSRG lowered the baseline pricing standards for national railway transportation services. Accordingly, we lowered our transportation and ticket pricing. For further information on the ticket pricing, see "Item 4. Information On The Company – B. Business Overview – Pricing." While we believe the PRC government weighs heavily factors such as continuity and economic and social stability when creating and implementing laws and policies, 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. For example, a shift in emphasis away from rail transportation towards other forms of passenger and freight transportation services, could have a direct, immediate and substantial negative impact on our business. Similarly, an increase in the cost of our fuel, which is also subject to governmental price-setting mechanisms, could significantly increase our costs. Any of these types of China-specific legal and regulatory risks could result in a material change in our operations and/or the value of our ADSs or could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless.

Any future issuance of securities by our Company to foreign investors would be subject to review and approval of the CSRC, and the CSRC may refuse to grant such approval. Furthermore, on December 19, 2020, the NDRC and MOFCOM promulgated the Foreign Investment Security Review Measures, which took effect on January 18, 2021. Under the Foreign Investment Security Review Measures, investments in military, national defense-related areas or in locations in proximity to military facilities, or investments that would result in acquiring the actual control of assets in certain key sectors, such as critical agricultural products, energy and resources, equipment manufacturing, infrastructure, transport, cultural products and services, IT, Internet products and services, financial services and technology sectors, are required to be approved by designated governmental authorities in advance. These additional restrictions may make it more difficult for us, as an infrastructure-related company, to obtain approval for any issuance of securities to foreign investors. While we have no current plan to issue securities for fund-raising purposes, if we did decide to do so, we may not be able to receive the required approvals in a timely manner or at all, which could adversely affect our access to funding and our business operations generally.

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.

Since the subsidiaries and parent companies of the Company are all located in China, the transfer of cash and assets together with the distribution of profits and dividends also occur in China. The Company has distributed cash dividends for 24 consecutive years from its listing in 1996 to 2019 and has not encountered any regulatory obstacles in terms of cross-border cash transfer and foreign currency exchanges. Taking the 2019 dividend distribution for an example, the details of the cash dividend distribution process are as follows: (1) the cash dividends of the major shareholder of A-shares, GRGC, were paid in RMB directly and (2) the cash dividends of other shareholders of A-shares were paid via the Shanghai Branch of China Securities Depository in RMB after tax deduction, which were then distributed to each shareholder. The tax deduction of different categories of shareholders is as follows: (1) for resident enterprise shareholders (including institutional investors), the Company does not withhold the enterprise income tax, which shall be otherwise declared and paid by the shareholders themselves; (2) for natural person investors and funds, the Company does not withhold any tax and the individual income tax will be levied or exempted in proportion to the holding period as of when the shares are transferred after the share registration date; (3) for Qualified Foreign Institutional Investors and non-resident enterprise investors, the Company withholds 10% of the enterprise income tax; and (4) for Hong Kong investors, the Company withholds 10% of the individual income tax.

The cash dividends of H-share shareholders shall be converted to Hong Kong dollars by the Company after tax deduction and paid in HK dollars to the specific dividend distribution account of the Company in Bank of China (Hong Kong) Trust Co., Ltd. based on the register of shareholders provided by Hong Kong Securities Registration Co., Ltd. The tax deduction of different categories of shareholders is as follows: (1) for individual shareholders of H-shares, the Company withholds 10% of the individual income tax, and (2) for non-individual shareholders of H-shares, the Company withholds 10% of the enterprise income tax.

The cash dividends of ADS holders are distributed by the depository bank, JPMorgan, after its receipt of the cash dividends distributed in HK dollars and the conversion of them into US dollars.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of foreign currency out of China.

We received substantially all of our revenues in RMB for the years ended December 31, 2020 and 2021. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends or other payments to our overseas shareholders or ADS holders, or otherwise satisfy our foreign currency-denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders or ADS holders, which could negatively impact the price of our ADSs.

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.

Since the beginning of 2018, there has been increasing rhetoric, in some cases coupled with legislative or executive action, from several U.S. and foreign leaders regarding tariffs against foreign imports of certain materials. More specifically, there have been several rounds of U.S. tariffs on Chinese goods taking effect in the past few years, some of which prompted retaliatory Chinese tariffs on U.S. goods. 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 affect our business.

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. In recent years, the PBOC has been developing 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. On December 11, 2015, the China Foreign Exchange Trade System launched the RMB exchange-rate index, which strengthened the reference to a currency basket to better maintain the stability of the RMB exchange rate against the currencies in the basket. As a result, the RMB/USD central parity formation mechanism of "closing rate + exchange-rate movements of a basket of currencies" was developed. In June 2016, the Foreign Exchange Self-Disciplinary Mechanism was established, allowing financial institutions to play a more important role in maintaining orderly operations in the foreign-exchange market and in an environment for fair competition. In February 2017, the Foreign Exchange Self-Disciplinary Mechanism adjusted the reference period for the central parity against the currency basket from 24 hours ahead of submitting the quotes to 15 hours between the closing on the previous trading day and the submission of the quotes, which avoided repeated references to the daily movements of the USD exchange rate in the central parity of the following day. As a result, 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 the past few years, the exchange rate had been under market pressure to depreciate. PBOC had used up over U.S. \$1 trillion of China's foreign currency reserves to stabilize the currency. This depreciation halted in 2017, and the RMB appreciated against the U.S. dollar during this one-year period. In 2018 and 2019, the RMB exchange rate against the U.S. dollar depreciated significantly, mainly due to changes in political and economic conditions, including trade friction between China and the U.S. In 2020, the RMB appreciated approximately 6.7% against the U.S. dollar and in 2021, the RMB appreciated approximately 2.3% 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." Although the RMB exchange rate against the U.S. dollar appreciated in 2021, 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. China has a civil law system based on written statutes, which, unlike common law systems, is a system in which decided judicial cases have little precedential value. Furthermore, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. The relative inexperience of China's judiciary in many cases creates additional uncertainty as to the outcome of litigation. In addition, enforcement of existing laws or contracts based on existing laws may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement within China. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property and procedural rights, could materially and adversely affect our business and impede our ability to continue our operations.

Changes in laws and policy could negatively affect our business and operations. Conflicting regulatory requirements could also increase our compliance costs and subject us to regulatory scrutiny. Any further escalation in geopolitical tensions or a trade war, or news and rumors of any escalation, could affect activity levels within our region of operation and have a material and adverse effect on our business, results of operations, and/or the trading prices of our ADSs and/or other securities. Any restrictions imposed by the United States or other countries on capital flows into China or China-based companies may prevent potential investors from investing in us, and the trading prices and liquidity of our ADSs and/or other securities may suffer as a result.

In addition, our ability to issue new securities or otherwise continue to support liquidity in the trading of our outstanding securities is subject to regulation by the PRC central government. Foreign ownership of our Company or our ability to continue to issue new securities in the U.S. are subject to continued approvals of the PRC government, which could be revoked or changed at any time, and which consequently could cause the trading in our ADSs and other securities to become illiquid without notice and/or significantly and adversely impact their trading prices.

While the trend of legislation over recent decades has significantly enhanced the protection of foreign investment and allowed for more control by foreign parties of their investments in Chinese enterprises, there can be no assurance that a change in leadership, social or political disruption, or unforeseen circumstances affecting China's political, economic or social life, will not affect the PRC's ability to continue to support and pursue these reforms. Such a shift or other significant changes in laws or regulations for whatever reason, could have a material adverse effect on the company business and prospects and could happen quickly with little or no advance notice.

In addition, because the PRC Company Law is different in certain important aspects from company laws in Hong Kong, the 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 the same shareholder protections to which you may be entitled in Hong Kong, the United States or other jurisdictions.

Because all of our operations are in China, our business is subject to the complex and rapidly evolving laws and regulations there. The Chinese government may exercise significant oversight and discretion over the conduct of our business and may intervene in or influence our operations at any time, which could result in a material change in our operations and/or the value of our ADSs.

As a business operating in China, we are subject to the laws and regulations of the PRC, which can be complex and evolve rapidly. The PRC government has the power to exercise significant oversight and discretion over the conduct of our business, and the regulations to which we are subject may change rapidly and with little notice to us or our shareholders. As a result, the application, interpretation, and enforcement of new and existing laws and regulations in the PRC are often uncertain. In addition, these laws and regulations may be interpreted and applied inconsistently by different agencies or authorities, and inconsistently with our current policies and practices. New laws, regulations, and other government directives in the PRC may also be costly to comply with, and such compliance or any associated inquiries or investigations or any other government actions may:

- Delay or impede our development,
- Result in negative publicity or increase our operating costs,
- Require significant management time and attention, and
- Subject us to remedies, administrative penalties and even criminal liabilities that may harm our business, including fines assessed for our current or historical operations, or demands or orders that we modify or even cease our business practices.

The promulgation of new laws or regulations, or the new interpretation of existing laws and regulations, in each case that restrict or otherwise unfavorably impact the ability or manner in which we conduct our business and could require us to change certain aspects of our business to ensure compliance, which could decrease demand for our products or services, reduce revenues, increase costs, require us to obtain more licenses, permits, approvals or certificates, or subject us to additional liabilities. To the extent any new or more stringent measures are required to be implemented, our business, financial condition and results of operations could be adversely affected as well as materially decrease the value of our ADSs.

Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions under the civil law system may be cited for reference but have limited precedential value. Since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties. For example, the enforcement of laws and rules and regulations in China can change quickly with little advance notice and there are risks that the Chinese government may intervene or influence our operations at any time, or may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, which could result in a material change in our operations and/or the value of our ADSs.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Furthermore, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, could materially and adversely affect our business and impede our ability to continue our operations.

We are subject to extensive and evolving legal system in the PRC, non-compliance with which, or changes in which, may materially and adversely affect our business and prospects, and may result in a material change in our operations and/or the value of our ADSs or could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of our ADSs to significantly decline or be worthless.

PRC companies are subject to various PRC laws, regulations and government policies and the relevant laws, regulations and policies continue to evolve. Recently, the PRC government is enhancing supervision over companies seeking listings overseas and some specific business or activities such as the use of variable interest entities and data security or anti-monopoly. The PRC government may adopt new measures that may affect our operations or may exert more oversight and control over offerings conducted outside of China and foreign investment in China-based companies, and we may be subject to challenges brought by these new laws, regulations and policies. However, since these laws, regulations and policies are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties. Furthermore, as we may be subject to additional, yet undetermined, laws and regulations, compliance may require us to obtain additional permits and licenses, complete or update registrations with relevant regulatory authorities, adjust our business operations, as well as allocate additional resources to monitor developments in the relevant regulatory environment. However, under the stringent regulatory environment, it may take much more time for the relevant regulatory authorities to approve new applications for permits and licenses, and complete or update registrations and we cannot assure you that we will be able to comply with these laws and regulations in a timely manner or at all. The failure to comply with these laws and regulations may delay, or possibly prevent, us to conduct business, accept foreign investments, or be listed overseas.

In addition, the PRC government has recently indicated an intent to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers. On July 6, 2021, the relevant PRC government authorities issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies, and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. As a follow-up, on December 24, 2021, the State Council subsequently issued a draft of the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies, and the CSRC issued a draft of Administration Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies for public comments. These draft measures propose to establish a new filing-based regime to regulate overseas offerings and listings by domestic companies. Specifically, an overseas offering and listing by a PRC company, whether done directly or indirectly, and whether an initial public offering or a follow-on offering, must first be filed with the CSRC. The examination and determination of an indirect offering and listing would be conducted on a substance-over-form basis, and an offering and listing would be deemed as a PRC company's indirect overseas offering and listing if the issuer meets the following conditions: (i) any of the operating income, gross profit, total assets, or net assets of the PRC enterprise in the most recent fiscal year was more than 50% of the relevant line item in the issuer's audited consolidated financial statement for that year; and (ii) senior management personnel responsible for business operations and management are mostly PRC citizens or are ordinarily resident in the PRC, and the principal place of business is in the PRC. The issuer or its affiliated PRC entity, as the case may be, would be required to file with the CSRC for its initial public offering, follow-on offering and other equivalent offering activities. In particular, the issuer would need to submit the filing with respect to its initial public offering and listing within three business days after its initial filing of the listing application, and submit the filing with respect to its follow-on offering within three business days after the completion of the follow-on offering. Failure to comply with the filing requirements could result in fines to the relevant PRC companies, suspension of their businesses, revocation of their business licenses and permits and fines for the controlling shareholder and other responsible persons. These draft measures also set forth regulatory prohibitions on overseas offerings and listings by PRC enterprises in certain circumstances.

As of the date of this annual report, both CSRC rules are still in draft form and have not come into effect. Upon finalization of the rules and their coming into effect, we could be required to complete the filing with the CSRC in order to pursue a future follow-on offering, if any. We thus cannot assure you that we will remain fully compliant with all new regulatory requirements or any future implementation rules on a timely basis, or at all. In addition, as an infrastructure-related company in the railway industry, it is possible that the PRC government could impose limits on companies in our sector. If this were to occur, we may be required to cancel our ADSs and otherwise restrict foreign ownership, which would likely have a significant negative impact on the value of our ADSs and our shares generally.

There are substantial uncertainties as to whether these draft measures to regulate direct or indirect overseas offering and listing will be further amended, revised or updated, and what their timetable for implementation and final content will be. As the CSRC may formulate and publish guidelines for filings in the future, these draft measures did not provide for detailed requirements of the substance and form of the filing documents. In a Q&A document released on the CSRC's official website on December 24, 2021, the respondent CSRC official indicated that the proposed new filing requirement will start with new issuers and listed companies seeking follow-on financing and other financing activities. As for the filings for other listed companies, the regulator would grant adequate transition periods and apply separate arrangements. Given the substantial uncertainties surrounding the draft CSRC filing requirements, we cannot assure you that, if ever required, we would be able to complete the filings and fully comply with the relevant new rules on a timely basis, if at all.

In addition, we cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that filing and approval from the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the Measures for Cybersecurity Review and the Draft Measures for Internet Data Security, are required for our offshore offerings, it is uncertain whether we can obtain such approval or complete such filing procedures and how long it may take. Furthermore, any such approval or filing could be subsequently rescinded or rejected. Any failure to obtain or delay in obtaining such approval or completing such filing procedures for our offshore offerings, or a rescission of any such approval or filing if obtained by us, could subject us to sanctions by the CSRC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our listed securities. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our offshore offerings before settlement and delivery of the shares offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or complete the required filings or other regulatory procedures for our prior offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirements could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our listed securities.

Since it remains unclear how the Opinions will be interpreted, amended and implemented by the relevant PRC governmental authorities, it remains uncertain how PRC governmental authorities will regulate overseas listings in general and whether we are required to obtain any specific regulatory approvals for our offshore offerings. If the PRC regulatory agencies later promulgate new rules or explanations requiring that we obtain their approvals for our future offshore offerings, we may be unable to obtain such approvals in a timely manner, or at all, and such approvals may be rescinded even if obtained. Any such circumstance could significantly limit or completely hinder our ability to continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless.

Possible future actions by the Chinese government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer ADSs to investors and could cause the value of our securities to significantly decline, possibly even to zero.

Any failure or perceived failure by us to comply with the PRC anti-monopoly laws and regulations may result in governmental investigations or enforcement actions, litigation or claims against us and could have an adverse effect on our business, financial condition and results of operations.

The PRC anti-monopoly enforcement agencies have strengthened enforcement under the PRC Anti-Monopoly Law in recent years. On December 28, 2018, the SAMR, issued the Notice on Anti-monopoly Enforcement Authorization, pursuant to which its province-level branches are authorized to conduct anti-monopoly enforcement within their respective jurisdictions. On September 11, 2020, the Anti-Monopoly Commission of the State Council issued the Anti-monopoly Compliance Guideline for Operators, which requires operators to establish anti-monopoly compliance management systems under the PRC Anti-Monopoly Law to manage anti-monopoly compliance risks.

On October 23, 2021, the Standing Committee of the National People's Congress issued a discussion draft of the amended Anti-Monopoly Law, which proposes to increase the fines for illegal concentration of the business operators to "no more than ten percent of its last year's sales revenue if the concentration of the business operator has or may have an effect of excluding or limiting competition; or a fine of up to RMB5 million if the concentration of business operator does not have an effect of excluding or limiting competition." The draft also proposes for the relevant authority to investigate transactions where there is evidence that the concentration has or may have the effect of eliminating or restricting competition, even if such concentration does not reach the filing threshold. The strengthened enforcement of the Anti-Monopoly Law could result in investigations on our acquisition transactions conducted in the past and make our acquisition transactions in the future more difficult due to the prior filing requirement. The PRC anti-monopoly laws may increase our compliance burden, particularly in the context of relevant PRC authorities recently strengthening supervision and enforcement of the Anti-Monopoly Law. Given that we do not hold a dominant market position in the relevant markets and we have not entered into any monopolistic agreement, we are in compliance with the currently effective PRC anti-monopoly laws in all material aspects; however, if the PRC regulatory authorities identify any of our activities as monopolistic under the PRC Anti-Monopoly Law or identify us as holding a dominant market position or of abusing such dominant position, we may be subject to other investigations and administrative penalties, such as termination of monopolistic acts and confiscation of illegal gains. There are significant uncertainties associated with the evolving legislative activities and varied local implementation practices of anti-monopoly and competition laws and regulations in China, especially with respect to the enactment timetable, final content, interpretation and implementation of the amended Anti-Monopoly Law. If it is enacted as proposed, it will be more difficult to complete an acquisition transaction. It may also be costly for us to adjust our business practices in order to comply with these evolving laws, regulations, rules, guidelines and implementations. Any non-compliance or associated inquiries, investigations and other governmental actions may divert significant management time and attention and our financial resources, lead to negative publicity, liabilities or administrative penalties, and thereby may materially and adversely affect our financial condition, results of operations and business prospects. If we are required to take any rectifying or remedial measures or are subject to any penalties, our reputation and business operations may be materially and adversely affected.

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.

The revenue or charges for certain long-distance passenger train and freight transportation businesses are ultimately determined by China State Railway Group Co., Ltd. in accordance with the unified settlement rules.

As described in "Item 7. Major Shareholders And Related Party Transactions – B Related Party Transactions" and Note 40 to our audited consolidated financial statements included elsewhere in the annual report, due to the fact that the railway business is centrally managed by CSRG within the PRC, we work in cooperation with CSRG and other railway companies controlled by CSRG 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 CSRG 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 CSRG based on its systems. Although we can, to a certain extent, calculate the revenue and charges settled by the CSRG based on our own data and information, the amount of settlement is ultimately determined by the CSRG. Such amounts may differ from our own calculations.

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

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

Railroad transportation services and railway infrastructure and transportation generally are considered key parts of China's comprehensive transportation system. Furthermore, railway passenger transportation is one of the most common and popular modes of transportation in China. Because it is critical to ensure the safety of railway passengers, any material changes to the Company or its operations may need to be approved by the relevant government departments-in-charge of transportation, state-owned assets management and foreign investment management in accordance with relevant Chinese laws and regulations. Furthermore, any actions that have the potential, or may be perceived, to weaken the industry or the operations of any of its major operators, including the Company, would similarly require high-level approvals. Such actions might include the transfer of significant amounts of money, capital or other assets out of China or entering into business transactions with non-Chinese parties, such as for the provision of key equipment or supplies for the Company, or acquisition of the shares or capital of such non-Chinese parties. Such approvals may not be possible to obtain, or could take significant amounts of time or effort to obtain, which could limit our ability to take such actions. It could also cause other non-Chinese parties to refrain from attempting to enter into such business arrangements with us, which could hamper our growth or development. Any of these consequences could also have a negative impact on the value of our ADSs.

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 State Railway Group Co., Ltd. ("CSRG"), f/k/a China Railway Corporation ("CRC") established in March 2013 and was renamed to China State Railway Group Co., Ltd. in June 2019 (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 China Railway Guangzhou Group Co., Ltd., f/k/a 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 CSRG. 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 CSRG. 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 PRC governmental authorities.

China Railway Guangzhou Group Co., Ltd., 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.

CSRG, which was established as a wholly state-owned enterprise on March 14, 2013 to perform the corporate functions formerly performed by the Ministry of Railways, owns 100% of shares of GRGC as its actual controller. GRGC in turn owns 37.1% of shares of our Company. Although CSRG is a state-owned enterprise, the Chinese government does not generally directly interfere with our operations through political orders or otherwise. Nonetheless, our strategic direction and the value of our securities are affected by the decisions and votes of our shareholders, including GRGC, and the Chinese government may exert its influence through the shareholder votes cast by GRGC at our shareholder meetings.

Even though GRGC owns less than a majority of the shares of our Company, it can still exert significant influence over our Company as our largest shareholder under the terms of our Company's corporate governance structure. The structure of our Company's corporate governance consists of the general meeting of shareholders, the board of directors, the board of supervisors, and the management team. As the largest shareholder of the Company, GRGC exercises its shareholder rights according to its shareholding percentage and controls the Company through the general meeting of shareholders. As a result, GRGC could potentially elect the majority of the board of directors of the Company and otherwise be able to control us. GRGC also has sufficient voting control to effect or withhold transactions without the concurrence of our minority shareholders, for example, if GRGC votes against certain important proposals of the Company, it may affect the operation and the value of the securities of the Company. As our largest shareholder, GRGC has the ability to exercise a controlling influence over our business and affairs, including, but not limited to, decisions with respect to:

- mergers, acquisition, other business combinations or disposition of assets;
- issuance of any additional shares or other equity securities;
- the timing and amount of dividend payments; and
- the strategic development of 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.

It may be difficult or impossible for you to bring an action against us or against our directors and executive officers in China, and foreign judgments obtained against us or our directors and executive officers by our shareholders may not be enforceable in China.

We are incorporated in China and conduct all of our operations in China. In addition, all of our executive officers and directors reside in China and most or all of the assets of these persons are in China. As a result, it may not be possible to effect service of process within or outside the United States upon our executive officers and directors, including with respect to matters arising from the U.S. federal securities laws, applicable state securities laws or otherwise.

Our corporate affairs are governed by our memorandum and articles of association and by the Company Law of the PRC. The rights of shareholders to take legal action against our directors and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us are to a large extent governed by the laws of China. In addition, PRC-incorporated companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

Therefore, it may also be difficult or impossible for you to bring an action against us or against our directors and executive officers in China in the event that you believe that your rights have been infringed upon under U.S. securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of China may not permit you to enforce a judgment obtained from a foreign court or tribunal against our assets or the assets of our directors and executive officers.

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our directors and officers if they determine that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our executive officers, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

Risks Associated with Economic Uncertainty and Global Pandemics on Our Business

Any recurrence of a global financial crisis or economic downturn could materially and adversely affect our business, financial condition, results of operations and prospects.

The global financial markets have been, and continue to be, volatile. 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 Chinese 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, United Kingdom's vote to exit the European Union, the outbreak of the COVID-19 pandemic and the ongoing war in Ukraine, caused more volatility and a steep and abrupt downturn to the global financial markets and created a level of uncertainty for multi-national companies. The on-going war in Ukraine is disrupting global supply chains and could result in government-mandated and voluntary restrictions on the transportation of goods and would therefore negatively affect the global economy. Such volatility and downturn may continue as the COVID-19 pandemic continues to spread. Credit markets and the debt and equity capital markets have been distressed and the uncertainty surrounding the future of the global credit markets has resulted in reduced access to credit worldwide, particularly for the transportation industry. These issues, along with significant write-offs in the financial services sector, the repricing of credit risk and the current weak economic conditions, have made, and will likely continue to make, it difficult to obtain additional financing. The current state of global financial markets and current economic conditions might adversely impact our ability to issue additional equity at prices that will not be dilutive to our existing shareholders or preclude us from issuing equity at all. Economic conditions may also adversely affect the market price of our securities.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in the banking and securities markets around the world, among other factors. We cannot predict how long the current market conditions will last. However, any recurrence of a global financial crisis as a result of the recent market volatility arising from the concerns over among other issues, the containment of the COVID-19 virus, may adversely affect the growth of the Chinese economy, which could adversely affect our business, financial condition, results of operations and prospects.

Outbreaks of disease epidemics and pandemics and governmental responses thereto could adversely affect our business.

In addition, public health threats, such as the COVID-19 pandemic, influenza and other highly communicable diseases or viruses, outbreaks of which have from time to time occurred in various parts of the world in which we operate could adversely impact our operations, the timing of completion of any outstanding or future newbuilding projects, as well as the operations of our customers. Any of these public health threats and related consequences could adversely affect our financial results.

The outbreak of the COVID-19 pandemic, a virus causing potentially deadly respiratory tract infections originating in China, has already caused severe global disruptions and negatively affected economic conditions regionally as well as globally and otherwise impacted our operations and the operations of our customers and suppliers. Governments in affected countries, including Chinese government, have imposed travel bans, quarantines and other emergency public health measures. These restrictions, and future prevention and mitigation measures, had an adverse impact on global economic conditions. In addition, the Omicron variant and the Delta variant of COVID-19 have begun to spread rapidly over the world in 2021 and affected our business, as well as our passengers. As a result of the COVID-19 pandemic, the Company has experienced the suspension of services at various stations due to closed borders, locked-down cities, and other similar preventative measures that have significantly reduced our passenger volume in 2021 resulting in a substantial drop in revenue from passenger transportation, an increase in costs incurred by the epidemic prevention measures we have taken, and we expect the settlement periods for recovering our trade receivables will be longer which may subject us to higher credit risk. In 2021, the passenger traffic volume of railways nationwide has increased to 2.53 billion people throughout the year, representing a year-on-year increase of 16.8%; meanwhile our railway passenger volume had been recovering gradually since March 2020 as the COVID-19 pandemic was effectively controlled in China and enterprises gradually resumed operation and production, and nationwide railways actively adopted the operating strategies to support the railway industry in China, uncertainties regarding the resurgence of the COVID-19 pandemic in China and the economic impact of the COVID-19 pandemic outbreak is likely to result in sustained market turmoil, which could also negatively impact our business, financial condition and cash flows.

Risks Associated with Industry Dynamics and Competition

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. The implementation of the toll-free policy on national toll roads during holidays and special periods in China made road transport more cost-competitive than rail transport during those periods. In addition, the intercity traffic system is gradually expanding within the Pearl River Delta region and there are a number of new high-speed intercity 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 July 2016, the NDRC, MOT and CSRG jointly approved the construction of an “eight horizontal and eight vertical” high-speed railway network to connect major populous and industry-intensive cities in China. With the establishment of the “eight horizontal and eight 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 Jiangmen-Maoming section of the Shenzhen-Maoming Railway commenced operation in July 2018, the Shenzhen-Hongkong section of the Guangzhou-Shenzhen-Hongkong high-speed railway commenced operation in September 2018, the Meizhou-Shantou passenger line commenced operation in October 2019, the Guangzhou-Dongguan-Shenzhen Intercity passenger line commenced operation in December 2019, the Huadu-Qingcheng section of the Guangzhou-Qingcheng Intercity passenger line, the Huadu-Baiyun Airport North of Guangzhou East Ring Intercity passenger line commenced operation in November 2020 and the Ganzhou-Shenzhen high-speed railway commenced operation in December 2021. Although we commenced the operation of more cross-network EMUs between Guangzhou East-Chaozhou/Shantou/Xiamen and adjusted the actual operational chart of such EMUs according to the actual passenger flow, we may experience a decrease in the number of passengers using our Guangzhou-Shenzhen intercity train and long-distance train services in the future, 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 intercity 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, political and governmental instability in Hong Kong or China, or other reasons, such as freezing weather, floods, earthquake and other natural disasters or the recent COVID-19 pandemic, 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. A slowdown in economic growth in China could also adversely impact our customers, prospective customers, suppliers, and partners in China, which could have a material adverse effect on our results of the operations and financial condition. There is no guarantee that economic downturns, whether actual or perceived, any further decrease in economic growth rates or an otherwise uncertain economic outlook in China will not occur or persist in the future, that they will not be protracted or that governments will respond adequately to control and reverse such conditions, any of which could materially and adversely affect our business, financial condition and results of operations.

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.

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. Changes in freight composition may affect the usage volume and pricing of our freight transportation services and adversely affect our results of operations.

Risks Associated with Our Business

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 control of China Southern Power Grid Company Limited on normal commercial terms. Any increase in the cost of electricity in Guangdong could increase our railway operating expenses. In 2019, 2020 and 2021, we paid approximately RMB498.6 million, RMB372.0 million and RMB427.0 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.

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

The investment in the construction of railway-related fixed assets during the 13th Five-Year Plan (from 2016 to 2020) achieved a record of RMB3.99 trillion and 4208 km of new railways has been built in 2021. However, we cannot assure you that there will not be any significant changes with regard to the actual amount the CSRG 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 CSRG 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.

We have very limited insurance coverage.

We do not maintain any insurance coverage against third party liabilities, except compulsory automobile liability insurance. 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.

Risks Associated with Regulatory Compliance

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 particular, our Guangzhou locomotive maintenance depot has been identified as key pollutant discharge units by the PRC government's environmental protection departments in 2020. In addition, environmental liabilities may arise from claims asserted by adjacent landowners or other third parties. As of December 31, 2021, 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 2021, our environmental protection-related expenses for the key pollutant discharge units were approximately RMB6.72 million, mainly related to the maintenance of our environmental protection equipment. In the event any of our other depots or operations are identified as key pollutant discharge units by the PRC governments in the future, we will likely incur additional liabilities and expenses associated therewith.

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, 2019, 2020 and 2021, 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 Associated with Technology and Cybersecurity

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, 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. 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.

Substantial uncertainties exist with respect to the interpretation and implementation of cybersecurity-related regulations and cybersecurity review as well as any impact these may have on our business operations.

We may become subject to a variety of laws and regulations in the PRC regarding privacy, data security, cybersecurity, and data protection. These laws and regulations are continuously evolving and developing. In particular, there are numerous laws and regulations regarding privacy and the collection, sharing, use, processing, disclosure, and protection of personal information and other user data. Such laws and regulations may vary in scope, may be subject to differing interpretations, and may be inconsistent among different jurisdictions.

We obtain certain limited personal information and other data regarding customers and employees through about various aspects of our operations. The integrity and protection of our customers, employees and company data is critical to our business. Our customers and employees expect that we will adequately protect their personal information. We are required by applicable laws to keep strictly confidential the personal information that we collect, and to take adequate security measures to safeguard such information.

The Civil Code of the PRC (issued by the PRC National People's Congress on May 28, 2020 and effective from January 1, 2021) provides the main legal basis for privacy and personal information infringement claims under the Chinese civil laws. PRC regulators, including the Cyberspace Administration of China ("CAC"), Ministry of Industry and Information Technology ("MIIT"), and the Ministry of Public Security have been increasingly focused on regulation in the areas of data security and data protection.

In November 2016, the Standing Committee promulgated the Cyber Security Law of the PRC, or the CSL, which took effect on June 1, 2017. The CSL is the first PRC law that systematically lays out the regulatory requirements on cybersecurity and data protection, subjecting many previously under-regulated or unregulated activities in cyberspace to government scrutiny. The legal consequences of violation of the CSL include penalties of warning, confiscation of illegal income, suspension of related business, winding up for rectification, shutting down of websites, and revocation of business licenses or relevant permits. In April 2020, the Chinese government promulgated the Cybersecurity Review Measures, which came into effect on June 1, 2020.

On August 20, 2021, the Standing Committee promulgated the Personal Information Protection Law, which integrates the various rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. The Personal Information Protection Law requires, among others, that (i) the processing of personal information should have a clear and reasonable purpose which should be directly related to the processing purpose and should be conducted in a method that has the minimum impact on personal rights and interests, and (ii) the collection of personal information should be limited to the minimum scope necessary to achieve the processing purpose and avoid the excessive collection of personal information. Personal information processors shall adopt necessary measures to safeguard the security of the personal information they handle. The offending entities could be ordered to correct, or to suspend or terminate the provision of services, and face confiscation of illegal income, fines or other penalties. We have limited interactions with individual customers, which means our potential access or exposure to customers' personal information is limited.

CAC, together with 12 other government agencies issued the revised version of the Cybersecurity Review Measures 2020 ("the New Measures") on December 28, 2021. The New Measures became effective on February 15, 2022 and replaced the Cybersecurity Review Measures 2020. The New Measures provide that critical information infrastructure operators ("CIIOs") that purchase network products and services and network platform operators that carry out data processing activities should apply for cybersecurity review if national security will or may be affected. If we are not able to comply with the cybersecurity and data privacy requirements in a timely manner, or at all, we may be subject to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, among other sanctions, which could materially and adversely affect our business and results of operations. As of the date of this response annual report, we have not been subject to any investigations relating to cybersecurity made by the CAC, and we have not received any inquiry, notice, warning, or sanctions in such respect.

We cannot assure you that PRC regulatory agencies, including the CAC, would take the same view as we do, and there is no assurance that we can fully or timely comply with such laws. In the event that we are subject to any mandatory cybersecurity review or other specific actions required by the CAC, we face uncertainty as to whether any clearance or other required actions can be timely completed, if at all. Given such uncertainty, we may be further required to suspend our relevant business, shut down our websites, or face other penalties, which could materially and adversely affect our business, financial condition, and results of operations.

Risks Relating to Our Shareholders

We voluntarily delisted our ADSs from the NYSE which could reduce the liquidity and market price of our ADSs and underlying shares.

Our Board of Directors approved the voluntarily withdrawal of our American depository shares (“ADSs”) from listing on the NYSE, primarily due to a number of considerations, including the significant administrative burden and costs of maintaining the listing of the ADSs on the NYSE and the registration of the ADSs with the SEC and complying with the periodic reporting and other related obligations of the Exchange Act. We filed a Form 25 with the SEC on November 16, 2020 in order to delist our Shares from the NYSE, which occurred ten days thereafter upon effectiveness of the Form 25.

Accordingly, our last day of trading on the NYSE was on November 26, 2020, the last trading day prior to the effectiveness of the Form 25. Our ADSs are currently traded as Pink Sheets on the over-the-counter market (the “OTC Market”) and our ticker symbol was changed from GSH to GNGYF.

The delisting of our shares from the NYSE could negatively impact us because it could: (i) reduce the liquidity and market price of our ADSs, (ii) reduce the number of investors willing to hold or acquire our ADSs, which could negatively impact our ability to raise equity financing, (iii) limit our ability offer and sell freely tradable securities, including under U.S. state securities laws, thereby preventing us from accessing the public capital markets in the U.S. and (iv) impair our ability to provide equity incentives to our employees. Trading on the OTC Market may be volatile and sporadic, which could depress the market price of our ADSs and make it difficult for our shareholders to resell their ADSs.

Selling our ADSs on the OTC Market could be more difficult because smaller quantities of ADSs would likely be bought and sold, transactions could be delayed, and security analysts’ coverage of us may be reduced. In addition, broker-dealers have certain regulatory burdens imposed upon them, which may discourage broker-dealers from effecting transactions in our ADSs, further limiting the liquidity of our ADSs. As a result, the market price of our ADSs may be depressed, and as a result it may be more difficult to sell our ADSs. Such delisting from the NYSE and potential declines in our stock price could also greatly impair our ability to raise additional necessary capital through equity or debt financing in the United States if needed in the future.

Additionally, we intend to file a Form 15F with the SEC to deregister our ADSs and the underlying ordinary shares under the Exchange Act once we have met the criteria for deregistration. Thereafter, all of our reporting obligations under the Exchange Act will be suspended unless the Form 15F is subsequently withdrawn or denied. Deregistration of ADSs and termination of our reporting obligations under the Exchange Act are expected to become effective 90 days after the filing of Form 15F with the SEC.

Once the Form 15F is filed, we will publish the information required under Rule 12g3-2(b) of the Exchange Act on our website, www.gsrc.com. We will also continue to comply with our financial reporting and other obligations as a listed-issuer on The Stock Exchange of Hong Kong Limited.

Risks Associated with Chinese Accounting Firms

The PCAOB is currently unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections over our auditor deprives our investors with the benefits of such inspections.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Since our auditor is located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB.

This lack of the 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 of our ordinary shares and ADSs 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 the PCAOB inspections, which could cause investors and potential investors of our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national laws (China's national laws in particular), the HFCAA was signed into law on December 18, 2020. The HFCAA states if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspection for the PCAOB for three consecutive years beginning in 2021, the SEC shall prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the U.S. Accordingly, under the current law this could happen in 2024.

The HFCAA or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of our ADSs could be adversely affected. Additionally, whether the PCAOB will be able to conduct inspections of our auditor before the issuance of our financial statements on Form 20-F for the year ended December 31, 2023, which is due by April 30, 2024, or at all, is subject to substantial uncertainty and depends on a number of factors out of our control. If we are unable to meet the PCAOB inspection requirement in time, our ADSs will not be permitted for trading "over-the-counter", which would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our ADSs. Also, it would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects. If our ADSs are prohibited from trading in the over-the-counter market in the U.S. there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the U.S.

While we voluntarily delisted our ADSs from the NYSE in November 2020, our shares may be prohibited from being traded in the over-the-counter market under the Holding Foreign Companies Accountable Act, or the HFCAA, if the PCAOB is unable to inspect or fully investigate auditors located in China. Under the current law, delisting and prohibition from over-the-counter trading in the U.S. could take place in 2024. If this happens, there is no certainty that we will be able to list our ADSs or shares on a non-U.S. exchange or that a market for our shares will develop outside of the U.S. The delisting of our ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

On June 22, 2021, the U.S. Senate passed a bill known as the Accelerating Holding Foreign Companies Accountable Act, or the AHFCAA, to amend Section 104(i) of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7214(i)) to prohibit securities of any registrant from being listed on any of the U.S. securities exchanges or traded over-the-counter if the auditor of the registrant's financial statements is not subject to PCAOB inspection for two consecutive years, instead of three consecutive years as currently enacted in the HFCAA. The potential enactment of the AHFCAA would decrease the number of non-inspection years from three years to two, thus reducing the time period before our ADSs may be prohibited from over-the-counter trading. If this bill were enacted, our ADSs could be prohibited from over-the-counter trading in the U.S. in 2023.

On December 2, 2021, the SEC adopted final amendments to its rules implementing the HFCAA (the "Final Amendments"). The Final Amendments include requirements to disclose information, including the auditor name and location, the percentage of shares of the issuer owned by governmental entities, whether governmental entities in the applicable foreign jurisdiction of the auditor have a controlling financial interest in the issuer, and the name of each official of the Chinese Communist Party who is a member of the board of the issuer. The Final Amendments also establish procedures the SEC will follow in identifying an issuer as a "Commission Identified Issuer" if the issuer has filed an annual report containing an audit report issued by a registered public accounting firm that the PCAOB has determined it is unable to inspect or investigate completely, and will then impose a trading prohibition on an issuer after it is identified as a Commission-Identified Issuer for three consecutive years. While we understand that there have been communications among the CSRC, the SEC and the PCAOB regarding the potential for inspection of PCAOB-registered accounting firms in China, we and our auditors still may not be able to comply with the requirements imposed by the HFCAA or the AHFCAA. The market prices of our ADSs and ordinary shares could be adversely affected as a result of anticipated negative impact of the HFCAA or the AHFCAA upon, as well as negative investor sentiment towards, China-based companies, such as our Company, whose securities are traded in the U.S., regardless of their actual operating performance.

On December 16, 2021, the PCAOB issued the HFCAA Determination Report relaying to the SEC its determinations that the board is unable to inspect or investigate completely registered public accounting firms in mainland China and Hong Kong, including our auditor, PricewaterhouseCoopers Zhong Tian LLP. Therefore, we expect to be identified as a “Commission Identified Issuer” shortly after the filing of this annual report on Form 20-F. On February 4, 2022, the U.S. House of Representatives passed the America Creating Opportunities for Manufacturing Pre-Eminence in Technology and Economic Strength (the “America Competes Act”) of 2022 which includes the same proposed amendments as the AHFCAA passed by the Senate. The America Competes Act, however, includes a broader range of legislation not related to the HFCAA in response to the U.S. Innovation and Competition Act passed by the Senate in 2021. The U.S. House of Representatives and U.S. Senate would need to agree on amendments to these respective bills to align their content and pass their amended bills before the President would be able to sign them into law. It is unclear when the U.S. Senate and U.S. House of Representatives will resolve the differences in the U.S. Innovation and Competition Act, the AHFCAA and the America Competes Act of 2022 bills currently passed, or when the U.S. President will sign the bill to make the amendment into law, if at all.

In March 2022, the SEC issued its first “Conclusive list of issuers identified under the HFCAA” indicating that those companies are now formally subject to the delisting provisions if they remain on the list for three consecutive years. As of April 12, 2022, 23 China-based companies had been identified by SEC and were given 15 business days to respond. The identification occurred after these companies had filed their annual reports to the SEC and their share prices subsequently decreased. As such, it is likely that we will be added to the HFCAA list by the SEC after the filing of our annual report, and the value of our ADSs may be materially adversely affected.

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 termination of the registration of our ADSs under the Exchange Act, 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. 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. From November 26, 2020, our ADSs were delisted from the NYSE and were traded on the OTC Market with ticker symbol changed from GSH to GNGYF. We are currently the only PRC railway enterprise with shares concurrently listed in Shanghai, Hong Kong and the United States.

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 with the Xiamen-Shenzhen Railway, Guangzhou-Dongguan-Shenzhen Intercity Railway and the East Rail Line in Hong Kong, which form integral components of the transportation network in the PRC.

Passenger transportation is our principal business, which includes the transportation businesses of Guangzhou-Shenzhen intercity trains (including Guangzhou East to Chaozhou-Shantou cross-network EMU trains), long-distance trains and Hong Kong Through 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 transportation 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 railroad sidings. The major market of our freight transportation business is domestic mid-to long-distance transportation, which is a market segment in which we enjoy competitive advantages.

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 Intercity Rail Transportation Company Limited, 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, Guangdong Pearl River Delta Intercity Railway Traffic Company Limited, MaoZhan Railway Company Limited, Guangdong Shenmao Railway Company Limited and Guangdong Meizhou-Shantou Passenger Railway Line Company Limited. With the successful completion and commencement of operation of a series of high-speed railways and intercity railways in the “Pan Pearl River Delta,” our geographical coverage of railway operation service will be more extensive.

In 2021, our operations, especially the passenger transportation business, continued to be impacted by the COVID-19 pandemic, although to a lesser degree than 2020, and we recorded a passenger delivery volume of 40,778,226 people, representing a year-on-year decline of 4.84%, while our freight delivery volume amounted to 18,836,519 tonnes, representing a year-on-year increase of 15.75%. Additionally, we recorded an operating revenue of RMB20.21 billion, representing a year-on-year increase of 23.6%; consolidated loss attributable to shareholders amounted to RMB973.12 million, representing a year-on-year decline of 74.4%; and our basic losses per share amounted to RMB0.14.

2021 is the first year of the Chinese government’s 14th Five-Year Plan. Although there are still many uncertainties in light of the COVID-19 pandemic and the external environment, China’s economy has returned to normal, and the market demand of the national railway passenger and freight transportation is gradually picking up. We will seize the opportunities, follow the government’s new development philosophy and keep actively in line with the key national strategies such as the “Belt and Road” initiative, Guangdong-Hong Kong-Macao Greater Bay Area and Shenzhen Pilot Demonstration Zone. Further, we will promote the structural reforms on the supply side of railway transportation, strengthen cost control, continue to improve transportation service quality and operation and management level, and comprehensively promote the Company to achieve the development of higher safety, higher quality, greater efficiency and stronger sustainability and security.

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, 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 currently traded as Pink Sheets on the OTC Market.

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 CSRG 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 RMB4.7 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 that operate passenger and freight transport service business. The purchase prices to GRGC, GRCL and GSRC were approximately RMB28.7 million, RMB453.7 million and RMB249.7 million, 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 run vertically through Guangdong Province, an area that 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 March 31, 2022, 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, and are connected with our line at Guangzhou Station, and Guangzhou and Guilin North. Nanning-Guangzhou Railway is owned by Nanning-Guangzhou Railway Company Limited, a subsidiary of Nanning Railway Bureau of CSRG. Guiyang-Guangzhou Railway is owned by Guiyang-Guangzhou Railway Company Limited, a subsidiary of Chengdu Railway Bureau of CSRG. We provide the operational services to Nanning-Guangzhou Railway and Guiyang-Guangzhou Railway. Our line also connects with Guangzhou-Foshan-Zhaoqing Intercity Railway, in which Guangdong Provincial Railway Construction Investment Group Co., Ltd. and CSRG jointly invested.

Eastbound. Our line connects with the Guangzhou-Meizhou-Shantou rail line, Xiamen-Shenzhen rail line and Guangzhou-Dongguan-Shenzhen Intercity passenger 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 rail line. Guangzhou-Dongguan-Shenzhen Intercity passenger line, which is mainly invested by Guangdong Provincial Railway Construction Investment Group Co., Ltd, connects with Guangzhou East to Xintang section of our rail line. 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—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 2019, 2020 and 2021, our total capital expenditures were RMB2,441.1 million, RMB853.3 million and RMB1060.3 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."

The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, see <https://www.sec.gov/>.

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 94.1% of our total revenue in 2021. The remaining 5.9% of our total revenue in 2021 mainly consisted of on-board catering services, leasing, sales of materials, sale of goods and other businesses related to railway transportation.

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

	Year ended December 31,				
	2017	2018	2019	2020	2021
Passenger Transportation					
Total passenger transportation revenue (RMB millions)	7,757.08	8,108.38	8,009.59	4,114.52	6,169.11
Total passengers (millions)	85.13	89.35	85.13	42.85	40.78
Total passenger-kilometers (millions)	25,528.73	25,497.28	24,058.23	12,931.16	12,053.94
Revenue per passenger-kilometer (RMB) ⁽¹⁾	0.34	0.32	0.33	0.32	0.51
Freight Transportation					
Total freight transportation revenue (RMB millions)	1,893.59	1,849.36	2,112.60	1,698.58	2,035.44
- Revenues from freight charges (RMB millions) ⁽²⁾	1,741.97	1,609.69	1,740.91	1,456.61	1,701.85
- Other revenues from freight transportation (RMB millions)	151.62	239.67	371.69	241.98	333.59
Outbound freight volume - tonnes (millions)	15.86	15.71	16.24	16.27	18.84
Revenue per tonne (RMB) ⁽³⁾	109.83	102.46	107.20	89.53	90.33
Full-distance volume of outbound freight traffic, or tonne-kilometers (millions) ⁽⁴⁾	10,700.48	134,417.00	149,982.69	131,865.78	149,734.69
Revenue per tonne-kilometer (RMB) ⁽⁵⁾	0.18	0.014	0.014	0.013	0.014
Railway Network Usage and Other Transportation Related Services					
(RMB millions)	7,644.23	8,865.64	9,903.38	9,572.33	10,814.59

- (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) Freight transportation on the PRC national railway system is subject to government-mandated pricing. Since January 1, 2018, the pricing model of freight transportation on the national railway system was changed from section fares system to freight consignment system. As a result, our freight revenue is mainly the income for the whole-route freight transportation fees for the outbound freight delivered by us. We also have to pay service fees to other railway companies providing the freight transportation service along the route.
- (3) Revenue per tonne is calculated by dividing revenues from freight charges by total tonnage of outbound freight. Management believes that revenue per tonne is a useful measure for assessing the revenue levels of our freight transportation business.
- (4) Starting from 2018, total tonne-kilometers represents the full-distance volume of our outbound freight traffic, whereas the "volume of freight traffic" as presented in 2017 and previous years refers to the volume of freight traffic (including the outbound, arrival and pass-through freight) transported over the distance then-managed by us under the section fares system.

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

Passenger Transportation

Passenger transportation accounted for 30.5% of our total revenue and 32.4% of our revenue from railway businesses in 2021. Our passenger train services can be categorized as follows:

- transportation business of Guangzhou-Shenzhen intercity express trains;
- long-distance trains;
- Through Trains in Hong Kong; and
- Other revenue from passenger transportation.

As of December 31, 2021, there were a total of 240 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), of which:

- 90 pairs of intercity high-speed passenger trains between Guangzhou and Shenzhen (including 15 pairs of Guangzhou East to the Chaozhou-Shantou and Meizhou cross-network EMU trains);
- 9 pairs of Hong Kong Through Trains, the operation of which has been suspended due to the shutdown of Hong Kong boarder by the Hong Kong government as a result of the COVID-19 pandemic since January 30, 2020; and
- 141 pairs of long-distance trains. Long-distance trains included long-distance passenger trains operated by us between the following departure and terminal stations during 2021:

Departure/Terminal Station	Terminal/Departure Station
Guangzhou	Beijing West, Nanjing, Shanghai South, Dazhou, Wuchang, Yantai, Wenzhou, Zhangjiajie West, Xinyi, Jingdezhen North, Maoming
Guangzhou East	Beijing West, Xiamen North, Meizhou, Shantou
Shenzhen	Shanghai South, Urumqi, Qingdao, Luoyang, Meizhou
Shenzhen East	Chengdu East, Zhangjiajie West, Guiyang
Dongguan East	Chengdu, Hefei, Lanzhou West, Huizhou
Shantou	Wuchang
Huizhou	Dazhou, Wuchang, Wanzhou
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:

	Total Passenger Transportation Revenue (million RMB yuan)			Total Passengers (million people)			Revenue per Passenger		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Guangzhou-Shenzhen Trains	3,102.0	1,648.6	1,897.0	40.0	18.1	17.4	77.6	91.1	109.0
Hong Kong Through Trains	261.2	14.5	0	1.9	0.1	0	137.5	145.3	0
Long-distance Trains ⁽¹⁾	4,111.8	2,106.1	3,878.5	43.2	24.6	23.4	N/A	N/A	N/A
Other Revenues from Passenger Transportation	534.6	345.3	393.6	—	—	—	—	—	—
Combined passenger operations	8,009.6	4,114.5	6,169.1	85.1	42.8	40.8	N/A	N/A	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.

Guangzhou-Shenzhen Trains. In 2021, our passenger transportation services on the trains between Guangzhou and Shenzhen, the Guangzhou East-Chaoshan cross-network EMU trains and other inter-city trains accounted for 30.8% of our railroad passenger transportation revenue. As of December 31, 2021, we operated 90 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 decreased by 3.9% from 18.1 million in 2020 to 17.4 million in 2021. The revenue from our Guangzhou-Shenzhen trains increased by 15.1% from RMB 1648.6 million in 2020 to RMB 1897.0 million in 2021. The increase in revenue of Guangzhou-Shenzhen trains was primarily due to the operation of 9 pairs of inter-city trains in the section between Guangzhou South Station (Foshan West Station) and Yangjiang since April 1, 2021, which has increased the revenue of inter-city trains.

Hong Kong Through Trains. In 2021, our passenger transportation services on Hong Kong through trains were suspended and therefore, there were no passengers taking our Hong Kong Through Trains and no revenue generated from it. The operations of the Hong Kong Through Trains have been entirely suspended since January 30, 2020, when the government of Hong Kong announced the suspension of services of Hung Hom Station as a result of the COVID-19 pandemic.

Before the suspension in 2020, we operate jointly with the MTR with altogether 9 pairs of Hong Kong Through Trains. The MTR is responsible for the operation of 3 pairs of Canton-Kowloon Through Trains while we are responsible for the remaining 6 pairs of Hong Kong Through Trains. 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. 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 2021, the volume of passengers who traveled on the Hong Kong Through Trains decreased by 100% from 0.1 million in 2020 to zero in 2021. The revenue from Hong Kong Through Trains decreased by 100% from RMB14.5 million in 2020 to zero in 2021. This decrease in passenger volume and revenue was mainly due to the impact of the COVID-19 pandemic. The operations of the Hong Kong Through Trains have been entirely suspended since January 30, 2020, when the government of Hong Kong announced the suspension of services of Hung Hom Station as a result of the COVID-19 pandemic.

Domestic Long-distance Trains. In 2021, our passenger transportation services on domestic long-distance trains accounted for 62.9% of our railroad passenger transportation revenue. As of December 31, 2021, we operated on a daily basis 141 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 2021, the number of passengers traveled on our long-distance trains was 23.4 million, representing a decrease of 4.9% from 24.6 million in 2020. Our revenue from long-distance trains in 2021 was RMB3878.5 million, compared to RMB2106.1 million in 2020, representing an increase of 84.2%. The increase in passenger volume of long-distance trains was primarily due to the operation of 10 pairs of cross-network long-distance EMU trains since April 1, 2021, which increased the revenue of long-distance trains.

Major Stations. The following are the major train stations owned and operated by us as of December 31, 2021:

Station	Location	Connected Railways	Passenger Transportation Business	Total Passengers for 2021 (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, intercity trains between Guangzhou and Shenzhen	12.81
Guangzhou East Station	Tianhe District, Guangzhou	Beijing-Guangzhou Railway, Guangzhou-Shenzhen Railway, Xiamen-Shenzhen Railway, Guangzhou-Dongguan-Shenzhen intercity passenger line, Line 1 and Line 3 of Guangzhou's subway system	Long-distance trains, intercity trains between Guangzhou and Shenzhen, Hong Kong Through Trains	11.00
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	5.96
Shaoguan East Station	Shaoguan	Beijing-Guangzhou Railway	Long-distance trains	1.58

Freight Transportation

Revenue from our freight transportation accounted for 10.1% of our total revenue and 10.7% of our revenue from railroad businesses in 2021. 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. Since January 1, 2018, the charging model of the national railway freight transportation in China has changed to a freight consignment system from the previous section fares system. As a result, we reclassified our freight business into two categories as follows:

- Revenues from freight charges, which mainly represents the revenues from the total freight charges of our outbound freight transportation, whereas the revenues from outbound freight and inbound freight as presented in previous years refer to the revenue of freight transportation (including the outbound, pass-through and arrival freight) charged by the distance managed by us under the section fares system; and
- Other revenues from freight transportation, which mainly represents the revenue from freight services for transportation between the stations and receiving locations designated by our customers.

Revenue from freight transportation business in 2021 was RMB2,035.4 million, an increase of 19.8% from RMB1,698.6 million in 2020. Since January 1, 2018, the pricing model of freight transportation on the national railway system was changed from a segment charging system to a carrier system. As a result, we have collected the whole-route freight transportation fees for the outbound freight delivered by us, and have paid the service fees to other railway companies providing the freight transportation service. The increase in freight transportation revenue was mainly because the Company vigorously carried out the activities and campaigns to boost the capacity of its freight transportation, actively implemented the national policy of "Highway Transportation to Railway Transportation", fully explored freight resources, and strengthened the organization of goods transportation, resulting in a significant year-on-year increase in outbound freight volume, and the according increase in the revenue from freight transportation.

Our outbound freight volume was 18.8 million tonnes in 2021, an increase of 15.3% from 16.3 million tonnes in 2020. The increase in outbound freight volume was mainly due to the strategy to make full use of our freight transportation capacity released by the decline in passenger flow and to strengthen the network of freight transportation, which have increased the volume of freight transportation.

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 53.5% of our total revenue and 53.5% of our revenue from railroad businesses in 2021. In 2021, our revenue from railway network usage and other transportation-related services was RMB10,814.6 million, representing an increase of 13.0% from RMB9,572.3 million in 2020. The increase in the revenue from railway network usage and other transportation-related services was mainly because with the gradual recovery of railway passenger traffic nationwide, the workload of transportation services provided by the Company for other railway companies increased, resulting in the corresponding increase in the revenue therefrom and the Company recorded new revenue from the settlement of transportation capability guarantee charges.

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

	2019	2020	2021
	(RMB millions)		
Railway Network Usage	4,206.9	3,595.5	3,788.3
Passenger transportation network usage services	2,979.3	3,382.1	2,306.4
Freight transportation network usage services	1,227.6	1,213.4	1,481.9
Other Transportation-Related Services(1)	5,696.5	5,976.8	7,026.3
Railway operation services	3,790.4	3,661.5	3,775.6
Other Services(2)	1,906.1	2,315.3	3,250.7
Total	9,903.4	9,572.3	10,814.6

- (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 5.9% of our total revenue in 2021. Our other businesses mainly consist of train repairs, on-board catering services, leasing, sales of materials and supplies, sales of goods and other businesses that are related to railway transportation.

Revenue from our other businesses was RMB1,187.0 million in 2021, compared to RMB964 million in 2020, representing an increase of 23.1%. The increase was mainly due to the increases in the revenue from the sales of materials and supplies and the revenue from train maintenance services.

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. Notwithstanding the foregoing, the typical factors for seasonality in our business were overshadowed by the COVID-19 pandemic that began at the end of 2019.

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 that 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 Guangzhou East, Changping and Foshan 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.

In all of our railway stations, we have adopted a real-name system for passenger tickets, and promoted paperless e-ticket services, which allow passengers with valid government IDs to purchase tickets online, at station ticket windows or automatic ticket selling machines. Passengers can choose to pay for tickets by e-payment via WeChat, Alipay and Unionpay. All passengers need to scan codes to pass ticket inspection machines. We also allow passengers to use cash, WeChat or Alipay on the train to extend ticket coverage. As of December 31, 2021, we had a total of 239 automatic ticket-selling machines, 397 automatic ticket inspection machines and 190 reimbursement voucher printers along our rail line.

The current settlement method for passenger transportation was stipulated by the MOR and is still under execution by CSRG. 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, CSRG 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 CSRG. 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 CSRG 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.

CSRG charges a door-to-door freight fee for railway freight transportation that 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 are evidenced by consignment invoice, which lists all chargeable services with corresponding prices.

Since January 1, 2018, we have collected the whole-route freight transportation fees for the outbound freight delivered by us, and have 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. 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 high-speed railway network in the Medium and Long-term Railway Network Planning (2016-2030) with Eight East-West Lines and Eight South-North Lines of high-speed railway network and numerous intercity 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, CSRG 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 market 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, 2021, we operated 175 diesel locomotives, 60 electric locomotives, 36 EMUs and 2,182 passenger coaches for our operations.

The freight cars we use are all leased from CSRG, to which we pay uniform rental fees based on the national standards set by CSRG. The amounts of such usage fees we paid to CSRG in 2019, 2020 and 2021 were approximately RMB268.2million, RMB274.0 million and RMB315.2 million, respectively.

We operate CRHs that we purchased 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. CRHs allow us to deliver safety, speed, comfort and quality in our transport services and have 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 2019, 2020 and 2021, we replaced approximately 20 kilometers, 9.5 kilometers and 71 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 2021, we purchased approximately RMB770.7 million in materials and supplies from GRGC and its subsidiaries, which represented 64.7% 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 CSRG, including the GRGC, our single largest shareholder, are our major customers. In 2021, we collected approximately RMB5,603.7 million from GRGC and its subsidiaries, which represented 27.7% 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 2019, 2020 and 2021, we paid approximately RMB489.6 million, RMB372.04 million and RMB427.0 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 CSRG. The Reform was completed on January 1, 2017 and as a result, the actual controlling entity of our largest shareholder became CRC, which was renamed to CSRG on June 18, 2019. 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. According to the 2018 Railway Statistics Bulletin published by the National Railway Administration, in 2018 the weekly passenger and freight carried by state-owned railroads (i.e. railroads controlled by CSRG Group) accounted for 99.4% and 89.5% of those carried by railways nationwide, respectively. 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 CSRG.

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 CSRG.

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 CSRG. 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 CSRG) or GRGC. Revenue from military and diplomatic transport generally account for less than 1.0% 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, CSRG is responsible for the preparing and filing of such proposal for the baseline pricing standards.

Pursuant to relevant approvals from the NDRC 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. Hong Kong Through Trains are currently suspended due to the ongoing COVID-19 pandemic.

Environmental Protection

Our operations are subject to a wide variety of PRC national and local environmental laws and regulations, including those governing waste discharge, generation, treatment and disposal of hazardous materials, land reclamation, air and water emissions and mining matters. In particular, our Guangzhou locomotive maintenance depot has been identified as a key pollutant discharge unit by the PRC government's environmental protection departments in 2021. To enforce standards set forth under these laws and regulations, national environmental protection authorities imposed discharge fees in proportion to the amount of discharge prior to January 1, 2018. The relevant PRC government agencies are authorized to order any operations that exceed discharge limits to take remediation measures as approved by the relevant agency, or order the closure of any operations that fail to comply with applicable regulations. In December 2016, the PRC government promulgated the Environmental Protection Tax Law which became effective from January 1, 2018. The Environmental Protection Tax Law has replaced discharge fees with environmental protection tax levies, which are calculated based on the pollution equivalents converted from pollutant emissions.

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. Since the implementation of the Environmental Protection Tax Law in January 1, 2018, we pay regular taxes to local authorities for the discharge of waste substances. In 2021, our environmental protection-related expenses for the key pollutant discharge units were approximately RMB6.72 million, mainly related to the maintenance of our environmental protection equipment.

Insurance

We do not currently maintain any insurance coverage with third party carriers against third party liabilities except compulsory automobile liability insurance. 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, supervisors and senior executives. We have taken out basic retirement insurance, basic medical insurance, work-related personal injury insurance policies and childbearing insurance for our employees.

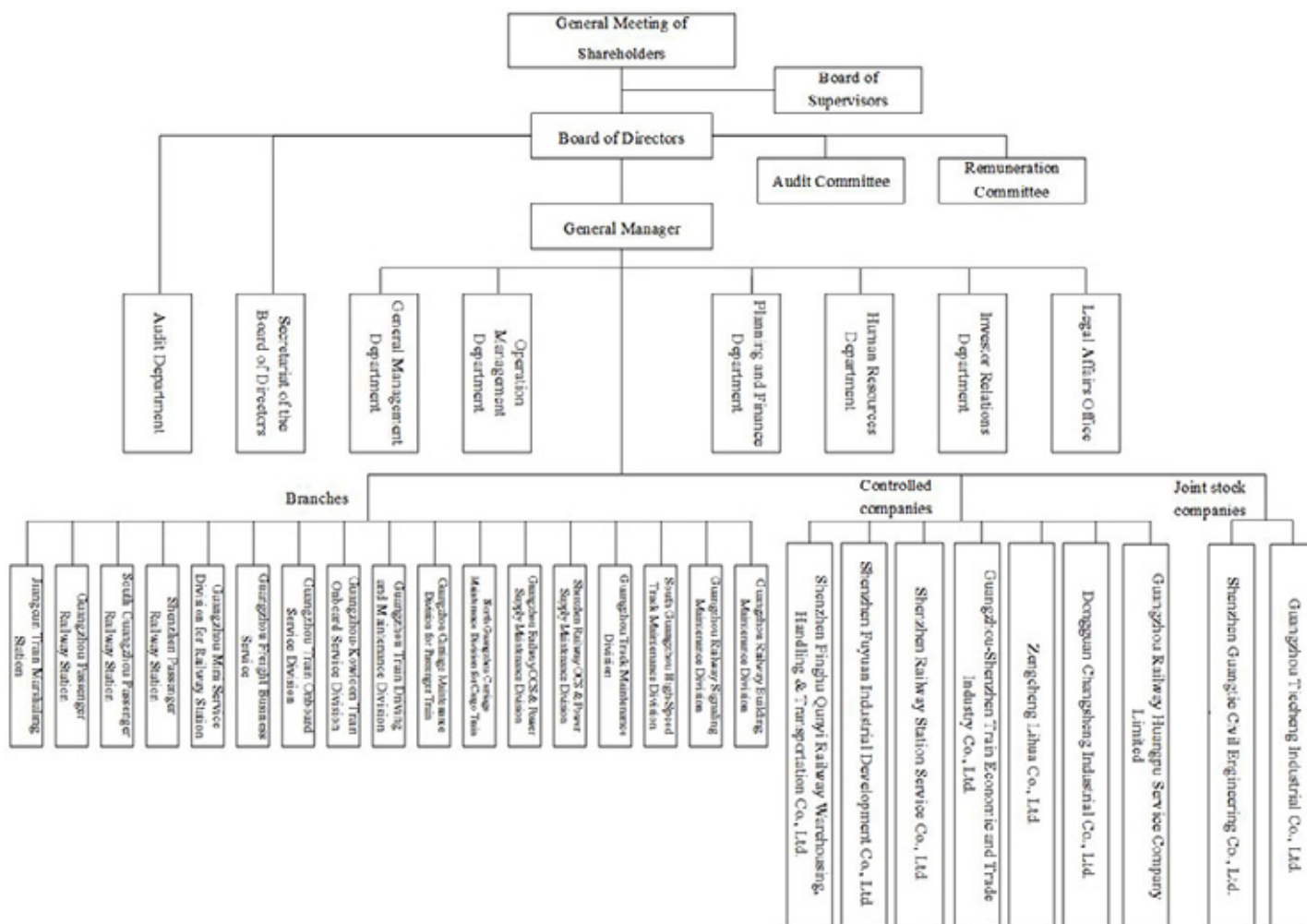
C. Organizational Structure

The following table lists our significant subsidiaries as of December 31, 2021:

	<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%
Guangshen Railway Economic and Trade Enterprise Company Limited	PRC	100%
Shenzhen Railway Station Passenger Services Company Limited	PRC	100%
Guangzhou Railway Huangpu Service Company Limited	PRC	100%
Zengcheng Lihua Stock Company Limited (1)	PRC	44.7%

- (1) 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.

The following chart illustrates our current corporate organization structure.



As of December 31, 2021, the non-wholly owned subsidiaries individually and in the aggregate were not significant to us. Therefore, the non-wholly owned subsidiaries are not listed hereunder and the financial information of such subsidiaries are not disclosed.

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 27.8 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, 2021, the ownership certificates of land with an aggregate carrying value of approximately RMB524,884,000 that was acquired through assets/business acquisition and group restructuring have not yet been changed from the names of the respective original owners to our name, and we had not obtained the ownership certificates of the land use rights, or Land Certificates, of certain parcels of land with an aggregate carrying value of approximately RMB1,154.6 million. After consultation with our PRC legal counsel, we believe there is no legal hurdle for us 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. For additional information regarding the Land Certificates that we have not obtained, see Note 8 to our audited consolidated financial statements included elsewhere in this annual report.

As of December 31, 2021, we had not obtained the ownership certificates of certain buildings, or Building Ownership Certificates, which had an aggregate carrying value of approximately RMB1,903.7 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. For additional information regarding the types of buildings for which we have not obtained Building Ownership Certificates, see Note 6 to our audited consolidated financial statements included elsewhere in this annual report.

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. While we have not traditionally engaged in commercial development of our land use rights for use other than in connection with our existing businesses, we are currently exploring opportunities to better monetize our land use rights. For example, in April 2018 the Company entered into the Resumption Compensation Agreement, as amended and supplemented, with the Guangzhou Land Development Center (“GLDC”) (as purchaser) and other vendors, whereby GLDC agreed to pay us a one-time fee of approximately RMB1,304.7 million for our land use rights covering an area of 37,117 square meters. On May 29, 2020, the Company entered into a supplemental agreement (the “Supplemental Agreement”) with GLDC (as purchaser) and other vendors, pursuant to which the compensation amount payable to the Company was tentatively adjusted to be RMB1,202.9 million covering the actual area of 35,092 square meters. On November 12, 2020, the Company signed the Land Handover Confirmation (the “Land Handover Confirmation”) with GLDC and other vendors pursuant to which the Company and GLDC determined conditions required for the handover of the land proposed for resumption were deemed to be fulfilled, and the GLDC agreed to take over the land. The transfer of assets was completed in 2020 and gains on disposal of such assets were recognized as by the Company as “derecognition of land use right” in the amount of RMB1,188.6 million. For details, see “Item 10. Additional Information – C. Material Contracts”. In addition, in August 2018, we contracted with Guangzhou Railway Property Company, a wholly owned subsidiary of GSRC, to carry out the preliminary work of a comprehensive land development project of the Guangzhou East Freight Yard. We plan to continue to improve our asset returns by enhancing the management and development of our assets.

Any development projects will require approval from PRC government authorities responsible for regulating land development.

As of March 31, 2022, 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

The staff of the SEC previously provided comments on the Company’s Annual Report on Form 20-F for the year ended December 31, 2020. The comments related mostly to requests for additional disclosure relating to political, regulatory and legal risks in connection with doing business as a state-owned enterprise in a key infrastructure-related industry in China, as well as risks relating to changes in regulatory policies that could impact the Company’s business. The Company has addressed these comments in this Annual Report, but many of these changes have not yet been reviewed by the SEC staff. After reviewing this Annual Report and the related comment response letter, the SEC staff may request additional disclosure or raise other questions.

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, 2021, our total revenue was RMB20,206.2 million, loss attributable to equity holders was RMB973.12 million, and losses per share were RMB0.14. Railroad and related business revenue accounted for 95.5%, 94.7% and 94.1% of our total revenue in 2019, 2020 and 2021, respectively.

Passenger transportation is our principal business. In 2021, the total number of our passengers was 40.8 million, representing a decrease of 4.8% from 42.9 million in 2020. Our passenger transportation revenue was RMB6,169.1 million in 2021, representing an increase of 49.9% from RMB4,114.5 million in 2020.

Our outbound freight transportation totaled 18.8 million tonnes of freight in 2021, representing an increase of 15.8% from 16.3 million tonnes in 2020. Our freight transportation revenue in 2021 was RMB2,035.4 million, representing an increase of 19.8% from RMB1,698.6 million in 2020.

Revenue from our railway network usages and other transportation related services business was RMB10,814.6 million in 2021, representing an increase of 13.0% from RMB9,572.3 million in 2020.

Revenue from our other businesses was RMB1,187.0 million in 2021, representing an increase of 23.1% compared to RMB964 million in 2020.

Impact of the COVID-19 pandemic

The COVID-19 pandemic, which has spread rapidly and enveloped most of the world is a global health crisis, resulting in significant disruptions among transportation and travel throughout China, Europe, the United States and other countries, which caused volatility and a steep and abrupt downturn to the global financial markets and created significant uncertainty for multi-national companies. In 2021, our operations, especially the passenger transportation business, continued to be impacted by the COVID-19 pandemic, although to a lesser degree than 2020, and we recorded a passenger delivery volume of 40.8 million people, representing a year-on-year decline of 4.8%, while our freight delivery volume amounted to 18.8 million tonnes, representing a year-on-year increase of 15.8%. Additionally, we recorded an operating revenue of RMB20,206.2 billion, representing a year-on-year increase of 23.6%, our consolidated loss attributable to shareholders amounted to RMB973.1 million, representing a year-on-year decline of 74.4%, and our basic losses per share was RMB0.14.

As a result of governmental and civil actions, the domestic outbreak in China has become more controlled and business activities are beginning to increase. Nevertheless, based on a preliminary review and analysis of our unaudited consolidated management accounts for the three months ended March 31, 2022 and information currently available to us, we expect to record a net loss for the first quarter of 2022. We will continue to evaluate the specific impact the COVID-19 outbreak will have on our financial position. The extent of such impact will depend on the development and duration of the pandemic as well as the implementation of control measures. We will continue to closely monitor this public health crisis and evaluate and attempt to mediate its impact on our financial position and operating results.

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 markets and economic downturn as result of the recent COVID-19 pandemic have 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 and caused a decrease in the number of passengers and the volume of freight that we transported. Although the extent of the continuing impact of the current COVID-19 coronavirus outbreak on our future results is uncertain, the global economic downturn, 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.

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. As a result, the number of passengers traveling by our long-distance train services have decreased. Due to the impact of the COVID-19 pandemic, we adjusted our train services and suspended the operation of some long-distance trains. In addition, the opening of the Guangzhou-Shenzhen high-speed railway, 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 intercity 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, 2021 Compared with Year Ended December 31, 2020

Revenue

In 2021, the total revenue of the Company was RMB20,206 million, representing an increase of 23.6% as compared to RMB16,349 million in 2020. Our revenue from railroad passenger transportation service, freight transportation service and railway network usage and other transportation related services were RMB6,169 million, RMB2,035 million and RMB10,815 million, respectively, accounting for approximately 30.5%, 10.1% and 53.5% of our total revenue in 2021, respectively.

Passenger Transportation. Revenue from passenger transportation accounted for 30.5% of our total revenue and 32.4% of our railroad and related business revenue in 2021. As of December 31, 2021, we operated 240 pairs of passenger trains each day, including 90 pairs of intercity high-speed passenger trains between Guangzhou and Shenzhen (including 15 pairs of Guangzhou East to the Chaozhou-Shantou and Meizhou cross-network EMU trains), 9 pairs of Hong Kong Through Trains (suspended) and 141 pairs of long-distance trains.

In 2021, the total number of our passengers was 40.8 million, representing a decrease of 4.8% from 42.9 million in 2020. Our passenger transportation revenue was RMB6,169.1 million in 2021, representing an increase of 49.9% from RMB4,114.5 million in 2020. During the reporting period, increases in revenue from passenger transportation and passenger delivery volume were mainly due to the new operation of nine pairs of inter-city trains in the section between Guangzhou South Station (Foshan West Station) and Yangjiang and the new operation of 10 pairs of cross-network long-distance EMU trains since April 1, 2021, which has increased the revenue of passenger transportation.

The following table sets forth our revenue from passenger transportation and the number of passengers for 2020 and 2021:

	<u>Year Ended December 31,</u>		<u>Change from</u>
	<u>2020</u>	<u>2021</u>	<u>2020 to 2021</u>
Revenue from passenger transportation (RMB thousands)	4,114,522	6,169,109	2,054,587
Total passengers (thousands)	42,853	40,778	(2,075)
Total passenger-kilometers (millions)	12,931	12,054	(877)
Revenue per passenger-kilometer (RMB)	0.32	0.51	0.19

Freight Transportation. Revenue from our freight transportation accounted for 10.1% of our total revenue and 10.7% of our railroad and related business revenue in 2021.

Revenue from our freight transportation business in 2021 was RMB2,035.4 million, an increase of 19.8% from RMB1,698.6 million in 2020. The increase in revenue from freight transportation was mainly because the Company vigorously carried out the activities and campaigns to boost the capacity of its freight transportation, actively implemented the national policy of “Highway Transportation to Railway Transportation,” fully explored freight resources, and strengthened the organization of goods transportation, resulting in a significant year-on-year increase in outbound freight volume, and the according increase in the revenue from freight transportation.

The total tonnage of outbound freight we transported in 2021 was 18.8 million tonnes, representing an increase of 15.8% from 16.3 million tonnes in 2020. The increase in outbound freight volume was mainly due to the strategies to make full use of our freight transportation capacity and to strengthen the network of freight transportation, resulting in a significant year-on-year increase in outbound freight volume.

The following table sets forth our revenue from freight transportation and the volumes of commodities we shipped for 2020 and 2021:

	<u>Year Ended December 31,</u>		<u>Change from</u>
	<u>2020</u>	<u>2021</u>	<u>2020 to 2021</u>
Revenue from freight transportation (RMB millions)	1,698.58	2,035.44	336.86
- Revenue from freight charges	1,456.61	1,701.85	245.24
- Revenue from other freight transportation services	241.97	333.59	91.62
Outbound freight volume (millions of tonnes)	16.27	18.83	2.56
Revenue per tonne (RMB) ⁽¹⁾	89.50	90.38	0.88
Total tonne-kilometers (millions)	131,866.78	149,734.69	17,867.91
Revenue per tonne-kilometer (RMB) ⁽²⁾	0.013	0.014	0.001

- (1) Revenue per tonne is calculated by dividing revenues from freight charges by total tonnage of outbound freight.
- (2) Revenue per tonne-kilometer is calculated by dividing total freight revenue by total tonne-kilometers.

Railway Network Usage and Other Transportation Related Services. Revenue from our railway network usage and other transportation related services accounted for 53.5% of our total revenue and 56.9% of our railroad and related business revenue in 2021. Railway network usage and other transportation services provided by the Company mainly include passenger and freight transportation railway network usage, the provision of railway operation services, locomotive and passenger car leasing, passenger services and luggage transportation. Revenue from our railway network usages and other transportation related services business was RMB10,814.6 million in 2021, representing an increase of 13.0% from RMB9,572.3 million in 2020. The increase in the revenue from railway network usage and other transportation-related services was mainly because the gradual recovery of railway passenger traffic nationwide led to an increase in the workload of transportation services provided by the Company for other railway companies, resulting in the corresponding increase in revenue.

Other Businesses. Our other businesses mainly consist of materials and supplies, sales of goods and other businesses that are related to railway transportation. In 2021, revenue from other businesses was RMB1,187 million, representing an increase of 23.1% as compared to RMB964 million in 2020, primarily due to the increases in the revenue from the sales of materials and supplies and the revenue from train maintenance services.

Operating Expenses

In 2021, our total operating expenses were RMB21,574.6 million, representing an increase of 18.6% from RMB18,186.8 million in 2020.

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 2020 and 2021.

	Year Ended December 31,	
	2020	2021
Railroad and related business revenue (RMB millions)	15,385.4	19,019.1
Business tax and surcharge	0.2%	0.2%
Employee benefits	46.7%	42.8%
Equipment leases and services	32.3%	35.5%
Materials and supplies	6.9%	6.3%
Repairs and facilities maintenance costs, excluding materials and supplies	7.5%	6.3%
Depreciation of right-of-use assets	0.4%	0.3%
Depreciation of fixed assets	10.6%	9.2%
Cargo logistics and outsourcing service charges	3.0%	3.1%
Utility and office expenses	0.6%	0.5%
Others	3.9%	3.5%
Operating expenses ratio	112.1%	107.7%
Railroad and related business operating margin (1)	(12.1%)	(7.7%)

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

Railway Operating Expenses. Our total railway operating expenses increased by 18.8% from RMB17,242.3 million in 2020 to RMB20,475.3 million in 2021. The increase in railway operating expenses was primarily caused by (a) in order to support enterprises in fighting against the COVID-19 epidemic, the local government adopted a preferential policy of reducing and exempting social security premiums in stages in 2020, while the relevant preferential policies were cancelled in 2021, resulting in an increase in wage surcharges; (b) during the reporting period, the number of operating passenger and freight trains organized by the Company, and the workload of passenger and freight transportation services provided to other railway companies increased, resulting in corresponding increases in related transportation expenses such as equipment rental and service fees, materials, water and electricity consumption, passenger service fees, and cargo loading and unloading fees; and (c) in order to support the normalized epidemic prevention and control, the related epidemic prevention expenditures increased.

(Loss) from Operations

Our (loss) from operations increased by 82.9% from a loss of RMB652.3 million in 2020 to a (loss) of RMB1,193.2 million in 2021, mainly because approximately RMB1.189 billion worth of land use rights were derecognized in 2020 while there was none in 2021.

Taxation

In 2021 and 2020, according to relevant tax regulations, we and our subsidiaries were subject to income tax at the rate of 25%. Our income tax credit was RMB275.6 million in 2021, representing an increase of 107.8%, compared to an income tax credit of RMB132.6 million in 2020.

Profit/(loss) Attributable to Equity Holders of our Company

As a result of the above, our (loss) attributable to equity holders of our Company increased by 74.4% from a (loss) of RMB557.9 million in 2020 to a loss of RMB973.1 million in 2021.

Year Ended December 31, 2020 Compared with Year Ended December 31, 2019

Revenue

In 2020, the total revenue of the Company was RMB16,349 million, representing a decrease of 22.8% as compared to RMB21,178 million in 2019. Our revenue from railroad passenger transportation service, freight transportation service and railway network usage and other transportation related services were RMB4,115 million, RMB1,699 million and RMB9,572 million, respectively, accounting for approximately 25.2%, 10.4% and 58.5% of our total revenue in 2020, respectively.

Passenger Transportation. Revenue from passenger transportation accounted for 25.2% of our total revenue and 26.7% of our railroad and related business revenue in 2020. As of December 31, 2020, we operated 238 pairs of passenger trains each day, including 100 pairs of intercity high-speed passenger trains between Guangzhou and Shenzhen (including 87 pairs of intercity trains between Guangzhou East to Shenzhen, 13 pairs of Guangzhou East to the Chaozhou-Shantou and Meizhou cross-network EMU trains), 9 pairs of Hong Kong Through Trains and 129 pairs of long-distance trains.

In 2020, the total number of our passengers was 42.9 million, representing a decrease of 49.7% from 85.1 million in 2019. Our passenger transportation revenue was RMB4,114.5 million in 2020, representing a decrease of 48.6% from RMB8,009.6 million in 2019. During the reporting period, decreases in revenue from passenger transportation and passenger delivery volume were mainly due to the impact of the COVID-19 pandemic, passengers' willingness of travelling had significantly reduced, resulting in a substantial reduction in the number of trains in operation and therefore a significant decrease in the passenger traffic volume and revenue from passenger transportation.

The following table sets forth our revenue from passenger transportation and the number of passengers for 2019 and 2020:

	Year Ended December 31,		Change from
	2019	2020	2019 to 2020
Revenue from passenger transportation (RMB thousands)	8,009,590	4,114,522	(48.6%)
Total passengers (thousands)	85,130	42,853	(49.7%)
Total passenger-kilometers (millions)	24,058	12,931	(46.3%)
Revenue per passenger-kilometer (RMB)	0.33	0.32	(3.0%)

Freight Transportation. Revenue from our freight transportation accounted for 10.4% of our total revenue and 11% of our railroad and related business revenue in 2020.

Revenue from our freight transportation business in 2020 was RMB1,698.6 million, a decrease of 19.6% from RMB2,112.6 million in 2019. The decrease in revenue from freight transportation was mainly due to the COVID-19 pandemic, decline in economic growth, and a decrease in the volume of bulk goods transported by rail.

The total tonnage of outbound freight we transported in 2020 was 16.3 million tonnes, representing an increase of 0.2% from 16.2 million tonnes in 2019. The increase in outbound freight volume was mainly due to an increase of transportation of raw materials and finished products in response to the decline in the number of passenger trains in operation and transportation of bulk goods as a result of the COVID-19 pandemic.

The following table sets forth our revenue from freight transportation and the volumes of commodities we shipped for 2019 and 2020:

	Year Ended December 31,		Change from
	2019	2020	2019 to 2020
Revenue from freight transportation (RMB millions)	2,112.60	1,698.58	(19.6%)
- Revenue from freight charges	1,740.91	1,456.61	(16.3%)
- Revenue from other freight transportation services	371.69	241.97	(34.9%)
Outbound freight volume (millions of tonnes)	16.24	16.27	(0.2%)
Revenue per tonne (RMB) ⁽¹⁾	107.20	89.50	(16.5%)
Total tonne-kilometers (millions)	149,983.69	131,866.78	(12.1%)
Revenue per tonne-kilometer (RMB) ⁽²⁾	0.014	0.013	(7.1%)

(1) Revenue per tonne is calculated by dividing revenues from freight charges by total tonnage of outbound freight.

(2) Revenue per tonne-kilometer is calculated by dividing total freight revenue by total tonne-kilometers.

Railway Network Usage and Other Transportation Related Services. Revenue from our railway network usage and other transportation related services accounted for 58.5% of our total revenue and 62.2% of our railroad and related business revenue in 2020. Railway network usage and other transportation services provided by the Company mainly include passenger and freight transportation railway network usage, the provision of railway operation services, locomotive and passenger car leasing, passenger services and luggage transportation. Revenue from our railway network usages and other transportation related services business was RMB9,572.3 million in 2020, representing a decrease of 3.3% from RMB9,903.4 million in 2019. The decrease in the revenue from railway network usage and other transportation-related services was mainly due to (i) the decrease in the revenue from railway network usage services as a result of the impact of the COVID-19 pandemic, which caused significant reduction in the number of trains in operation and a decrease in the revenue from railway network usage; and (ii) the decrease in the revenue from railway operation services as a result of the impact of the COVID-19 pandemic, which caused reduction in the workload of railway operation services provided by us to other railway companies and resulted in a decrease in the relevant revenue, which is offset by the increase in the revenue from other services as a result of freight transportation services we began to provide for GMSR and SR.

Other Businesses. Our other businesses mainly consist of materials and supplies, sales of goods and other businesses that are related to railway transportation. In 2020, revenue from other businesses was RMB964 million, representing a decrease of 16.4% as compared to RMB1,153 million in 2019, primarily due to a decrease in the number of trains in operation as a result of the COVID-19 pandemic.

Operating Expenses

In 2020, our total operating expenses were RMB18,186.8 million, representing a decrease of 9.4% from RMB20,076.4 million in 2019.

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 2019 and 2020.

	Year Ended December 31,	
	2019	2020
Railroad and related business revenue (RMB millions)	20,025.6	15,385.4
Business tax and surcharge	0.3%	0.2%
Employee benefits	37.5%	46.7%
Equipment leases and services	28.5%	32.3%
Materials and supplies	7.1%	6.9%
Repairs and facilities maintenance costs, excluding materials and supplies	5.4%	7.5%
Depreciation of right-of-use assets	0.3%	0.4%
Depreciation of fixed assets	8.1%	10.6%
Cargo logistics and outsourcing service charges	1.1%	3.0%
Utility and office expenses	0.7%	0.6%
Others	5.7%	3.9%
Operating expenses ratio	94.6%	112.1%
Railroad and related business operating margin (1)	5.4%	(12.1%)

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

Railway Operating Expenses. Our total railway operating expenses decreased by 9.0% from RMB18,942.2 million in 2019 to RMB17,242.3 million in 2020. The decrease in railway operating expenses was primarily caused by:

- (i) local governments' reduced or exempted social insurance premiums in stages, resulting in a drop in employee benefits;
- (ii) the decrease in business volume due to the impact of the COVID-19 pandemic, resulting in the decreases in the costs for equipment leases and services, materials and utilities consumption and passenger services;
- (iii) the Company began to provide freight transportation services for GMSR and SR, and therefore related freight carriage, loading and unloading expenses increased accordingly; and
- (iv) the Company carried out the construction of new railway lines that meet the latest railway safety standards, and as a result the line maintenance expenses increased accordingly.

Profit/(loss) from Operations

Our profit/(loss) from operations decreased from a profit of RMB1,072.8 million in 2019 to a (loss) of RMB652.3 million in 2020, mainly due to the decrease in the Company's operating revenue, which outweighed the decrease in operating expenses under the impact of the COVID-19 pandemic.

Taxation

In 2020 and 2019, according to relevant tax regulations, we and our subsidiaries were subject to income tax at the rate of 25%. Our income tax credit was RMB132.6 million in 2020, representing a decrease of 150.8%, compared to an income tax expense of RMB261.1 million in 2019.

Profit/(loss) Attributable to Equity Holders of our Company

As a result of the above, our profit/(loss) attributable to equity holders of our Company decreased from a profit of RMB748.4 million in 2019 to a (loss) of RMB557.9 million in 2020.

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 RMB1,003.5 million of net cash flow from operating activities in 2021. 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 2021, other than operating expenses, our cash outflow mainly related to the following:

- capital expenditures for the purchase of fixed assets and construction in progress of approximately RMB1,060.3 million, representing an increase of 24.2% from RMB853.3 million in 2020.

Our capital expenditures for 2021 consisted primarily of the following projects:

- the improvements in system adaptability of the traction power supply system for the Pingshi to Guangzhou section of the Beijing- Guangzhou line;
- the reconstruction of automatic blocking and computer inter-locking equipment for the Guangzhou to Pingshi section of the Beijing-Guangzhou Railway line;
- construction of video surveillance system in key areas of the Guangzhou to Pingshi section of the Beijing-Guangzhou line and the Guangzhou-Shenzhen line;
- the maintenance, installation and renovation of existing locomotives, trains and EMUs in 2021; and
- overhaul of line equipment (replacement of rails, sleepers).

Funds not required for immediate use are kept in short-term investments and bank deposits. We had cash and cash equivalents of approximately RMB1,499.5 million as of December 31, 2021.

As of December 31, 2021, we did not have any entrusted deposits placed with any financial institutions in the PRC and we did not engage in any trust business.

On March 30, 2021, our board of directors approved to obtain financing of up to an aggregate of RMB2 billion from financial institutions. As of the date of this annual report, we have obtained bank acceptance bills in the aggregate of RMB500 million, of which RMB300 million has been obtained on December 31, 2021 and RMB200 million has been obtained in the first quarter of 2022.

Cash Flow

Our net cash and cash equivalents as of December 31, 2021 increased by approximately RMB14.2 million from December 31, 2020. 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 2019, 2020 and 2021, and the percentage change in these items from 2020 to 2021:

	Year Ended December 31,			Change from 2020 to 2021
	2019	2020	2021	
	(RMB thousands)			
Net cash generated from operating activities	2,395,245	1,336,173	1,002,468	(333,705)
Net cash used in investing activities	(2,087,032)	(927,513)	(926,112)	1,401
Net cash used in financing activities	(484,632)	(485,762)	(62,126)	423,636
Net (decrease)/ increase in cash and cash equivalents	(176,419)	(77,102)	14,230	91,332

Our net cash inflow from operating activities decreased to RMB1,002.5 million in 2021 from RMB1,336.2 million in 2020, primarily due to that the local government's adoption of a preferential policy of reducing and exempting social security premiums in stages in 2020 to support enterprises in fighting against the COVID-19 epidemic, while the relevant preferential policies were cancelled in 2021, resulting in an increase in wage surcharges.

Our net cash inflow from operating activities decreased to RMB1,336.2 million in 2020 from RMB2,395.2 million in 2019, primarily due to a decrease of revenue in passenger transportation as a result of the COVID-19 pandemic.

Our net cash used in investment activities was RMB926.1 million in 2021, which was almost equivalent to RMB927.5 million in 2020.

Our net cash used in investment activities decreased from RMB2,087.0 million in 2019 to RMB927.5 million in 2020, primarily due a decrease in investment in fixed assets and on-going construction projects.

Our net cash used in financing activities decreased to RMB62.1 million in 2021 from RMB485.8 million in 2020, primarily due to no declared dividends for the year of 2020.

Our net cash used in financing activities was RMB485.8 million in 2020, which was almost equivalent to RMB484.6 million in 2019.

Our working capital was mainly used for capital expenditures, operating expenses and payment of taxes and dividends and investments. In 2021, our expenses for the purchase of fixed assets and payments for construction-in-progress totaled RMB1,060.3 million. In addition, we paid RMB0.4 million for income taxes and no dividend was made for the year of 2021.

We believe we have sufficient financial resources to meet our operational and development requirements in 2022.

Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations, capital commitments and lease liabilities as of December 31, 2021 for the periods indicated.

	Payment Due by Period (RMB) thousands				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations					
Capital Expenditure Obligation ⁽¹⁾	46,553	46,553	—	—	—
Lease liabilities ⁽²⁾	5,925,660	63,249	129,941	134,020	5,598,450
Total	5,972,213	109,802	129,941	134,020	5,598,450

(1) See Note 40(a) to our audited consolidated financial statements, “Capital Commitments.”

(2) See Note 8 “Right-of-Use Assets and Lease Liabilities” to our audited consolidated financial statements.

Based on the current progress of our new projects, we estimate that our capital expenditures for 2022 will amount to approximately RMB1.12 billion and will consist primarily of the following projects:

- Adaptive transformation of power supply network of Guangzhou to Pingshi section of Beijing-Guangzhou Line;
- construction of video surveillance system in key areas of the Guangzhou to Pingshi section of the Beijing-Guangzhou Line, and;
- transformation of the main line of traction power supply and related equipment and facilities of Guangzhou-Shenzhen Line.

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 CSRG. 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 2022. 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 2022.

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 current volatility of the global financial markets and economic downturn as a result of the COVID-19 pandemic has adversely affected economies and businesses around the world, including in China. This change in the macro-economic conditions has 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 transport. In addition, while China's economy, as well as other national economies around the world, seems poised to begin to recover, the sustainability of these recoveries is uncertain due to the unpredictability of the pandemic and its potential resurgence. With the still complicated and evolving domestic and international economic environment, China's economy still face greater downward pressure, which may suppress the demand 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. 2022 is the second year of the Chinese government's 14th Five-Year Plan. We will seize the opportunities, follow the government's new development philosophy and keep actively in line with the key national strategies such as the "Belt and Road" initiative, Guangdong-Hong Kong-Macao Greater Bay Area and Shenzhen Pilot Demonstration Zone. Further, we will promote the structural reforms on the supply side of railway transportation, strengthen cost control, continue to improve transportation service quality and operation and management level, and comprehensively promote the Company to achieve the development of higher safety, higher quality, greater efficiency and stronger sustainability and security.

Looking into 2022, 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 continue to develop in a more scientific, orderly, sustained and stable manner, with continuous growth of the railway network and transportation capacity, as well as volume of passengers and freight.

E. Critical Accounting 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 customer obtains the control of relevant goods or services.

(a) Revenue from Railroad and Related Business

The operations of our railway business form part of the nationwide railway system in the PRC and they are supervised and governed by CSRG. We render the passenger transportation and freight transportation services, and we collect the related service fees and charges from our customers or other railway companies.

The respective fares and charges of the services, and the processing of the respective revenue and cost allocation among different railway companies are done centrally by a central clearance system operated by CSRG.

Revenue from Passenger Transportation

Passenger transportation generally includes transportation business of Guangzhou-Shenzhen intercity express trains, long-distance trains and Guangzhou-Hong Kong city through trains. These services are provided by us as the carrier in mainland China and Hong Kong, and the corresponding revenue information is captured and processed by CSRG through the central clearance system.

Revenues are recognized over time when the train transportation services are rendered. The revenue is presented net of value-added tax.

Revenue from Freight Transportation

We also provide freight transportation services. Service information and computation of the attributable revenues entitled by us are processed by the central clearance system of CSRG.

The revenues are recognized at gross amounts over time in the accounting period in which the services are rendered.

Revenue from Railway Network Usage and Other Transportation Related Business

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 us 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 CSRG. The revenue from network usage services is recognized over time in the accounting period in which the services are rendered, and revenue can be reliably measured. Railway operation services and other services are rendered solely by us and all proceeds are collected by us directly.

When the services rendered by us exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.

(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 overtime 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 at appoint in time. Revenue from operating lease arrangements on certain properties and locomotives is recognized over time on a straight-line basis over the period of the respective leases.

For more details relating to IFRS 15, please see “Item 3. Key Information – A. Selected Financial Data” for more details of the disaggregated revenue.

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 lease agreement entered into with the single largest shareholder, we can renew the lease at its own discretion upon expiry of the 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)/gains-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.

We assess on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost, including trade receivables, other receivables.

Our management recognized provision for credit losses on the basis of exposure at default and expected credit loss rates, or ECL rates, which include consideration of historical credit loss experience, current status and forward-looking information. For financial assets subject to ECL measurement except trade receivables, on each balance sheet day, we assess the significant increase in credit risk since initial recognition or whether an asset is considered to be credit impaired, "Three-stage" expected credit loss models are established and staging definition are set for each of these financial assets class.

A financial instrument which are not considered to have significantly increased in credit risk since initial recognition is classified in "Stage 1". The impairment provision is measured at an amount equal to the 12-month expected credit losses for these financial assets.

If a significant increase in credit risk since initial recognition is identified but the financial instrument is not yet deemed to be credit-impaired, the financial instrument is moved to "Stage 2". The impairment provision is measured based on expected credit losses on a lifetime basis.

If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”. The impairment provision is measured based on expected credit losses on lifetime basis.

For the financial Instruments in Stage 1 and Stage 2, we calculate the interest income based on its gross carrying amount (i.e. amortized cost) before adjusting for impairment provision using the effective interest method. For the financial instruments in Stage 3, the interest income is calculated based on the carrying amount of the asset, net of the impairment provision, using the effective interest method. Financial assets that are originated or purchased credit impaired are financial assets that are impaired at the time of initial recognition, and the impairment provision for these assets is the expected credit loss for the entire lifetime.

For trade receivables, we apply the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Trade and bill Payables

Trade and bill 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 and bill 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.

Details of impairment charge, key assumptions and impact of possible changes in key assumptions are disclosed in Note 9 to our audited consolidated financial statements included elsewhere in this annual report.

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:

Provision for Impairment of Trade Receivables

The provision for impairment of trade receivables are recognized on the basis of exposure at default and ECL rates which include consideration of historical credit loss experience, current status and forward-looking information, taking into account the customers/debtors' credit records, historical payment records, financial conditions and the capabilities of collaterals and guarantors comprehensively. We review the key assumptions related to ECL calculation on a regular basis. In 2021, we took into consideration the uncertainty affected by the COVID-19 outbreak and incorporated relevant impacts into the key macro-economic assumptions and factors used in the forward-looking estimation, such as the risk of economy downturn, external market environment, technical environment and changes in customer's conditions.

Where the actual loss is different from the amounts that were initially recorded based on above estimate, such differences will impact the carrying value of our trade receivables in future periods.

Goodwill Impairment

Goodwill impairment reviews are undertaken at least annually or more frequently if events or changes in circumstances indicate a potential impairment. The recoverable amount of a cash-generating unit ("CGU") or groups of CGUs when goodwill is included in the carrying amount of that unit or units is the higher of value in use and the fair value less costs to sell.

In 2021, our transportation business was greatly affected by the COVID-19 outbreak and the relevant control and prevention measures. Recoverable amount of CGU when goodwill is included in the carrying amount of that unit based on value-in-use calculations which require the use of assumptions. The key assumptions used by the management is disclosed in Note 9 to our audited consolidated financial statements included elsewhere in this annual report.

The uncertainty of the development of COVID-19 epidemic and control measures have also increased the estimation uncertainty relating to the key assumptions used for cash flow projections, including growth rate, gross margin and pre-tax discount rate, which could lead to a different assessment result affected by the management judgement.

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, 2021:

- Covid-19-Related Rent Concessions – amendments to IFRS 16; and
- Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

New Accounting Pronouncements

Details of the new accounting pronouncements are set out in Note 2.1(e) to our audited consolidated financial statements included elsewhere in this annual report.

Foreign Currency Exchange Impact

We have certain U.S. dollar-denominated and HK dollar-denominated assets. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. dollars and each of the RMB and the HK dollar. For details, see "Item 3. Key Information – A. Selected Financial Data" and "Item 11. Quantitative And Qualitative Disclosures About Market Risk – Currency Risks."

Inflation

Inflation does not materially affect our business or the results of our operations.

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. Mr. Hu Dan was appointed as a non-executive director and Mr. Zhou Shangde were appointed as executive director at our annual shareholders' general meeting held on June 17, 2021 by cumulative voting, and our other directors were re-elected at our annual shareholders' general meeting held on June 17, 2021 by cumulative voting. The business address of each of our directors is No. 1052 Heping Road, Luohu District, Shenzhen, Guangdong Province, the People's Republic of China 518010.

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

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date First Elected or Appointed</u>
Wu Yong	58	Chairman of the Board of Directors and Executive Director	2014
Hu Lingling	58	Executive Director	2016
Guo Jiming	54	Non-executive Director	2019
Hu Dan	50	Non-executive Director	2021
Zhang Zhe	50	Non-executive Director	2019
Zhou Shangde	52	Executive Director	2021
Frederick Ma Si-Hang	70	Independent Non-executive Director	2020
Tang Xiaofan	53	Independent Non-executive Director	2020
Qiu Zilong	55	Independent Non-executive Director	2020

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.

Guo Jiming is our non-executive director. Mr. Guo holds a bachelor's degree and is a certified senior accountant. He had previously served as the deputy head of the Finance Subsection of Wuhan Sub-bureau of Zhengzhou Railway Bureau, the head of the Finance Section and the director of Capital Settlement Center of Wuhan Railway Bureau, the chief accountant of Jinan Railway Bureau, the chief accountant of China Railway Jinan Group Co., Ltd. and the director of GRGC. He is currently the chief accountant of GRGC.

Hu Dan is our non-executive Director. Mr. Hu holds a bachelor's degree and is an engineer. He had previously served as the chief of the Integrated Analysis Division of the Safety Supervision Office, the deputy chief of the Safety Supervision Office, the secretary of the Party Committee of the Loudi Railway Depot, the head of the Loudi Railway Depot and the head of the Zhuzhou Railway Station of Guangzhou Railway (Group) Company. He has been serving as the chief of the Transportation Department of GRGC since July 2020.

Zhang Zhe is our non-executive director. Mr. Zhang holds a bachelor's degree and is a senior engineer. He had previously served as the station master of Tangxi Station and the director of the Subdivision of Freight Transportation Marketing of the Yangcheng company headquarters of GRGC, the deputy director of the Safety Supervision Sub-office of Guangzhou Railway Office, the deputy station master of Jiangcun Station of the Company, the head of Zhaoqing Train Section of SR, and the station master of Guangzhou South Station of the Company. He is currently the director of the Passenger Transport Department of GRGC.

Zhou Shangde is our executive director. Mr. Zhou holds a master's degree and is a political officer. He had previously served as the deputy head of the Organization and Human Resources Department, the chief of the Party Committee Office and the chairman of the union of the General Service Center of the Company; the deputy head of the Human Resources Department, the deputy chief of the Party Committee Office, the chief of the Reception Office and the secretary of the Party General Branch of the Company Affairs Office of Guangzhou Railway (Group) Company; and the secretary of the Party Committee and head of the Shenzhen Railway Station, the head and deputy secretary of the Party Committee of the Shenzhen North Railway Station of the Company. He has been serving as an employee representative supervisor of the Company since May 2015 and the deputy secretary of the Party Committee of the Company since March 2021.

Frederick Ma Si-Hang is our independent non-executive Director. Mr. Ma holds a bachelor's degree in Economics and History from the University of Hong Kong. Mr. Ma is an honorary professor of the Faculty of Economics and Finance at the University of Hong Kong, an honorary professor of the Faculty of Business Administration at the Chinese University of Hong Kong, an honorary advisor of the School of Accountancy at Central University of Finance and Economics, a member of the Hong Kong Chief Executive's Council of Advisers on Innovation and Strategic Development, the chairman of the Council of the Education University of Hong Kong, a member of the International Advisory Council of China Investment Corporation, a member of the Global Advisory Council of Bank of America and a member of the International Advisory Council of Investcorp. Mr. Ma had been previously honored with a Gold Bauhinia Star and appointed as a Non-official Justice of the Peace. He had previously served as the managing director of the UK branch of RBC Dominion Securities, the deputy chairman and managing director of Kumagai Gumi (HK) Limited, the managing director and Asia manager of the Private Banking Department of Chase Manhattan Bank, the Asia Pacific CEO of Private Banking of JPMorgan Chase & Co., the CFO and executive director of PCCW Limited, the Secretary for Financial Services and the Treasury of Hong Kong SAR Government, the Secretary for Commerce and Economic Development of Hong Kong SAR Government, the non-executive chairman of China Strategic Holdings Limited, an independent nonexecutive director of China Resources Land Limited, an independent non-executive director of Hutchison Port Holdings Limited, an outside director of China Oil and Foodstuffs Corporation, an outside director of China Mobile Communications Group Co., Ltd, an independent non-executive director of Agricultural Bank of China Limited, an independent non-executive director of Aluminum Corporation of China Limited and the non-executive chairman of MTR Corporation Limited. He is currently a non-executive director of Husky Energy Inc., an independent non-executive director of FWD Group Limited and a director of New Frontier Health Corporation.

Tang Xiaofan is our independent non-executive Director. Mr. Tang holds a master's degree in Economics management from the School of Economics and Trade at Jiangxi Agricultural University and is a senior auditor, a certified public accountant in the People's Republic of China, an accountant certified by the Association of International Accountants and a certified internal auditor. Mr. Tang also obtained the qualification of secretary of the board of companies listed on the Shanghai Stock Exchange, the securities and fund practitioner qualification certified by the Asset Management Association of China and is a securities investment advisor. Mr. Tang had previously served as the deputy section chief of Yichun Audit Bureau of Jiangxi, the audit manager of Shenzhen Dahua Tiancheng Accounting Firm, the audit manager of BDO China Shu Lun Pan Certified Public Accountants LLP and Yangcheng (HK) CPA Limited, the vice president and CFO of Guangzhou Greenery Cafe Company Limited, the secretary of the board and CFO of Guangzhou Jiacheng International Logistics Co., Ltd., the deputy general manager of Guangdong Xiyu Investment Management Co., Ltd. and a director and the senior vice president of Jiangxi Geto New Materials Corporation Limited. He is currently a director and the general manager of Guangzhou Dening Investment Management Co., Ltd.

Qiu Zilong is our independent non-executive Director. Mr. Qiu holds a bachelor's degree of Physics in radio from Hunan Normal University and a master's degree in business administration from Peking University Shenzhen Graduate School and is currently the executive vice president of Shenzhen Changsha Chamber of Commerce. Mr. Qiu had previously served as the assistant engineer, assistant factory director and deputy factory director of Guangdong Panyu Safety Equipment Factory, the deputy general manager of Shenzhen Xingelan Electronic Co., Ltd., the managing director of Shenzhen Guanzhong Xie'an Electronic Technology Co., Ltd. and the managing director of Shenzhen Xingguanzhong Electronic Technology Co., Ltd. He is currently the general manager of Shenzhen Changshang Investment Management Co., Ltd. and a director of Shenzhen Beida Soft Bank Investment Corporation Limited.

Supervisors

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

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date First Elected or Appointed</u>
Lei Chunliang	59	Chairman of the supervisory committee	2021
Chen Shaohong	55	Supervisor	2008
Xiang Lihua	48	Supervisor	2019
Meng Yong	54	Supervisor	2019
Huang Songli	47	Deputy Secretary of the party committee Supervisor	2021
Lin Wensheng	57	Supervisor	2020

Lei Chunliang is chairman of our supervisory committee. He holds a bachelor's degree and is a senior political officer. He had previously served as the secretary of the Communist Youth League Committee of Xi'an Railway Sub-bureau under Zhengzhou Railway Bureau; the secretary of the Party Committee of the Xi'an Railway Station of Xi'an Railway Bureau; the vice chairman of the union, the deputy secretary of the Party Committee and the secretary of the Discipline Inspection Committee of Xi'an Railway Bureau; and the deputy secretary of the Party Committee, the secretary of the Discipline Inspection Committee and a director of China Railway Xi'an Bureau Group Co., Ltd. He has been serving as the secretary of the Discipline Inspection Committee of GRGC since September 2020.

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 of GRGC. He is currently the director of the Finance Department (Income Department) of GRGC.

Xiang Lihua is our Supervisor. Mr. Xiang holds a bachelor's degree and is a political engineer. He had previously served as the secretary of the Board and the director of the general department of GZR, the deputy office director of GRGC, the Standing Vice Secretary of the Communication and Signaling Section in Guangzhou and the Secretary of the Committee for Discipline Inspection of the Company, and the head of the Marketing Department of GRGC. He is currently the director (chief) of the Human Resources Department (party committee organization) of GRGC.

Meng Yong is our Supervisor. Mr. Meng holds a bachelor's degree and is an accountant. He had previously served as the head of the Finance Planning Division of the Finance Section and the deputy director of the Finance Section, the deputy director of the Finance Department (Revenue Division) of GRGC and the director of the Audit Department of GRGC. He is currently the director of the Finance Department (Income Department) of GRGC.

Huang Songli is our Supervisor and represents employees of our Company. He holds a bachelor's degree and is an assistant engineer. Mr. Huang had previously served as the deputy head of the Guangzhou South Railway Station, the head and deputy secretary of the Party Committee of the Tangxi Railway Station of Yang Cheng Railway Company under Guangzhou Railway (Group) Company; the deputy head of the Guangzhou Railway Depot and the head of the Tangxi Railway Station of Guangzhou Railway (Group) Company; the deputy head of the Guangzhou Railway Depot of the Company; the deputy general manager of Guangmeishan Railway Co., Ltd.; the head of the Preparation Group of the Guangzhou Junction Northeastern Truck Outer Ring Railway Construction of Guangzhou Railway (Group) Company; and the deputy head of the Command Department of Guangzhou Project Construction and the deputy head of the Command Department of the Foshan West Railway Station Project Construction. He has been serving as the chairman of the union and the deputy general manager of the Company since April 2021.

Mr. Lin Wensheng is our Supervisor and represents employees of our Company. Mr. Lin holds a bachelor's degree and is a senior accountant. Mr. Lin had previously served as the chief accountant of the Industrial and Electrical Business Department of the Company, the deputy chief economist of the Guangzhou Electricity Section of the Company and the head of the Planning and Finance Department of the Company. He has been serving as the head of the Audit Department of the Company since December 2019.

Senior Management

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

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date First Elected or Appointed</u>
Hu Lingling	58	General Manager	2015
Gong Yuwen	55	Deputy Secretary of the Party Committee, and Secretary of the Discipline Inspection Commission	2018
Huang Songli	46	Chairman of Labor Union, and Deputy General Manager	2021
Luo Jiancheng	49	Deputy General Manager	2016
Tang Xiangdong	53	Deputy General Manager, and Secretary of the Board	2019
Luo Xinpeng	56	Chief Accountant	2019

Note: See "Item 6. Directors, Senior Management And Employees – A. Directors and Senior Management – Directors" for information regarding Hu Lingling.

Gong Yuwen is the Deputy Secretary of the Party Committee, and the Secretary of the Discipline Inspection Commission of the Company. Mr. Gong holds a bachelor's degree and is an economist. He had served successively as the deputy director and the director of department of human resources (party committee organization) leading personnel department of GRGC, the deputy director of the department of human resources of GRGC and the deputy director of the organization department of the party committee, the party deputy secretary and the deputy station master of the Guangzhou East station of the Company, the secretary of the party committee and the deputy station master.

Huang Songli is the Chairman of Labor Union and Deputy General Manager of the Company. Mr. Huang holds a bachelor's degree and is an assistant engineer. He had served successively as the assistant master of Guangzhou South railway station, the master and deputy secretary of the party committee of Tangxi station of Yangcheng Railway Company, the vice chief of Guangzhou Depot Section and the master of Tangxi station of GRGC, the vice chief of Guangzhou Depot Section of our Company, the deputy general manager of GMSR, the group leader of Construction Preparation for the Northeast Winding freight line of Guangzhou Hub, the deputy commander of both Guangzhou Engineering Construction Command and Foshan West Station Engineering Construction Command.

Luo Jiancheng is the 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 stationmaster 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.

Tang Xiangdong is Deputy General Manager and the Secretary of the Board 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. From December 2008 to October 2019, Mr. Tang was the chief accountant of our Company.

Luo Xinpeng is the Chief Accountant of our Company. Mr. Luo completed a part-time master's degree and is a senior accountant. He had previously served as the vice director of the Finance Department of the Guangzhou Railway Works of the Ministry of Railways, the director of the Finance Department, the chief accountant and the director of the Finance Department of the Guangzhou Railway Rolling Stock Works of China National Railway Locomotive & Rolling Stock Industry Corporation, the chief accountant of GRGC's Guangzhou Railway Rolling Stock Works, the chief accountant of Yuehai Railway Company Limited, and the chief accountant of Hainan Railway Company Limited.

Additional Information

As of April 20, 2022 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:

<u>Name</u>	<u>Position</u>
Wu Yong	<p><i>Chairman of the Board of Directors and Secretary of the Party Committee of:</i></p> <p>China Railway Guangzhou Group Co., Ltd.</p> <p><i>Chairman of the Board of Directors:</i></p> <p>Qian Zhang Chang Railway Company Limited Huai Shao Heng Railway Co., Ltd.</p>
Guo Jiming	<p><i>Chief Accountant and Director of:</i></p> <p>China Railway Guangzhou Group Co., Ltd.</p> <p><i>Vice Chairman of the Board of:</i></p> <p>Wuhan-Guangzhou Passenger Railway Line Co., Ltd.</p> <p><i>Chairman of the Board of:</i></p> <p>Guangdong Railway Company Limited Shichang Railway Company Limited</p> <p><i>Director of:</i></p> <p>Hukun Passenger Railway Line (Hunan) Company Limited</p> <p><i>Chairman of the Supervisory Committee of:</i></p> <p>Guangdong Guangzhu Intercity Rail Transportation Company Limited Guangdong Pearl River Delta Intercity Railway Traffic Company Limited Hainan Railway Company Limited</p>
Hu Dan	<p><i>Vice Chairman of the Board of:</i></p> <p>Shenzhen Pingnan Railway Company Limited</p> <p><i>Director of:</i></p> <p>Shichang Railway Company Limited</p> <p><i>Supervisor of:</i></p> <p>Hunan Intercity Railway Company Limited Guangdong Pearl River Delta Intercity Railway Traffic Company Limited</p>
Zhang Zhe	<p><i>Chief of Passenger Transport Department of:</i></p> <p>China Railway Guangzhou Group Co., Ltd.</p> <p><i>Director of:</i></p> <p>Guangdong Tieqing International Travel Agency Company Limited</p> <p><i>Supervisor of:</i></p> <p>Beijing Zhongtie Commemorate Ticket Co., Ltd. Fredrick Ma Si- Hang</p>
Frederick Ma Si-Hang	<p><i>Director of:</i></p> <p>COSCO SHIPPING Holdings Co., Ltd. FWD Group Limited HH&L Acquisition Co. Unicorn II Holdings Limited</p>

<u>Name</u>	<u>Position</u>
Tang Xiaofan	<i>Managing Director of:</i> Guangzhou Dening Investment Management Co., Ltd.
Qiu Zilong	<i>General Manager of:</i> Shenzhen Changshang Investment Management Co., Ltd. Shenzhen Beida Soft Bank Investment Corporation Limited
Lei Chunliang	<i>Chairman of Supervisory Committee of:</i> China Railway Guangzhou Group Co., Ltd.
Chen Shaohong	<i>Chief Legal Advisor of:</i> China Railway Guangzhou Group Co., Ltd. <i>Chairman of Supervisory Committee of:</i> Shichang Railway Company Limited Hukun Passenger Railway Line (Hunan) Company Limited <i>Director of:</i> Guangdong Railway Company Limited Hainan Railway Company Limited Xiamen-Shenzhen Railway Company Limited Guangdong Meizhou-Shantou Passenger Railway Line Company Limited
Xiang Lihua	<i>Director (Chief) of Human Resources Department (Party committee organization) of:</i> China Railway Guangzhou Group Co., Ltd.
Meng Yong	<i>Chief of the Finance Department (Income Department):</i> China Railway Guangzhou Group Co., Ltd. <i>Director of:</i> Hong Kong Qiwen Trade Company Limited <i>Chairman of the Supervisory Committee of:</i> Wuhan-Guangzhou Passenger Railway Line Co., Ltd. Guangdong Railway Company Limited <i>Supervisor of:</i> Hukun Passenger Railway Line (Hunan) Company Limited Huai Shao Heng Railway Co., Ltd.
Luo Jiancheng	<i>Chairman of the Board of:</i> Dongguan Changsheng Enterprise Company Limited Shenzhen Pinghu Qun Yi Railway Store Loading and Unloading Company Limited Shenzhen Guangshen Railway Economic and Trade Enterprise Company Limited Zengcheng Lihua Stock Company Limited <i>Director of:</i> Guangzhou Tiecheng Enterprise Company Limited
Luo Xinpeng	<i>Director of:</i> Guangzhou Tiecheng Enterprise Company Limited

Note: Qun Yi Railway Store Loading and Unloading Company Limited, Shenzhen Guangshen Railway Economic, Trade Enterprise and Dongguan Changsheng Enterprise Company Limited and Zengcheng Lihua Stock Company Limited are subsidiaries of the Company. Guangzhou Tiecheng Enterprise Company Limited and Zengcheng Lihua Stock Company Limited are our joint venture partners. Guangdong Pearl River Delta Intercity Railway Traffic Company Limited is a venture partner of GRGC. FWD Group and Unicorn II Holdings Limited are private companies by shares in Hong Kong. New Frontier Corporation and HH&L Acquisition Co. are companies listed on the NYSE. Guangzhou Dening Investment Management Co., Ltd, Shenzhen Changshang Investment Management Co., Ltd and Shenzhen Beida Soft Bank Investment Corporation Limited are limited liability companies in China. The remaining companies in the table above are subsidiaries of GRGC.

Family Relationships

There are no family relationships among our directors or executive officers.

B. Compensation

Directors and Senior Management

Total remuneration of our directors, supervisors and senior management members during 2021 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, 2021 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 and Executive Director	—
Hu Lingling	Executive Director and General Manager	611
Guo Xiangdong*	Executive Director	106
Zhou Shangde	Executive Director	413
Guo Jiming	Non-executive Director	—
Hu Dan	Non-executive Director	—
Wang Bin*	Non-executive Director	—
Zhang Zhe	Non-executive Director	—
Frederick Ma Si-Hang	Independent Non-executive Director	139
Tang Xiaofan	Independent Non-executive Director	112
Qiu Zilong	Independent Non-executive Director	112
Liu Mengshu*	Chairman of the Supervisory Committee	—
Xiang Lihua	Supervisor Representing Shareholder	—
Chen Shaohong	Supervisor Representing Shareholder	—
Meng Yong	Supervisor Representing Shareholder	—
Zhou Shangde	Supervisor Representing Employees	413
Lin Wensheng	Supervisor Representing Employees	415
Gong Yuwen	Deputy Secretary of the Party and Working Committee, and Secretary of the Discipline	474
Luo Jiancheng	Deputy General Manager	472
Tang Xiangdong	Deputy General Manager and Secretary of the Board	480
Luo Xinpeng	Chief Accountant	474
Total:		4,221

Note: (1) During the reporting period, other than Guo Xiangdong (who held 80,000 shares), none of the directors, supervisors, or senior management of the Company has held or dealt in shares of the Company, or has held options to buy Company shares or has been granted any shares with selling restrictions.

(2)* means that the person resigned during the reporting period.

During the reporting period, the Remuneration Committee of the Company did not convene any meetings. At the 2019 Annual General Meeting held by the Company on June 16, 2020, it was considered and approved that the remuneration and allowances of each of the domestic independent non-executive directors would be RMB100,000 and RMB12,000 per year, respectively, and the remuneration and allowances of each of the overseas independent non-executive directors would be HK\$150,000 and HK\$18,000 per year, respectively.

The aggregate amount of cash remuneration paid by our Company in 2021 to all individuals who are our directors, supervisors and senior management members was approximately RMB4.2 million, of which approximately RMB1.96 million was paid to our non-independent directors and supervisors and approximately RMB0.36 million was paid to the independent non-executive directors. The aggregate amount of cash remuneration we paid during the year ended December 31, 2021 for pension and retirement benefits to all individuals who are currently our directors, supervisors and senior management members was approximately RMB0.43 million.

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

Apart from what's disclosed below, as of December 31, 2021, 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 have not received notification of such interests or short positions from any of our directors or supervisors 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.

Name of Director	Name of the Company / Associated Corporation	Capacity and Nature of Interest	Number and Class of Shares Held	Percentage of Shareholding in the Total Share Capital of the Company (%)	Percentage of Shareholding in the Relevant Class of Shares of the Company (%)	Long/Short Position
Guo Xiangdong	The Company	Beneficial owner	A Shares: 80,000 shares	0.0011	0.0014	Long position
Xiang Lihua	The Company	Interest of Spouse	A shares: 18,200 shares	0.00026	0.00032	Long position

Service Contracts of Our Directors and Supervisors

Each of our directors and supervisors has entered into a service agreement with us. The Company and its subsidiaries did not enter into any director or supervisor's service contract prior to January 31, 2004 and were exempt from complying with the shareholders' approval requirement under Rule 13.68 of the Listing Rules of HKSE. None of the Directors or Supervisors has entered into any service contract with the Company that cannot be terminated by the Company 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, 2021 or as of December 31, 2021 to which we or any of our subsidiaries are 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 five meetings during the year ended December 31, 2021.

In December 2018, the Company established its Board Diversity Policy. Under such policy, the Board shall discuss and adopt measurable objectives for achieving Board member diversity each year. When selecting candidates, the Board shall consider a wide range of factors regarding diversity, including but not limited to gender, cultural and educational background, regional, industry and professional experiences, acquired knowledge and length of service, during which the Company shall also incorporate its specific requirements to reach a final decision, having due regard to the candidates' qualification level according to objective criteria and also the benefits of diversity on the Board.

The Board will monitor the implementation of such policy, as well as the progress of those measurable objectives in relation to the diversity and whether these objectives have been achieved. Meanwhile, it will evaluate the policy in a timely manner in order to ensure the effectiveness of the policy. The Board will discuss and adopt any necessary amendments.

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: Lei Chunliang, Xiang Lihua, Chen Shaohong, Meng Yong, Huang Songli and Lin Wensheng. All shareholder representatives of our supervisory committee were elected or re-elected at the annual shareholders' general meeting held on June 17, 2021. The term of the supervisors is generally three years, unless a supervisor was elected to fill a vacancy. Our supervisory committee held five meetings during the year ended December 31, 2021, 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, 2021. 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 of the PRC.

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 Frederick Ma Si-Hang (Chairman of the Audit Committee), Mr. Tang Xiaofan and Mr. Qiu Zilong 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, 2021. 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, Frederick Ma Si-Hang (chairman of remuneration committee), Tang Xiaofan and Qiu Zilong. The remuneration committee will meet from time to time when required to consider remuneration-related matters of our Company. During the year ended December 31, 2021, the remuneration committee did not convene any meetings.

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, 2019, 2020 and 2021, we had approximately 42,583, 41,286 and 40,616 employees, respectively. The following chart sets forth the number of our employees by function as of December 31, 2021:

Function	Employees
Passenger and freight transportation and transit operation personnel ^{(1) (2) (3)}	18,283
Engineering personnel ⁽⁴⁾	5,547
Driving personnel ⁽⁵⁾	3,496
Public works personnel ⁽⁶⁾	3,431
Electricity personnel ⁽⁷⁾	2,009
Electricity and water supplies personnel ⁽⁸⁾	2,319
Building construction personnel ⁽⁹⁾	1,226
Various operations and other employees of subsidiaries ⁽¹⁰⁾	107
Technical and administrative personnel ⁽¹¹⁾	4,198
Total	40,616

- (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.

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 that 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 maintain various insurance policies for the benefits of our employees, including housing fund, retirement insurance, supplemental retirement insurance, and basic and supplemental medical insurance, pregnancy-related medical insurance and other welfare programs. In 2021, we paid approximately RMB8,689.5 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 are recognized in the income statement when we approve 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 26 and 31 to our audited consolidated financial statements included elsewhere in this annual report.

E. Share Ownership

Except for 80,000 A shares of the Company and related dividends owned by Mr. Guo Xiangdong and 18,200 A shares of the Company and related dividends owned by Xiang Lihua as described above in "Item 6 Directors, Senior Management And Employees – B. Compensation," as of March 31, 2022, 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 67.0% 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 CSRG. Since GRGC was a railway corporation directly under the former MOR, its interests were also transferred to CSRG. 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 CSRG.

Shareholding Structure of Our Company

As of March 31, 2022, we had 318 record holders holding our H shares (including ADSs) and 187,940 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
China Railway Guangzhou Group Co., Ltd.	A shares	2,629,451,300	37.1
Other Public Shareholders of A shares	A shares	3,022,785,700	42.7
Total		7,083,537,000	100.0

The following table sets forth information regarding ownership of our issued and outstanding capital stock as of March 31, 2022, 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)	GRGC	2,629,451,300	46.52%(L)	37.12%(L)

The following table sets forth all persons that beneficially own 5% or more of our issued and outstanding H shares (each, a "Major Shareholder") as of March 31, 2022.

<u>Identity of Person or Group</u>	<u>Shares Owned</u>	<u>Percentage of H Shares</u>	<u>Percentage of Total Capital</u>
Pacific Asset Management Co., Ltd. ⁽¹⁾	168,626,000(L)	11.78%(L)	2.38%(L)
Kopernik Global Investors LLC. ⁽²⁾	128,977,054(L)	9.01%(L)	1.82%(L)
Pandanus Associates Inc. ⁽³⁾	98,026,000(L)	6.85%(L)	1.38%(L)
Brown Brothers Harriman & Co. ⁽⁴⁾	85,506,000(L)	5.97%(L)	1.21%(L)
	85,506,000(P)	5.97%(P)	1.21%(P)

Note: (L) – Long Position; (S) – Short Position; (P) – Lending Pool

- (1) Pacific Asset Management Co., Ltd. was not a Major Shareholder as of April 18, 2018 or April 18, 2019 and was a Major Shareholder of 229,188,000 or 16% (L) of our H shares and 3.2% (L) as of March 31, 2020, and was a Major Shareholder of 212,956,000 or 14.88% (L) of our H shares and 3.01% (L) of our total capital as of March 31, 2022.
- (2) Kopernik Global Investors LLC was a Major Shareholder of 108,763,554 or 7.6% (L) of our H Shares and 1.5% (L) of our total capital as of April 18, 2019 and was a Major Shareholder of 108,799,054 or 7.6% (L) of our H Shares and 1.5% (L) of our total capital as of March 31, 2020 and was a Major Shareholder of 128,977,054 or 9.01% (L) of our H Shares and 1.82% (L) of our total capital as of March 31, 2022.
- (3) Pandanus Associates Inc. was a Major Shareholder of 143,718,000 or 10.0% (L) of our H Shares and 2.0% (L) of our total capital as of April 18, 2019 and March 31, 2020 and was a Major Shareholder of 142,946,000 or 9.99% (L) of our H shares and 2.02% (L) of our total capital as of March 31, 2022.

- (4) Brown Brothers Harriman & Co. was not a Major Shareholder as of April 18, 2019 and was a Major Shareholder of 143,263,200 or 10% (L) of our H Shares and 2.02% of our total capital as of March 31, 2020, and was a Major Shareholder of 85,506,000 or 5.97% (L) of our H Shares and 1.21% of our total capital as of March 31, 2022.

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, 2021.

For related parties that control or are controlled by our Company, see “Item 4. Information On The Company – C. Organizational Structure”.

Name of Related Parties	Relationship with Us
Single largest shareholder and its subsidiaries	
Guangzhou Railway Group	Single largest shareholder
Guangdong Yangcheng Railway Enterprise Co., Ltd.	Subsidiary of the single largest shareholder
Guangdong Railway Company Limited	Subsidiary of the single largest shareholder
GIDC	Subsidiary of the single largest shareholder
Guangzhou Railway Material Supply Company	Subsidiary of the single largest shareholder
Guangzhou Railway Station Service Center	Subsidiary of the single largest shareholder
Guangzhou Yuetie Operational Development Company	Subsidiary of the single largest shareholder
Guangzhou Railway Rolling Stock Works Company Limited	Subsidiary of the single largest shareholder
Guangdong Tieqing International Travel Agency Company Limited	Subsidiary of the single largest shareholder
Xiashen Railway Guangdong Company Limited	Subsidiary of the single largest shareholder
Guangzhou Railway Real Estate Construction Engineering Co., Ltd.	Subsidiary of the single largest shareholder
Guangdong Yuetong Railway Logistics Company Limited	Subsidiary of the single largest shareholder
Sanmao Railway Company Xiaotangxi Freight Field Service Company	Subsidiary of the single largest shareholder
Guangzhou Anmao Railway Consulting Construction Company Limited	Subsidiary of the single largest shareholder
Guangzhou Beiyang Information Technology Company Limited	Subsidiary of the single largest shareholder
Guangzhou Railway Technology Development Surveying Co., Ltd.	Subsidiary of the single largest shareholder
Hunan Railway Lianchuang Technology Development Co., Ltd.	Subsidiary of the single largest shareholder
Guangzhou Northeast Freight Car Outer Winding Railway Co., Ltd.	Subsidiary of the single largest shareholder
Hunan Changtie Loading & Unloading Co., Ltd.	Subsidiary of the single largest shareholder
Guangzhou Ruiwei Economy Development Co., Ltd.	Subsidiary of the single largest shareholder
Guangzhou Railway Technology Development Co., Ltd.	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 CSRG 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 CSRG 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. Upon its expiration, we entered into a new Comprehensive Services Framework Agreement with CSRG on October 30, 2019, which has a term of three years beginning from January 1, 2020 and was approved by the independent shareholders at the extraordinary shareholders' general meeting held on December 23, 2019.

According to the current Framework Agreement, the scope of services between us and the CSRG 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) leaning 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 CSRG 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 CSRG 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 the PRC government;
- (b) if the prices are not specified by the PRC government, the prices will be determined in accordance with the pricing standards and rules of national railways within the guidance prices set by the PRC government;
- (c) if the prices are not specified by the PRC government and the PRC 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 the PRC government, the guidance prices set by the PRC 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 non-connected 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:

	2019	Year Ended December 31, 2020 (RMB thousands)	2021
Provision of Services and Sales of Goods			
<i>Railroad and Related Business</i>			
Provision of train transportation services to GRGC and its subsidiaries ⁽ⁱ⁾	2,060,518	2,345,512	3,323,844
Revenue collected by CSRG for railway network usage and related services provided to GRGC and its subsidiaries ⁽ⁱⁱ⁾	1,563,191	1,332,346	1,325,614
Revenue from railway operation service provided to GRGC's subsidiaries ⁽ⁱⁱⁱ⁾	812,470	842,350	865,220
	<u>4,436,179</u>	<u>4,520,208</u>	<u>5,514,678</u>
<i>Other Businesses</i>			
Sales of materials and supplies to GRGC and its subsidiaries ^(iv)	45,642	34,705	89,042
Services Received and Purchases Made			
<i>Railroad and Related Business</i>			
Provision of train transportation services by GRGC and its subsidiaries ^{(i)(vi)}	774,291	753,288	796,142
Cost settled by the CSRG for railway network usage and related services provided by GRGC and its subsidiaries ⁽ⁱⁱ⁾	2,194,467	1,985,768	2,896,222
	<u>2,968,758</u>	<u>2,739,056</u>	<u>3,692,364</u>
<i>Other Businesses</i>			
Provision of repair and maintenance services by GRGC and its subsidiaries ^(iv)	441,719	297,809	311,080
Purchase of materials and supplies from GRGC and its subsidiaries ^(iv)	623,433	722,487	770,683
Provision of construction services by GRGC and its subsidiaries ^(v)	363,424	285,616	172,592
	<u>1,428,576</u>	<u>1,305,912</u>	<u>1,254,355</u>

- (i) The service charges are determined based on a pricing scheme set by the CSRG or based on negotiation between the contracting parties with reference to actual cost incurred.
- (ii) Such revenues/charges are determined by the CSRG 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) Based on construction amount determined under national railway engineering guidelines.
- (vi) The amount recognized in 2021 does not include the payment of short term leases related to the lease of passenger trains paid to Guangzhou Railway Group amounting to RMB400.5 million.

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

	As of December 31, 2020	2021 (RMB thousands)
Trade receivables	1,853,846	2,881,069
- GRGC ⁽ⁱ⁾	208,024	600,042
- Subsidiaries of GRGC ⁽ⁱ⁾	1,645,822	2,281,027
- Associates	—	—

	As of December 31,	
	2020	2021
	(RMB thousands)	
Prepayments and other receivables	59,580	83,808
- GRGC	431	1,944
- Subsidiaries of GRGC	59,070	81,790
- Associates	79	74
Prepayments for fixed assets and construction-in-progress	—	7,270
- Subsidiaries of GRGC ⁽ⁱⁱ⁾	—	7,270
- Associates	—	—
Trade and bills payables	1,243,372	1,882,872
- GRGC ⁽ⁱ⁾	67,889	71,414
- Subsidiaries of GRGC ⁽ⁱⁱ⁾	1,145,025	1,730,317
- Associates	30,458	81,141
Payables for fixed assets and construction-in-progress	876,031	1,038,742
- GRGC	111,799	334,313
- Subsidiaries of GRGC	342,123	326,023
- Associates	422,109	378,406
Contract liabilities	436	4,346
- Subsidiaries of GRGC	297	3,940
- Associates	139	406
Accruals and other payables	443,754	495,930
- GRGC	4,379	8,600
- Subsidiaries of GRGC ⁽ⁱⁱⁱ⁾	426,821	468,064
- Associates ^(iv)	12,554	19,266

- (i) The trade balances due from/to GRGC, subsidiaries of GRGC 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 balances due to subsidiaries of GRGC 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 GRGC 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.

On August 22, 2018, we entered into the Entrustment Agreement with Guangzhou Railway Real Estate Construction Engineering Co., Ltd (“GRRE”), a wholly owned subsidiary of the GRGC, pursuant to which GRRE agreed to provide us with certain services in relation to the development of certain land for a total service fee of no more than RMB50 million.

As of December 31, 2021, 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 2021. 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 2021 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.

Transactions with CSRG and Other Railway Companies

We work in cooperation with CSRG and other railway companies owned and controlled by CSRG 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 CSRG 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 CSRG and settled by CSRG 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 CSRG. As of December 31, 2021, the cooperation mode and pricing model had not been subject to any material changes.

	2019	Year Ended December 31, 2020 (RMB thousands)	2021
Provision of Services and Sales of Goods			
<i>Railroad and Related Business</i>			
Provision of train transportation services to CSRG Group ⁽ⁱ⁾	69,958	57,349	138,219
Revenue collected by CSRG for services provided to the CSRG Group ⁽ⁱⁱ⁾	2,479,015	2,105,206	2,275,132
Revenue from railway operation service provided to the CSRG Group ⁽ⁱⁱⁱ⁾	2,392,333	2,214,460	2,232,346
	<u>4,941,306</u>	<u>4,377,015</u>	<u>4,645,697</u>
<i>Other Businesses</i>			
Provision of repairing services for cargo trucks to the CSRG Group ⁽ⁱⁱⁱ⁾	370,990	436,955	470,143
Sales of materials and supplies to the CSRG Group ^(iv)	8,330	—	—
Provision of apartment leasing services to the CSRG Group ^(iv)	574	456	2,064
Others	—	887	607
	<u>379,894</u>	<u>438,298</u>	<u>472,814</u>

	2019	Year Ended December 31, 2020 (RMB thousands)	2021
Services Received and Purchases Made			
<i>Railroad and Related Business</i>			
Provision of train transportation services by the CSRG Group ^{(i)(vi)}	37,408	18,872	58,121
Cost settled by CSRG for services provided by the CSRG Group ^{(ii)(vi)}	2,107,765	1,506,541	1,769,170
	<u>2,145,173</u>	<u>1,525,413</u>	<u>1,827,291</u>
<i>Other Businesses</i>			
Provision of repair and maintenance services by the CSRG Group ^(iv)	29,066	28,928	28,185
Purchase of materials and supplies from the CSRG Group ^(iv)	23,968	12,362	3,203
Provision of construction services by the CSRG Group ^(v)	23,636	2,662	—
	<u>76,670</u>	<u>43,952</u>	<u>31,388</u>

- (i) The service charges are determined based on a pricing scheme set by the CSRG or based on negotiation between the contracting parties with reference to actual costs incurred.
- (ii) Such revenues/charges are determined by the CSRG 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) Based on construction amounts determined under national railway engineering guidelines.
- (vi) The amount recognized in 2021 does not include the payment of short term leases related to the lease of passenger trains and freight trains to CSRG amounting to RMB1,286,566,000.

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

	2019	Year Ended December 31, 2020 (RMB thousands)	2021
Passenger transportation	7,475,003	3,769,231	6,054,100
Freight transportation	1,740,907	1,456,605	1,701,842
Other transportation related services	74,870	24,048	8,488
	<u>9,290,780</u>	<u>5,249,884</u>	<u>7,764,430</u>

We cooperate with CSRG and other railway companies owned and controlled by CSRG 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 CSRG Group on our behalf through CSRG’s nationwide settlement systems.

We have adopted IFRS 16 from January 1, 2019 and recognized right-of-use assets in relation to lease contract with GRGC Group with regard of land use right, which had previously been classified as “operating leases” under IAS 17 Leases. In 2019, the depreciation expense of the right-of-use assets was RMB13,378,000 (not applicable for 2017 and 2018), the interest expense of lease liabilities was RMB57,670,000 (not applicable for 2017 and 2018), and the actual payment to GRGC Group was RMB59,620,000 (2017: RMB57,358,000 and 2018: RMB58,490,000). In 2020, the depreciation expense of the right-of-use assets was RMB13,378,000 (2019: RMB13,378,000), the interest expense of lease liabilities was RMB57,629,000 (2019: RMB57,670,000), and the actual payment to GRGC Group was RMB60,750,000 (2019: RMB59,620,000). In 2020, the payment of short term leases related to the lease of passenger trains to GRGC Group was RMB292,603,000 (2019: RMB247,714,000), the payment of short term leases related to lease of passenger trains and freight trains to CSRG was RMB554,003,000 (2019: RMB436,323,000). In 2021, the payment of short term leases related to the lease of passenger trains to GRGC Group was RMB400,473,000 (2020: RMB292,603,000), the payment of short term leases related to lease of passenger trains and freight trains to CSRG was RMB1,286,566,000 (2020: RMB554,003,000).

We had the following material balances maintained with the CSRG Group as of December 31, 2020 and 2021:

	As of December 31, 2020 2021 (RMB thousands)	
Due from the CSRG Group		
Trade receivables	1,101,951	783,707
Other receivables	183,021	87,251
Due to the CSRG Group		
Trade payables and payables for fixed assets and construction-in-progress	71,082	114,481
Other payables	4,564	91,737

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-85 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.

The Company did not issue any dividend for the year ended December 31, 2021. Under the impact of the COVID-19 pandemic, the Company faced great operating and financial pressure. Taking into consideration the current operating position of the Company and the capital requirements for maintaining the normal operation of the Company, the Board proposed not to make profit or dividend distribution or capitalize capital reserve into share capital for 2021. This proposal has been considered and approved at the eleventh meeting of the ninth session of the Board of the Company, and will be delivered to the annual general meeting of shareholders to be held in June 2022 (the “2021 Annual General Meeting”) for approval. The independent directors of the Company unanimously agree that the proposal is in compliance with the relevant regulatory rules and the Articles of Association, conforms to the Company’s current actual situation, will enhance the Company’s sustainable and stable development, and will not damage the interests of small and medium shareholders, and agree to submit the proposal to the Company’s 2021 Annual General Meeting for consideration.

B. Significant Changes

Other than events already mentioned in this annual report, there have been no significant changes since December 31, 2021.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our H shares are listed on the HKSE under the stock code “00525”. Our A shares have been listed for trading on the Shanghai Stock Exchange under the stock code “601333” since December 22, 2006.

Prior to November 26, 2020, our ADSs, each representing 50 H shares, were listed on the NYSE under the stock code “GSH.” Our ADSs are now traded over-the-counter on the OTC Market under the stock code “GNGYF.”

During the year ended December 31, 2021, we did not purchase, sell or redeem any of our H shares.

B. Plan of Distribution

Not applicable.

C. Markets

Our H shares are listed on the HKSE under the stock code “00525”. Our A shares are listed for trading on the Shanghai Stock Exchange under the stock code “601333.”

Prior to November 26, 2020, our ADSs, each representing 50 H shares, were listed on the NYSE under the stock code “GSH.” Our ADSs are now traded over-the-counter on the OTC Market under the stock code “GNGYF.”

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

Not applicable.

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 was filed as an exhibit to our annual report on Form 20-F with the SEC on April 26, 2018. On June 13, 2019, our shareholders passed resolutions to make additional amendments to the Articles of Association, the full text of which is filed as an exhibit to the annual report on Form 20-F with the SEC on April 28, 2020. On June 16, 2020, our shareholders passed resolutions to make additional amendments to the Articles of Association, the full text of which is filed as an exhibit to the annual report on Form 20-F with the SEC on April 27, 2021.

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 transferability. H shares must be subscribed for, transferred and traded in a foreign currency, and are freely transferable in accordance with our Articles of Association. A shares 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

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. When the conditions for distributing cash dividends are met but no cash dividends are declared, the reasons will be adequately disclosed.

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 China 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, who, for ninety consecutive days, hold 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 (except as mentioned below regarding the election of directors or supervisors). 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.

Cumulative Voting on the Election of Directors or Supervisors

When voting on the election of directors or supervisors at the shareholders' general meeting, the cumulative voting method shall be implemented where more than one director or supervisor is to be selected. That is, each share has the same number of voting rights equal to the number of directors or supervisors to be elected. The shareholder's voting rights may be used in a cumulative way. For details of the rules for implementing the cumulative voting method in the shareholders' general meeting, please refer to the Rules for the Implementation of Cumulative Voting of Guangshen Railway Company Limited, the full text of which is filed as an exhibit to this annual report.

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.
- (5) other circumstances as permitted by laws and administrative regulations.

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.

Ownership Threshold

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.

Under the provisions of our Articles of Association, where a shareholder holding more than 5% of the shares carrying the right to vote pledges the shares held, he or she shall report the Company in writing within three business days from the date on which the event occurs.

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.

Differences Between the Law of Different Jurisdictions

Certain Differences Between PRC Company Law and Delaware Corporate Law

The PRC company law and other laws applicable to us differ in a number of respects from laws generally applicable to United States corporations and their shareholders. The description set forth below includes a summary of certain provisions of the PRC Company Rules applicable to companies listed both in the PRC and overseas, such as us, which differ from provisions of the corporate law of the State of Delaware.

General

We are a PRC joint stock company, which is a corporate entity organized under the PRC company law. Under the PRC company law, the registered capital of a joint stock company is divided into shares of equal par value. These shares are commonly called domestic ordinary shares. Each domestic ordinary share of a joint stock company ranks equally with all other shares in its class as to voting rights (except for specified class voting rights and the shares held by the company) and rights to dividends and other distributions. Upon receiving approval from the relevant authorities, a joint stock company may offer its shares for sale to the public and seek to be listed on a stock exchange. The State Council may formulate separate regulations for the issuance of other classes of shares, including H shares. All of our issued shares are fully paid and nonassessable. Holders of H shares may transfer their shares without the approval of other shareholders. Among other things, a joint stock company must have (1) a board of directors comprising five (5) to nineteen (19) persons, and (2) a board of supervisors comprising at least three (3) persons.

The shareholders' meeting of a joint stock company is the highest authority of the company and exercises the powers of the company with respect to significant matters, subject to applicable law and the articles of association of the company. The board of directors shall be responsible for the shareholders and exercise the business management of a joint stock company, subject to the PRC company law, other applicable laws and regulations, the company's articles of association and duly adopted resolutions of its shareholders. The day-to-day operations of a joint stock company are under the direction of its general manager or president, subject to applicable laws and regulations, the company's articles of association and duly adopted resolutions of the directors and shareholders. In addition, the PRC company law provides for the establishment of a board of supervisors for each joint stock company. The supervisors perform and exercise the functions and powers described below, including examination of the joint stock company's financial affairs and monitoring the actions of the directors and executive officers of the company. The directors, supervisors and executive officers are not required to hold any qualifying shares in the joint stock company.

A joint stock company may be dissolved or liquidated involuntarily due to insolvency or voluntarily in accordance with the terms of its articles of association or duly adopted shareholders' resolutions. The property of a joint stock company remaining after full payment of its liquidation expenses, wages, social insurance premiums of its employees and statutory compensations, outstanding taxes and debts, is distributed in proportion to the holdings of its shareholders.

General Meetings of Shareholders

Under PRC law, shareholders are given the power to approve specified matters. In addition, the Company Law of the PRC provides that shareholders separately or aggregately holding 3% or more of the shares of a company are entitled to submit written proposals for consideration at shareholders' meeting. These proposals must fall within the scope of powers of the shareholder's meeting, have a clear agenda and specific matters and comply with laws, administrative regulations and articles of association of the company.

Under Delaware law, the business and affairs of a Delaware corporation are, in general, managed by or under the direction of its board of directors. Only certain fundamental matters regarding the corporation are reserved by statute to be exercised by the shareholders. These matters include, in general, election or removal of directors, retention or dismissal of the corporation's independent auditors, mergers or other business combinations involving the corporation, amendment of the corporation's certificate of incorporation and liquidation or dissolution of the corporation.

Shareholders' Approval by Written Consent

PRC law does not provide shareholders of overseas listed joint stock companies with rights to approve corporate matters by written consent. Under Delaware law, unless otherwise provided in the certificate of incorporation, any action which is required or permitted to be taken at any shareholders' meeting may be taken without a meeting, subject to various conditions.

Amendments of Articles of Association

Under PRC law, an amendment of the articles of association must be approved by an affirmative vote of two-thirds of shareholders attending a shareholders' meeting, and certain amendments cannot become effective until they are also approved by relevant authorized PRC government departments.

Under Delaware law, with certain exceptions, shareholder approvals must be obtained for any amendment to the certificate of incorporation. Board approvals are also required for any amendment to the certificate of incorporation, but no governmental approval is generally required.

Powers and Responsibilities of Directors

Under PRC law, the board of directors is responsible for specified actions, including the following functions and powers of a joint stock company:

- convening shareholders' meetings and reporting its work to shareholders at these meetings;
- implementing resolutions made at the shareholders' meeting;
- determining the company's operation plans and investment proposals;
- formulating the company's annual financial budgets and final accounts plans;
- formulating the company's profit distribution plans and loss recovery plans;
- formulating proposals for the increase or decrease in the company's registered capital and the issue of debentures;
- formulating the company's plans for the merger, division, change of the company's incorporation type, or dissolution of the company;
- deciding on the company's internal management structure and formulating its basic management system; and
- appointing or removing the company's managers; appointing and removing the vice managers and other senior officers based on the recommendation of the managers and deciding on their remuneration.

In addition, the Mandatory Provisions provide that the board has the authority to formulate any proposal to amend the articles of association and to exercise any other power conferred by a decision of the shareholders' meeting.

Under Delaware law, the business and affairs of a Delaware corporation are managed by or under the direction of its board of directors. Their powers include fixing the remuneration of directors, except as otherwise provided by statute or in the certificate of incorporation or by-laws of the corporation.

Powers and Responsibilities of Supervisors

Under PRC law, a PRC joint stock company must have a board of supervisors consisting of shareholder representatives and one or more employee representatives. Supervisors attend board meetings as non-voting observers. Directors, executive officers and company personnel in charge of financial matters may not serve as supervisors. The supervisors perform and exercise the following functions and powers:

- examining the company's financial affairs;
- monitoring compliance with laws, regulations, the articles of association of the company and the shareholders resolutions by the directors and executive officers of the company; and suggesting removing the directors and executive officers who violate any such laws, administrative regulations, the articles of association or shareholders' resolutions;
- requiring corrective action from directors and officers whose actions are contrary to the interests of the company;

- proposing to hold temporary shareholders' meetings, and convening and presiding over shareholders' meetings when the board of directors does not exercise the functions of convening and presiding over the shareholders' meeting as prescribed under PRC law;
- proposing new items to be inserted in the agenda of the shareholders' meeting;
- bringing lawsuits against directors or members of senior management, if they violate laws, regulations or articles of association of the company; and
- exercising and performing other powers and functions provided for in the company's articles of association.

In addition, the Mandatory Provisions provide that supervisors of overseas listed joint stock companies are entitled to retain auditors in the name of the company to examine any financial or business reports or profit distribution proposals to be submitted by the directors to a meeting of the shareholders which the supervisors consider questionable, and negotiate or take legal action against any director or the directors in the name of the company. The fees and expenses of attorneys and other professionals incurred by the supervisors in connection with the discharge of their duties are to be paid by the company.

Delaware law makes no provision for a comparable corporate institution.

Duties of Directors, Supervisors and Executive Officers

Under PRC law, directors, supervisors and executive officers of a joint stock company are required to comply with relevant laws and regulations and the company's articles of association. A director, supervisor or executive officers who contravenes any law, regulation or the company's articles of association in the performance of his duties shall be personally liable to the company for any loss incurred by the company. Directors, supervisors and executive officers are required to carry out their duties honestly and diligently, and protect the interests of the company. They are also under a duty of confidentiality to the company and prohibited from divulging confidential information concerning the company, except as permitted by relevant laws and regulations or by a decision of a shareholders' meeting. They may not use their position and authority in the company to seek personal gain. Directors and officers may not directly or indirectly engage in the same business as the company or in any other business detrimental to the interests of the company, and they are required to forfeit any profits from these activities to the company.

Under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders.

Limitations on Transactions with Interested Directors, Supervisors and Officers

Under PRC law, directors and executive officers of a joint stock company may not enter into any contracts or transactions with the company unless permitted by the articles of association or approved by the shareholders. A company may not provide any guarantees to shareholders or any de facto control person of the company unless such guarantees are approved by a majority of shareholders present at the shareholders' meeting, excluding the shareholder who will be provided such guarantees. Under the Mandatory Provisions, a director, supervisor or executive officer is required to disclose to the board any transaction with the company in which he has a direct or indirect interest or in which there is a material conflict of interest between the company and himself. A company may set aside any interested transaction which did not comply with these requirements, unless the other party to such transaction was honestly unaware of the breach of obligations by the interested director, supervisor or executive officers or such director, supervisor or executive officers who have interest in the transaction have disclosed to the board of directors as required by the preceding sentence and the board of directors does not include them in the quorum. A company may not loan or provide any guarantees to directors, supervisors or executive officers (including persons related to them), except for the loans made in accordance with employment contracts approved by the shareholders, or unless the company's business scope allows for the provision of loans and guarantees and such loans or guarantees are made under regular commercial terms.

Under Delaware law, an interested transaction is not voidable if (1) the material facts as to the interested director's relationship or interests in such a transaction are disclosed or are known to the board of directors and the board in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (2) such material facts are disclosed or are known to the shareholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the majority of shares entitled to vote thereon or (3) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, the interested director could be held liable for a transaction in which such a director derived an improper personal benefit.

Election and Removal of Directors

Under PRC law, the term of office of directors of a joint stock company must be specified in the articles of association, but may not exceed three years. Directors may be re-elected. PRC law does not contemplate a classified board of directors.

Under Delaware law, directors of a Delaware corporation can be removed from office with or without cause by the holders of a majority of shares then entitled to vote at an election of directors, provided that except where the certificate of incorporation of the Delaware corporation otherwise provides, a member of a classified board may be removed by shareholders only for cause, and in a corporation with cumulative voting, if less than all of the directors are removed, no director may be removed if the votes cast against the director's removal is sufficient to elect the director if cumulatively voted at an election of directors. The Court of Chancery may remove a director who has been convicted of a felony or found by a court to have committed a breach of the duty of loyalty in connection with his or her duties to the corporation following application by the corporation or derivatively in the right of the corporation by any shareholder. The court may order the removal only if it determines that the director did not act in good faith in performing the acts resulting in the prior conviction or judgment and that removal is necessary to avoid irreparable harm to the corporation.

Dividend Payments

Under PRC law, proposals for distribution of profits are formulated by the board of directors and submitted for shareholder approval at a shareholders' meeting. Dividends may be distributed in the form of cash or shares.

Under Delaware law, the board of directors of a Delaware corporation may declare dividends out of distributable earnings and profits without the approval of the shareholders.

Amalgamations and Business Combinations; Appraisal Rights

Under PRC law, amalgamations and divisions involving joint stock companies are required to be approved by shareholders voting at a shareholders' meeting. The Mandatory Provisions require an amalgamation or division involving the company to be approved by an affirmative vote of two-thirds of the votes present at the shareholders' meeting called to consider the transaction. Any opposing shareholder may request the company or the consenting shareholders to purchase its shares at a fair price. In addition, a sale of fixed assets having a value exceeding 33% of the fixed assets as shown on the company's latest balance sheet most recently reviewed by the shareholders' meeting requires the approval of at least one-third of the shareholders' meeting.

Under Delaware law, with certain exceptions, a merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and holders of a majority of the outstanding shares entitled to vote. A shareholder objecting to the merger is entitled to appraisal rights pursuant to which the shareholder may receive cash in the amount of the fair value of the shares held by such shareholder (as determined by a court) in lieu of the consideration the shareholder would otherwise receive in the transaction.

Transactions with Significant Shareholders

Under Delaware law, a business combination between a Delaware corporation and an interested shareholder which takes place at any time during a period of three years commencing with the date the interested shareholder became an interested shareholder would need prior approval from the board of directors or a supermajority of the shareholders of the corporation, unless the corporation opted out of the relevant Delaware business combination statute. Under Delaware law, an interested shareholder of a corporation is someone who, together with its affiliates and associates, owns more than 15% of the outstanding common shares of the corporation. No such business combination statute or regulation applies to PRC joint stock companies.

Shareholders' Lawsuits

The PRC law provides that most disputes involving an H shareholder can be settled in accordance with provisions related to disputes resolutions set forth in a company's articles of association. Under our Articles of Association, disputes involving an H shareholder be resolved by final and binding arbitration and the governing laws shall be PRC law.

Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law.

Limitations on Liability and Indemnification of Directors and Officers

As advised by our PRC counsel, we believe PRC law does not provide for similar specific limitations on liability or indemnification of directors and officers as provided under Delaware law (see below). Under the PRC company law, directors shall be responsible for the resolutions of the board of directors. If a resolution of the board of directors violates any PRC laws, administrative regulations, the company's articles of association, or shareholders' resolutions, resulting in serious losses to the company, the directors participating in such resolution shall be liable for compensation to the company. However, if it is shown in the meeting minutes or other written records that a director objected such a resolution, such director could be exempted from such liabilities.

Under Delaware law, a corporation may indemnify a current director or officer of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if (1) the director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (2) with respect to any criminal action or proceeding, the director or officer had no reasonable cause to believe that his conduct was unlawful. Persons serving at the request of the corporation as directors, officers, employees or agents of another entity such as a subsidiary or an employee stock trust may receive advancement of expenses from the corporation. A corporation may not retroactively impair or eliminate indemnification or advancement rights by amending the corporation's certificate of incorporation or bylaws after the occurrence of the act or omission that gives rise to indemnification or advancement rights, unless the provision contains, at the time of the act or omission, an explicit authorization of such elimination or limitation.

Shareholders' Rights of Inspection of Corporate Records

Under PRC law, shareholders are entitled to inspect the articles of association, register of shareholders, corporate bond counter foils, minutes of shareholders' meetings and board meetings and reports of the financial accounts of the company. In addition, the Mandatory Provisions provide that, after paying reasonable fees, shareholders are entitled to inspect the company's shareholder list, certain personal information on the directors, supervisors and officers, the company's capital position and certain information regarding share repurchases conducted by the company during the most recent fiscal year.

Delaware law permits any shareholder of a Delaware corporation to examine or obtain copies of or extracts from the corporation's shareholder list and its other books and records for any purpose reasonably related to such person's interest as a shareholder.

C. Material Contracts

On January 26, 2021, the Proposal on the Increase of Capital Contribution to China Railway Express Co., Ltd. was considered and approved at the sixth meeting of the ninth session of the Board of the Company. For details of such connected transaction, including the transaction parties and their related relationship, the transaction and its purpose, the total consideration and the terms as well as the nature of interests of the related parties in the transaction, please refer to the relevant announcements disclosed by the Company on the website of SSE (<http://www.sse.com.cn>), the HKExnews website of HKSE (<http://www.hkexnews.hk>) and the website of the Company (<http://www.gsxc.com>).

Other than the agreements mentioned above, all other material contracts we entered into during the fiscal years of 2020 and 2021 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. The exchange rate of RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the changes in China's and international political and economic conditions. The PRC government has been gradually promoting the reform of its exchange rate regime and enhance the flexibility of the RMB exchange rate. On August 11, 2015, the PBOC decided to further improve the mechanism of the RMB's central parity rate against the U.S. dollar. 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 2021, we had a foreign exchange loss of approximately RMB0.7 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 RMB0.8 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, 2021, we maintained the equivalent of approximately RMB23.1 million 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, as amended on December 29, 2018, and the implementation regulations for the EIT Law (the “Implementation Regulations”), as amended on April 23, 2019, 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 and November 19, 2017, 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 State Administration of Taxation 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 as amended on December 18, 2018, 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 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, 2014 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;
- broker-dealers;
- traders in securities that elect to mark to market;
- U.S. holders liable for alternative minimum tax;
- U.S. holders that own (either actually, or constructively, as determined pursuant to the Code) 10% or more of the combined voting power of all classes of our stock entitled to vote, or 10% or more of the total value of all classes of our 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 depository 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 (as determined pursuant to the special rules of the Code) of the United States for U.S. federal income tax purposes;
- an entity which is treated as a corporation for U.S. federal tax purposes and which has been 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
- an arrangement which is treated for U.S. federal tax purposes as 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 an entity which is treated for U.S. federal tax purposes as a partnership holds the H shares or ADSs, the tax treatment of a holder of equity ownership interests in such entity generally will depend on the status of such holder and the activities of the entity. If you are a holder of equity ownership interests in an entity which is treated for U.S. federal tax purposes as a partnership which 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.

However, a qualified foreign corporation 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 US-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 US—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 US-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, 2021 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 if you timely make a valid election to treat us as a qualified electing fund under Section 1295 of the Code. 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 and disposition of H shares or ADSs held by you. This discussion does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under the tax laws of Hong Kong. This discussion is based on the tax laws of Hong Kong as in effect on the date of this annual report, which are subject to change (or changes in interpretation), possibly with retroactive effect. This discussion does not address any aspects of Hong Kong taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisers regarding Hong Kong and other tax consequences of owning and disposing of H shares.

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 rate of 15% on unincorporated businesses, unless such gains are chargeable under the respective half-rates of 8.3% and 7.5% that may apply for the first HKD 2 million of assessable profits for years of assessment beginning on or after April 1, 2018. 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 securities in Hong Kong.

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 OTC Market in the United States.

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 currently charged at the rate of 0.2% of the amount of the consideration or of the value of the H shares transferred and the relevant contract notes shall be stamped (the buyer and seller each paying half of such stamp duty). Subject to the completion of the legislative process to increase the stamp duty rate, the rate of the ad valorem duty was increased to 0.3% effective August 1, 2021. 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

No Hong Kong estate duty is payable with respect to estates of persons who passed away on or after February 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, 2020 and 2021.

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, 2020 and 2021 are set forth below.

	Currency Denomination	As of December 31,	
		2020 (RMB thousands)	2021
Cash and cash equivalents	USD	29	—
Cash and cash equivalents	HKD	27,003	23,122
Other receivables	HKD	—	440
Other payables	HKD	132	—

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 had a foreign exchange loss of RMB0.7 million for the year ended December 31, 2021. As of December 31, 2021, 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 RMB23.1 million. If the applicable market exchange rates were to change by 5%, this would result in a change in fair value of approximately RMB0.8 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, 2021, 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 the undiscounted contractual cash flow of 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. For more information of our credit risks, see Note 3 to our audited consolidated financial statements included elsewhere in this annual report.

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.

As of December 31, 2021, the Company had net current liabilities of RMB1,305.6 million and capital expenditure contracted for but not recognized as liabilities of RMB46.6 million (see Note 39 to our audited consolidated financial statements included elsewhere in this annual report). Taking into account of the factors mentioned in Note 2.1(c) to our audited consolidated financial statements included elsewhere in this annual report, the Board of Directors believes that the Company has sufficient liquidity for the following 12 months.

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, 2021, 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.

For additional information, see Item 9 – The Offer And Listing – A. Offer And Listing Details.

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 depositary did not reimburse us for any expenses in the year ended December 31, 2021.

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, 2021. 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, 2021 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, 2021.

The effectiveness of our Company's internal control over financial reporting as of December 31, 2021 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, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that each of Fredrick Ma Si-Hang and Tang Xiaofan is an "audit committee financial expert" as defined in Item 16A of Form 20-F. Each of Mr. Fredrick Ma Si-Hang (chairman of the Audit Committee), Mr. Tang Xiaofan and Mr. Qiu Zilong the current 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

Resolutions to appoint PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm, or PwC, as our auditor for 2021 have been approved at the annual general meeting of our shareholders held on June 17, 2021.

The following table presents the aggregate fees for professional services and other services rendered by PwC to us in 2020 and 2021.

	<u>2020</u>	<u>2021</u>
	<u>(RMB millions)</u>	
Audit Fees	8.40	8.40
Audit-related Fees	—	—
Tax Fees	—	—
All Other Fees	0.61	0.51
Total	<u>9.01</u>	<u>8.91</u>

Notes:

1. Traveling expenses and certain tax surcharge fees are included in the audit fees and do not require additional payment.
2. The Company paid a remuneration of RMB5.30 million (including an internal control audit fee of RMB0.30 million) to PricewaterhouseCoopers Zhong Tian LLP and RMB3.10 million to PricewaterhouseCoopers for their annual auditing services. In addition, the fee that the Company had paid for non-audit services amounted to RMB0.51 million.

Audit Committee Pre-approved Policies and Procedures

Currently, all audit services to be provided by our independent registered public accountant, PwC, must be approved by our audit committee.

During the year ended December 31, 2021, services relating to all non-audit related fees provided to us by PwC were approved by our audit committee in accordance with the de minimis exception to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

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, 2021, 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

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Not applicable.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

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-85 following ITEM 19.

ITEM 19. EXHIBITS

- (a) See pages F-1 to F-85 following this item.
- (b) Index of Exhibits.

Documents filed as exhibits to this annual report:

<u>Exhibit Number</u>	<u>Description</u>
1.1(2)	Amended and Restated Articles of Association
2.1(1)	Form of Amended and Restated Deposit Agreement
2.2(1)	Form of American Depositary Receipt
2.3(2)	Rules for the Implementation of the Cumulative Voting System
4.1(3)	English Translation of the Land Lease Agreement dated November 15, 2004 between Guangshen Railway Company Limited and China Railway Guangzhou Group Co., Ltd.
4.2(4)	English Translation of the Resumption Compensation Agreement, dated April 19, 2018, between Guangshen Railway Company Limited, Guangzhou Land Development Center, and other vendors
4.3(5)	English Translation of the Entrustment Agreement, dated August 22, 2018, between Guangshen Railway Company Limited and Guangzhou Railway Real Estate Construction Engineering Co., Ltd.
4.4(2)	English Translation of the Comprehensive Services Framework Agreement, dated October 30, 2019, between Guangshen Railway Company Limited and China State Railway Group Co., Ltd.
4.5(7)	English Translation of the Supplemental Agreement to the Resumption Compensation Agreement, dated May 29, 2020, between Guangshen Railway Company Limited, Guangzhou Land Development Center, and other vendors
4.6	English Translation of the Capital Increase Agreement, dated June 4, 2021, between Guangshen Railway Company Limited and China Railway Express Co., Ltd.
8.1	List of subsidiaries of Guangshen Railway Company Limited as of December 31, 2021
11.1(6)	Code of Ethics for the Senior Management as amended on April 29, 2009
12.1	Section 302 principal executive officers' certifications
12.2	Section 302 principal financial officer's certifications
13.1(8)	Certifications of principal executive officers pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002
13.2(8)	Certifications of 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>Exhibit Number</u>	<u>Description</u>
101.INS	Inline XBRL Instance Document - this instance document does not appear on the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension
104	Cover Page Interactive Data File (embedded within the Inline XBRL 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 April 28, 2020.
- (3) Incorporated by reference from the Registrant's annual report on Form 20-F filed with the SEC on June 28, 2005.
- (4) Incorporated by reference from the Registrant's annual report on Form 20-F filed with the SEC on April 26, 2018.
- (5) Incorporated by reference from the Registrant's annual report on Form 20-F filed with the SEC on April 25, 2019.
- (6) Incorporated by reference from the Registrant's annual report on Form 20-F filed with the SEC on June 25, 2009.
- (7) Incorporated by reference from the Registrant's annual report on Form 20-F filed with the SEC on April 27, 2021.
- (8) Furnished with this annual report on Form 20-F.

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 28, 2022

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 (the “Company”) as of December 31, 2021 and 2020, and the related consolidated comprehensive income statements, consolidated statements of changes in equity and consolidated cash flows statements for each of the three years in the period ended December 31, 2021, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 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, 2021, 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.

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.

Critical Audit Matters

The critical audit matters communicated below are a matter arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statement and (ii) involved our especially challenging subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statement, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Provision for impairment of trade receivables

As described in Notes 3.1(b)(ii), 4(a) and 19 to the consolidated financial statements, as of 31 December 2021, the gross balance of trade receivables were approximately RMB4,419,925,000, against which the expected credit loss (“ECL”) provision of RMB23,751,000 were provided. The trade receivables’ ECL was assessed on each balance sheet date, which involved significant management judgments. Management applies the simplified approach to measure expected credit losses which uses a lifetime expected loss provision for all trade receivables. Management categorized the trade receivables portfolio based on credit risk characteristics, and the determination of provision for credit losses on the basis of exposure at default and ECL rates which include consideration of historical credit loss experience, current status and forward-looking information.

The principal considerations for our determination that performing procedures relating to provision for impairment of trade receivables is a critical audit matter are there were significant judgements by management in developing the ECL model. This in turn led to a high degree of auditor judgment, subjectivity, and effort in evaluating the audit evidence obtained related to management’s significant assumptions including grouping of trade receivable portfolios and ECL rates.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included testing the effectiveness of controls relating to trade receivables portfolio grouping and ECL rates determination. These procedures also included, among others, testing management’s process for determining the ECL provision; evaluating the appropriateness of the ECL model and significant judgments by management in determination of ECL provision including judgment in grouping of trade receivable portfolios and significant assumptions in determining ECL rates. Evaluating management’s judgments in grouping of trade receivable portfolios involved considering credit risk characteristics. Evaluating management’s assumptions related to ECL rates involved (i) evaluating the appropriateness of historical period selection and historical default rate by considering historical credit loss experience, trade receivables lifetime recovery and current status of each portfolio; (ii) evaluating the reasonableness of key estimates used in making forward-looking estimation by taking into consideration of economy downturn, changes of external market environment, technical environment and changes in customer’s conditions; and (iii) testing the completeness, accuracy and relevancy of the underlying data used and the mathematical accuracy of the calculations in the model.

Goodwill impairment assessment

As described in Notes 2.8 , 4(b) and 9 to the consolidated financial statements, the consolidated goodwill balance was RMB 281,255,000 as at December 31, 2021 arising from the Company’s acquisition of Yangcheng Railway Business in 2007. Goodwill impairment reviews are undertaken by management at least annually or more frequently if events or changes in circumstances indicate a potential impairment. As a result of the impairment test at the year end, management determined that the recoverable amount of the cash generating unit, to which the goodwill was allocated, exceeded its carrying value and therefore no impairment was recorded. The recoverable amount of cash-generating unit was determined based on value-in-use using cash flow projections. The key assumptions used in the goodwill impairment assessment included revenue growth rate, long-term growth rate, gross margin and pre-tax discount rate.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment is a critical audit matter are there were significant estimations and judgements by management when determining the recoverable amount of the cash generating unit. This in turn led to a high degree of auditor judgement effort, and subjectivity in performing procedures, and in evaluating the related audit evidence over management's cash flow projections and significant assumptions related to the revenue growth rate, long-term growth rate, gross margin and pre-tax discount rate. In addition, the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statement. These procedures included testing the effectiveness of controls relating to management's evaluation of the recoverability of goodwill, including controls over the valuation of the recoverable amount of cash-generating unit to which the goodwill was allocated. These procedures also included, among others, testing management's process for developing the estimate of recoverable amount calculated based on value-in-use; evaluating the appropriateness of the goodwill impairment method; testing the completeness, accuracy and relevance of underlying data used in, and evaluating the significant assumptions used by management, including revenue growth rate, long-term growth rate, gross margin and pre-tax discount rate. Evaluating management's assumptions related to revenue growth rate, long-term growth rate and gross margin involved considering the (i) the historical business performance; (ii) the management's future business plan and market development and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's goodwill impairment method and pre-tax discount rate.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China
April 28, 2022

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

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2020 AND 2021
(Amounts in thousands)

	Note	December 31		
		2020 RMB	2021 RMB	2021 US\$*
ASSETS				
Non-current assets				
Fixed assets – net	6	23,016,415	24,010,161	3,767,718
Right-of-use assets	8	3,183,470	3,116,382	489,028
Construction-in-progress	7	2,778,676	1,588,935	249,339
Prepayments for fixed assets and construction-in-progress		36,744	39,380	6,180
Goodwill	9	281,255	281,255	44,135
Investments in associates	11	196,848	225,338	35,360
Deferred tax assets	12	422,954	698,396	109,594
Long-term prepaid expenses	13	43,889	64,140	10,065
Financial assets at fair value through other comprehensive income	15	377,631	463,696	72,764
Long-term deposits	16	160,000	160,000	25,107
Long-term receivable	17	23,734	20,226	3,174
		<u>30,521,616</u>	<u>30,667,909</u>	<u>4,812,464</u>
Current assets				
Materials and supplies	18	296,406	271,583	42,617
Trade receivables	19	3,721,677	4,396,174	689,856
Prepayments and other receivables	20	695,522	508,294	79,763
Short-term deposits	16	60,000	60,000	9,415
Cash and cash equivalents	21	1,485,232	1,499,462	235,298
		<u>6,258,837</u>	<u>6,735,513</u>	<u>1,056,949</u>
Total assets		<u>36,780,453</u>	<u>37,403,422</u>	<u>5,869,413</u>
EQUITY AND LIABILITIES				
Share capital	22	7,083,537	7,083,537	1,111,562
Share premium		11,562,657	11,562,657	1,814,433
Other reserves	23	3,266,425	3,288,655	516,062
Retained earnings		6,280,219	5,307,100	832,800
Capital and reserves attributable to the Company's equity holders		<u>28,192,838</u>	<u>27,241,949</u>	<u>4,274,857</u>
Non-controlling interests		<u>(36,669)</u>	<u>(37,513)</u>	<u>(5,887)</u>
Total equity		<u>28,156,169</u>	<u>27,204,436</u>	<u>4,268,970</u>
Liabilities				
Non-current liabilities				
Lease liabilities	8	1,315,693	1,320,835	207,268
Deferred tax liabilities	12	58,913	56,420	8,854
Deferred income related to government grants	24	104,939	781,563	122,644
		<u>1,479,545</u>	<u>2,158,818</u>	<u>338,766</u>
Current liabilities				
Trade and bill payables	26	2,073,922	3,112,710	488,452
Contract liabilities	27	215,305	112,442	17,645
Payables for fixed assets and construction-in-progress		2,914,696	2,776,708	435,726
Dividends payable		13,749	13,746	2,157
Income tax payable		697	2,597	408
Current portion of lease liabilities	8	61,880	63,249	9,925
Accruals and other payables	28	1,849,656	1,955,175	306,809
Other current liability		14,834	3,541	555
		<u>7,144,739</u>	<u>8,040,168</u>	<u>1,261,677</u>
Total liabilities		<u>8,624,284</u>	<u>10,198,986</u>	<u>1,600,443</u>
Total equity and liabilities		<u>36,780,453</u>	<u>37,403,422</u>	<u>5,869,413</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=RMB6.3726, the certified exchange rates for December 30, 2021 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 30, 2021 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, 2019, 2020 AND 2021
(Amounts in thousands, except per share and per ADS data)

		Years ended December 31			
	Note	2019 RMB	2020 RMB	2021 RMB	2021 US\$*
Revenue from Railroad and Related Business					
Passenger		8,009,590	4,114,522	6,169,109	968,068
Freight		2,112,596	1,698,576	2,035,437	319,404
Railway network usage and other transportation related services		9,903,382	9,572,330	10,814,585	1,697,045
		<u>20,025,568</u>	<u>15,385,428</u>	<u>19,019,131</u>	<u>2,984,517</u>
Revenue from other businesses		<u>1,152,783</u>	<u>963,938</u>	<u>1,187,026</u>	<u>186,270</u>
Total revenue		<u>21,178,351</u>	<u>16,349,366</u>	<u>20,206,157</u>	<u>3,170,787</u>
Operating expenses					
Railroad business					
Business tax and surcharge		(55,127)	(29,443)	(43,289)	(6,793)
Employee benefits	30	(7,507,439)	(7,185,147)	(8,147,798)	(1,278,567)
Equipment leases and services		(5,715,665)	(4,971,366)	(6,749,319)	(1,059,115)
Materials and supplies		(1,416,128)	(1,064,667)	(1,190,697)	(186,846)
Repair and facilities maintenance costs, excluding materials and supplies		(1,073,731)	(1,147,603)	(1,189,762)	(186,700)
Depreciation of right-of-use assets	8	(53,992)	(54,179)	(57,078)	(8,957)
Depreciation of fixed assets	6	(1,612,683)	(1,631,331)	(1,755,502)	(275,477)
Cargo logistics and outsourcing service charges		(220,113)	(462,708)	(595,048)	(93,376)
Utility and office expenses		(137,117)	(88,731)	(89,491)	(14,043)
Others	31	(1,150,190)	(607,130)	(657,303)	(103,145)
		<u>(18,942,185)</u>	<u>(17,242,305)</u>	<u>(20,475,287)</u>	<u>(3,213,019)</u>
Other businesses					
Employee benefits	30	(571,504)	(499,288)	(541,665)	(84,999)
Materials and supplies		(320,748)	(232,112)	(306,890)	(48,158)
Depreciation of right-of-use assets	8	(11,332)	(11,332)	(11,332)	(1,778)
Depreciation of fixed assets	6	(24,615)	(30,848)	(30,608)	(4,803)
Utility and office expenses		(82,550)	(42,933)	(37,762)	(5,926)
Others	31	(123,480)	(127,972)	(171,098)	(26,849)
		<u>(1,134,229)</u>	<u>(944,485)</u>	<u>(1,099,355)</u>	<u>(172,513)</u>
Total operating expenses		<u>(20,076,414)</u>	<u>(18,186,790)</u>	<u>(21,574,642)</u>	<u>(3,385,532)</u>
Derecognition of land use right		—	1,188,645	—	—
Reversal of impairment losses on financial assets, net		—	358	40,613	6,373
Other (losses)/gains – net	32	(29,096)	(3,841)	134,718	21,140
Operating profit/(loss)		<u>1,072,841</u>	<u>(652,262)</u>	<u>(1,193,154)</u>	<u>(187,232)</u>
Finance costs – net	33	(56,710)	(60,645)	(74,576)	(11,702)
Share of results of associates, net of tax	11	(7,039)	22,162	18,144	2,847
Profit/(loss) before income tax		<u>1,009,092</u>	<u>(690,745)</u>	<u>(1,249,586)</u>	<u>(196,087)</u>
Income tax (expense)/credit	34	(261,128)	132,645	275,623	43,251
Profit/(loss) for the year		<u><u>747,964</u></u>	<u><u>(558,100)</u></u>	<u><u>(973,963)</u></u>	<u><u>(152,836)</u></u>

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands, except per share and per ADS data)

	Note	Years ended December 31			
		2019 RMB	2020 RMB	2021 RMB	2021 US\$*
Profit/(Loss) for the year		747,964	(558,100)	(973,963)	(152,836)
Other comprehensive income		—	—	—	—
Total comprehensive income for the year, net of tax		<u>747,964</u>	<u>(558,100)</u>	<u>(973,963)</u>	<u>(152,836)</u>
Profit/(Loss) attributable to:					
Equity holders of the Company		748,439	(557,876)	(973,119)	(152,704)
Non-controlling interests		(475)	(224)	(844)	(132)
		<u>747,964</u>	<u>(558,100)</u>	<u>(973,963)</u>	<u>(152,836)</u>
Total comprehensive income attributable to:					
Equity holders of the Company		748,439	(557,876)	(973,119)	(152,704)
Non-controlling interests		(475)	(224)	(844)	(132)
		<u>747,964</u>	<u>(558,100)</u>	<u>(973,963)</u>	<u>(152,836)</u>
Earnings/(Loss) per share for profit attributable to the equity holders of the Company during the year					
- Basic loss per share	35	<u>RMB 0.11</u>	<u>RMB (0.08)</u>	<u>RMB (0.14)</u>	<u>USD (0.02)</u>
- Diluted loss per share	35	<u>RMB 0.11</u>	<u>RMB (0.08)</u>	<u>RMB (0.14)</u>	<u>USD (0.02)</u>
Earnings/(Loss) per equivalent ADS					
- Basic loss per share	35	<u>RMB 5.28</u>	<u>RMB (3.94)</u>	<u>RMB (6.87)</u>	<u>USD (1.08)</u>
- Diluted loss per share	35	<u>RMB 5.28</u>	<u>RMB (3.94)</u>	<u>RMB (6.87)</u>	<u>USD (1.08)</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 FLOWS STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands)

	Note	Years ended December 31			
		2019 RMB	2020 RMB	2021 RMB	2021 US\$*
Cash flows from operating activities:					
Cash generated from operations	37(a)	2,748,668	1,587,621	1,002,880	157,374
Income tax paid		(353,423)	(251,448)	(412)	(65)
Net cash generated from operating activities		<u>2,395,245</u>	<u>1,336,173</u>	<u>1,002,468</u>	<u>157,309</u>
Cash flows from investing activities:					
Payments for acquisition of fixed assets and construction-in-progress; and prepayments for fixed assets and construction-in-progress, net of related payables		(2,441,116)	(853,347)	(1,060,262)	(166,378)
Proceeds from disposal of fixed assets	37(b)	3,036	32,599	29,196	4,581
Proceeds from disposal of other long-term assets		263,943	132,086	93,802	14,720
Interest received on term deposits with maturities more than three months		857	—	1,350	212
Payments for financial assets at fair value through other comprehensive income		(29,799)	(26,586)	—	—
Decrease in term deposits with maturities more than three months		—	—	60,000	9,415
Increase in term deposits with maturities more than three months		109,000	(220,000)	(60,000)	(9,415)
Dividends received		7,047	7,735	9,802	1,538
Net cash used in investing activities		<u>(2,087,032)</u>	<u>(927,513)</u>	<u>(926,112)</u>	<u>(145,327)</u>
Cash flows from financing activities:					
Dividends paid to the Company's shareholders		(425,012)	(425,012)	—	—
Payment of lease liabilities		(59,620)	(60,750)	(62,126)	(9,749)
Net cash used in financing activities		<u>(484,632)</u>	<u>(485,762)</u>	<u>(62,126)</u>	<u>(9,749)</u>
Net (decrease) /increase in cash and cash equivalents		<u>(176,419)</u>	<u>(77,102)</u>	<u>14,230</u>	<u>2,233</u>
Cash and cash equivalents, at beginning of year		<u>1,738,753</u>	<u>1,562,334</u>	<u>1,485,232</u>	<u>233,065</u>
Cash and cash equivalents, at end of year	21	<u><u>1,562,334</u></u>	<u><u>1,485,232</u></u>	<u><u>1,499,462</u></u>	<u><u>235,298</u></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, 2019, 2020 AND 2021
(Amounts in thousands)

	Attributable to equity holders of the Company							Non-controlling interests	Total equity
	Share capital (Note 23)	Share premium	Statutory surplus reserve (Note 23)	Discretionary surplus reserve (Note 23)	Other reserves (Note 23)	Retained earnings	Total		
Balance at January 1, 2019	7,083,537	11,562,657	2,702,161	304,059	181,941	7,017,944	28,852,299	(35,970)	28,816,329
Total comprehensive income	—	—	—	—	—	748,439	748,439	(475)	747,964
Profit for the year	—	—	—	—	—	748,439	748,439	(475)	747,964
Other comprehensive income	—	—	—	—	—	—	—	—	—
Special reserve - Safety Production Fund (Note 23)	—	—	—	—	—	—	—	—	—
Appropriation	—	—	—	—	264,871	(264,871)	—	—	—
Utilization	—	—	—	—	(264,871)	264,871	—	—	—
Appropriations from retained earnings (Note 23)	—	—	78,264	—	—	(78,264)	—	—	—
Transaction with owners:	—	—	—	—	—	(425,012)	(425,012)	—	(425,012)
Dividend relating to 2018 (Note 36)	—	—	—	—	—	(425,012)	(425,012)	—	(425,012)
Balance at December 31, 2019	7,083,537	11,562,657	2,780,425	304,059	181,941	7,263,107	29,175,726	(36,445)	29,139,281

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands)

	Attributable to equity holders of the Company						Total	Non-controlling interests	Total equity
	Share capital (Note 23)	Share premium	Statutory surplus reserve (Note 23)	Discretionary surplus reserve (Note 23)	Other reserves (Note 23)	Retained earnings			
Balance at January 1, 2020	7,083,537	11,562,657	2,780,425	304,059	181,941	7,263,107	29,175,726	(36,445)	29,139,281
Total comprehensive income	—	—	—	—	—	(557,876)	(557,876)	(224)	(558,100)
Loss for the year	—	—	—	—	—	(557,876)	(557,876)	(224)	(558,100)
Other comprehensive income	—	—	—	—	—	—	—	—	—
Special reserve - Safety Production Fund (Note 23)	—	—	—	—	—	—	—	—	—
Appropriation	—	—	—	—	281,277	(281,277)	—	—	—
Utilization	—	—	—	—	(281,277)	281,277	—	—	—
Appropriations from retained earnings (Note 23)	—	—	—	—	—	—	—	—	—
Transaction with owners:	—	—	—	—	—	(425,012)	(425,012)	—	(425,012)
Dividend relating to 2019 (Note 36)	—	—	—	—	—	(425,012)	(425,012)	—	(425,012)
Balance at December 31, 2020	7,083,537	11,562,657	2,780,425	304,059	181,941	6,280,219	28,192,838	(36,669)	28,156,169

GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2019, 2020 AND 2021
(Amounts in thousands)

	Attributable to equity holders of the Company							Non-controlling interests	Total equity
	Share capital (Note 23)	Share premium	Statutory surplus reserve (Note 23)	Discretionary surplus reserve (Note 23)	Other reserves (Note 23)	Retained earnings	Total		
Balance at January 1, 2021	7,083,537	11,562,657	2,780,425	304,059	181,941	6,280,219	28,192,838	(36,669)	28,156,169
Total comprehensive income	—	—	—	—	—	(973,119)	(973,119)	(844)	(973,963)
Loss for the year	—	—	—	—	—	(973,119)	(973,119)	(844)	(973,963)
Other comprehensive income	—	—	—	—	—	—	—	—	—
Special reserve - Safety Production Fund (Note 23)	—	—	—	—	11,884	—	11,884	—	11,884
Appropriation	—	—	—	—	126,524	—	126,524	—	126,524
Utilization	—	—	—	—	(114,640)	—	(114,640)	—	(114,640)
Appropriations from retained earnings (Note 23)	—	—	—	—	—	—	—	—	—
Others (Note 11)	—	—	—	—	10,346	—	10,346	—	10,346
Balance at December 31, 2021	7,083,537	11,562,657	2,780,425	304,059	204,171	5,307,100	27,241,949	(37,513)	27,204,436
Balance at December 31, 2021 (US\$*)	1,111,562	1,814,433	436,310	47,713	32,039	832,800	4,274,857	(5,887)	4,268,970

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
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 March 6, 1996. On the same date, the Company assumed the business operations of certain railroad and other related businesses (collectively the “Businesses”) that had been undertaken previously by its predecessor, Guangshen Railway Company (the “Predecessor”), 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. In 2017, its name was changed to Shenzhen Guangzhou Railway Group Guangshen Railway Industry Development General Company (the “GIDC”).

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

In December 2006, the Company issued 2,747,987,000 A Shares on the Shanghai Stock Exchange through an initial public offering of shares in order to finance the acquisition of 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.

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1. GENERAL INFORMATION (CONTINUED)

The principal activities of the Group are the provision of passenger and freight transportation on railroads. The Group also operates certain 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 authorized for issue by the board of directors of the Company on April 28, 2022.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Guangshen Railway Company Limited and its subsidiaries.

2.1 Basis of preparation

(a) Compliance with IFRS

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").

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis except for financial assets at fair value through other comprehensive income ("FVOCI") are measured at fair value.

(c) Going concern basis

As at December 31, 2021, the Group had net current liabilities of RMB1,304,655,000 and capital expenditures contracted for but not recognized as liabilities of RMB46,553,000 (see note 39). Considering the current financial position, operating plan and usable bank facilities amounting to RMB1,500,000,000 of the Group, the Board of Directors believes that the Group has sufficient liquidity for the following 12 months. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(d) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2021:

- Covid-19-Related Rent Concessions – amendments to IFRS 16 ;
- Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(e) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Annual Improvements to IFRS Standards 2018–2020		1 January 2022
Amendments to IFRS 3	Business Combination	1 January 2022
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity where 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized 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 acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

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 recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized 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 recognized 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and the acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized 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.

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

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized 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 recognized 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 recognized in other comprehensive income are reclassified to profit or loss.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting after initially being recognized at cost, and the carrying amount is increased or decreased to recognize 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.

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

The Group's share of post-acquisition profit or loss is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized 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 recognize 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 recognizes 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 recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 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 of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Foreign exchange gains and losses are presented in the consolidated comprehensive income statement within "Finance costs - 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 revalued 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 the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting 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. SUMMARY OF SIGNIFICANT 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 signaling 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; and the initial period of certain land use right acquired (note 2.26), 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 8), 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 reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 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 recognized immediately as an expense and is not subsequently reversed.

2.9 Impairment of non-financial assets other than goodwill

Assets that subjected to amortization are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting period.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured at amortized cost; or
- those to be measured subsequently at FVOCI;

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss or other comprehensive income ("OCI"). For investments in equity instruments that are not held for trading, the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Equity instruments

The Group subsequently measures all equity investments at fair value. For investments in equity instruments that are not held for trading, over which the Group has no control, joint control or significant influence are measured at FVOCI. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment, any related balance within the FVOCI reserve is reclassified to retained earnings.

Dividends from such investments continue to be recognized in profit or loss as 'other (losses)/gains-net' when the Group's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investments and other financial assets (continued)

(c) Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group measures all of its debt instruments at amortized cost.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated comprehensive income statement.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost, including trade receivables, other receivables and long-term receivable.

Management recognized provision for credit losses on the basis of exposure at default and ECL rates which include consideration of historical credit loss experience, current status and forward-looking information. For financial assets subject to ECL measurement except trade receivables, on each balance sheet day, the Group assesses the significant increase in credit risk since initial recognition or whether an asset is considered to be credit impaired, 'Three-stage' expected credit loss models are established and staging definition are set for each of these financial assets class.

A financial instrument which are not considered to have significantly increased in credit risk since initial recognition is classified in 'Stage 1'. The impairment provision is measured at an amount equal to the 12-month expected credit losses for these financial assets.

If a significant increase in credit risk since initial recognition is identified but the financial instrument is not yet deemed to be credit-impaired, the financial instrument is moved to 'Stage 2'. The impairment provision is measured based on expected credit losses on a lifetime basis.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Investments and other financial assets (continued)

(d) Impairment (continued)

If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. The impairment provision is measured based on expected credit losses on lifetime basis.

For the financial Instruments in Stage 1 and Stage 2, the Group calculates the interest income based on its gross carrying amount (i.e. amortized cost) before adjusting for impairment provision using the effective interest method. For the financial instruments in Stage 3, the interest income is calculated based on the carrying amount of the asset, net of the impairment provision, using the effective interest method. Financial assets that are originated or purchased credit impaired are financial assets that are impaired at the time of initial recognition, and the impairment provision for these assets is the expected credit loss for the entire lifetime.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

2.11 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 recognized amounts and there is an intention to settle on a net basis, or realize 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.

2.12 Long-term prepaid expenses

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

2.13 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Non-current assets held for sale (continued)

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

Non-current assets are not depreciated or amortized 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 recognized.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

2.14 Materials and supplies

Materials and supplies are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Materials and supplies are charged as fuel costs and repair and maintenance expenses when consumed. 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 realizable value, which is the estimated selling price less applicable variable expenses.

2.15 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.

2.16 Cash and cash equivalents

Cash and cash equivalents include cash on hand; deposits held at call with banks; and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.17 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Financial liabilities

The Group's financial liabilities include trade and bill payables, other payables (excluding other tax payables, employee salary and benefits payables and advances), payables for fixed assets and construction-in-progress, dividends payable and lease liabilities.

Trade and bill payables and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

Trade and bill payables 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.

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

The Group derecognizes 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 derecognized and the consideration paid and payable is recognized in profit or loss.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, 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 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 provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

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

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 recognized.

Deferred income tax assets are recognized 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 utilized.

(c) Offsetting

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 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 recognized 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 when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes 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 recognizes 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 present value.

2.21 Provisions

Provisions are recognized 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 can be reliably estimated. Provisions are not recognized 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 recognized 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 management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition

Revenue of the Group comprise of revenue from railroad and related business and revenue from other business.

(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 CSRG. The Group renders the passenger transportation and freight transportation services, and the related service fees and charges are collected from customer or other railway companies by the Group.

The respective fares and charges of the services, and processing of the respective revenue and cost allocation among different railway companies are done centrally by a central clearance system operated by CSRG.

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 by the Group as the carrier in mainland China and Hong Kong, and the corresponding revenue information is captured and processed by CSRG through the central clearance system.

Revenues are recognized overtime when the train transportation services are rendered. The revenue is presented net of value-added tax.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue recognition (continued)

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

Revenue from freight transportation

The Group also provides freight transportation services. Service information and computation of the attributable revenues entitled by the Group are processed by the central clearance system of CSRG.

The revenues are recognized at gross amounts overtime in the accounting period in which the services are rendered.

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 CSRG. The revenue from network usage services are recognized overtime in the accounting period in which the services are rendered. Railway operation services and other services are rendered solely by the Group and all proceeds are collected by the Group directly.

When the services rendered by the Group exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.

(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 overtime 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 at appoint in time. Revenue from operating lease arrangements on certain properties and locomotives is recognized overtime on a straight-line basis over the period of the respective leases.

(c) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Interest income

Interest income on financial assets at amortized cost calculated using the effective interest method is recognized in profit or loss as part of ‘other (losses)/gains-net’.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.24 Dividend income

Dividends are recognized as ‘other losses/gains-net’ in profit or loss when the right to receive payment is established.

2.25 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 the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized 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.

2.26 Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

The Group’s right-of-use asset mainly consisted of lease of land and leasehold land payments for self-occupied purpose.

For the lease of land, 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 a parcel of 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 lease term is 20 years, renewable at the discretion of the Group.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Leases (continued)

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. Based on the provision of the land use right operating lease agreement entered into with Guangzhou Railway Group, the Company can renew the lease at its own discretion upon expiry of the operating lease term, and the Company expect to exercise the option to extend the lease within the remaining useful lives of those assets. Therefore the Group is reasonably certain to determine the lease term based on the remaining useful lives of those assets.

For the land use rights, 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 amortized over the lease terms of 36.5 to 50 years using the straight-line method.

Land use rights are derecognized when the Group has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in derecognition of land use right.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Leases (continued)

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortizing loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Leases (continued)

The Group as a lessee accounts for a lease modification when both of the following conditions are met:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets.
- the consideration for the lease increases commensurate with the standalone price for the increase in scope and any adjustments to that stand-alone price reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group allocate the consideration in the modified contract and determine the lease term of the modified lease, and remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

For a modification that fully or partially decreases the scope of the lease, the Group decrease the carrying amount of the right-of-use asset to reflect partial or full termination of the lease. Any difference between those adjustments is recognized in profit or loss at the effective date of the modification.

For all other lease modifications which are not accounted for as a separate lease, the Group recognize the amount of the remeasurement of the lease liability as an adjustment to the corresponding right-of-use asset without affecting profit or loss.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.27 Dividend distribution

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

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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, cash flow and fair value interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimize 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 minimize 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 and liabilities (in RMB thousands equivalent):

	Currency denomination	As at December 31	
		2020	2021
Monetary assets			
Cash and cash equivalents	HKD	27,003	23,122
Cash and cash equivalents	USD	29	—
Other receivables	HKD	—	440
		<u>27,032</u>	<u>23,562</u>
Monetary liabilities			
Other payables	HKD	<u>132</u>	<u>—</u>

The Group may experience a loss as a result of any foreign currency exchange rate fluctuations in connection with monetary assets and liabilities are 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 December 31, 2021, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, loss after tax for the year would have been RMB884,000 (2020: RMB1,008,000) 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 and long-term receivable, the Group does not have significant interest-bearing assets or liabilities. The average interest rate of cash and cash equivalents, short-term deposits and long-term deposits in the PRC are 1.35%, 2.25% and 4.13% respectively (2020: 1.32%, 2.25% and 4.13% respectively) 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 December 31, 2021 and 2020, the Group had no interest bearing debts, which may expose the Group to any interest rate risk.

(iii) Other price risk

The Group's exposure to price risk arises from equity investments held by the Group and classified as FVOCI (note 15).

As at December 31, 2021, if the expected price of the equity investments held by the Group increased/decreased by 5% with all other variables held constant, other comprehensive income for the year would have been RMB17,389,000 (2020: RMB14,161,000) higher/lower.

(b) Credit risk

Credit risk arises from cash and cash equivalents, term deposits, trade and other receivables (excluding prepayments) and long-term receivable. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factor (continued)

(b) Credit risk (continued)

(i) Risk management

Cash and term deposits are placed with reputable banks. There was no recent history of default of cash and cash equivalents and term deposits from such financial institutions. The Group considers that there is no significant credit risk and is not subject to any material losses due to the default of the banks.

For trade and other receivables as well as long-term receivable, the Group manages the credit risk exposure by setting related policies. The Group set credit period for its customers/debtors considering the customers/debtors' financial conditions, the possibilities of obtaining collaterals from third parties, credit records and other factors comprehensively. The credit period are monitored on an ongoing basis by the management. For those customers/debtors with poor credit records, the Group mitigates credit risk by setting a shorter credit period or cancelling the credit period.

The Group's trade and other receivables as well as long-term receivable are mainly receivables and deposits incurred from provision of railway operation service or sales of goods. 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. Taking into account the past experience with customers/debtors and the collection status, the Group considers that there is no significant credit risk.

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.

(ii) Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model: trade receivables, other receivables and long-term receivable.

While cash and cash equivalents and term deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss provision for all trade receivables.

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factor (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

The Group categorizes the trade receivables into the following portfolios based on credit risk characteristics:

- Portfolio 1: receivable incurred from revenues collected and settled through the CSRG;
- Portfolio 2: receivable incurred from revenue from railway operation;
- Portfolio 3: receivable incurred from revenue other than railway operation and revenues collected and settled without the CSRG; and
- Portfolio 4: bank acceptance that represents lower credit risk.

Provision for credit losses are recognized on the basis of exposure at default and ECL rates which include consideration of historical credit loss experience, current status and forward-looking information. In considering the forwarding-looking information, the Group considers the risk of economy downturn, external market environment, technical environment and changes in customer's conditions.

In 2021, the Group takes into consideration the uncertainty affected by the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak").

On that basis, the loss provision as at December 31, 2021 and 2020 was determined for trade receivables (in RMB thousands) as follows:

	As at December 31, 2020			As at December 31, 2021		
	Carrying amount	ECL rates	Loss provision	Carrying amount	ECL rates	Loss provision
Portfolio 1	202,484	—	—	121,287	—	—
Portfolio 2	3,429,198	1.68%	(57,690)	4,145,617	0.50%	(20,691)
Portfolio 3	150,699	2.00%	(3,014)	153,021	2.00%	(3,060)
	<u>3,782,381</u>		<u>(60,704)</u>	<u>4,419,925</u>		<u>(23,751)</u>

The loss provision for trade receivables as at December 31, 2021 and 2020 reconciles to the opening loss provision as follows:

	Trade receivables	
	2020 RMB'000	2021 RMB'000
Opening loss provision as at January 1	61,135	60,704
Receivables written off during the year as uncollectible	(73)	—
Reversal of impairment loss provision	(358)	(36,953)
Closing loss provision at December 31	<u>60,704</u>	<u>23,751</u>

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Financial risk factor (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Other financial assets at amortized cost

Other financial assets at amortized cost include other receivables, and long-term receivables.

Impairment on other receivables and long-term receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since the initial recognition. If a significant increase in credit risk of a deposit or receivable has occurred since the initial recognition, then the impairment is measured as lifetime expected credit losses.

On that basis, the loss provision as at December 31, 2021 and 2020 for other receivables was as follows (in RMB thousands):

	As at December 31, 2020			As at December 31, 2021		
	Carrying amount	ECL rates	Loss provision	Carrying amount	ECL rates	Loss provision
Stage 1 (Portfolio)	379,116	1.57%	(5,959)	289,495	0.65%	(1,872)
Stage 1 (Individual)	222,705	—	—	128,902	—	—
Stage 2	—	—	—	—	—	—
Stage 3	4,631	100%	(4,631)	4,631	100%	(4,631)
	<u>606,452</u>		<u>(10,590)</u>	<u>423,028</u>		<u>(6,503)</u>

Impairment losses on trade and other receivables and long-term receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and 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.

As at December 31, 2021, the Group had net current liabilities of RMB1,304,655,000 and capital expenditure contracted for but not recognized as liabilities of RMB46,553,000 (see note 39). Taking into account of the factors mentioned in note 2.1(c), the Board of Directors believes that the Group has sufficient liquidity for the following 12 months.

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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 5 years RMB'000	Over 5 years RMB'000	Carrying amount RMB'000
At December 31, 2020				
Trade and other payables excluding non-financial liabilities	3,417,934	—	—	3,417,934
Payables for fixed assets and construction-in-progress	2,914,696	—	—	2,914,696
Lease liabilities	61,880	258,820	5,665,980	5,986,680
Dividends payable	13,749	—	—	13,749
	<u>6,408,259</u>	<u>258,820</u>	<u>5,665,980</u>	<u>12,333,059</u>
At December 31, 2021				
Trade and bill payables and other payables excluding non-financial liabilities	4,483,180	—	—	4,483,180
Payables for fixed assets and construction-in-progress	2,776,708	—	—	2,776,708
Lease liabilities	63,249	263,961	5,598,450	5,925,660
Dividends payable	13,746	—	—	13,746
	<u>7,336,883</u>	<u>263,961</u>	<u>5,598,450</u>	<u>13,199,294</u>

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 31, 2021 and 2020, the Group has no short-term loans, long-term loans, bond payables or long-term payables. Management considered that such capital structure is appropriate.

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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 December 31, 2021 and 2020, the Group did not have any financial instruments that were measured at fair value except for FVOCI (note 15).

The following table presents the Group's assets that are measured at fair value at December 31, 2021:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVOCI	<u>—</u>	<u>—</u>	<u>463,696</u>	<u>463,696</u>

The following table presents the Group's assets that are measured at fair value at December 31, 2020:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at FVOCI	<u>—</u>	<u>—</u>	<u>377,631</u>	<u>377,631</u>

There were no transfers between levels 1, 2 and 3 or changes in valuation techniques during the year (2020: nil).

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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

The following table presents the changes in level 3 items for the periods ended December 31, 2021 and 2020:

	Financial assets at FVOCI
Opening balance as at January 1, 2020	351,045
Acquisitions	26,586
Closing balance December 31, 2020	377,631
Acquisitions	86,065
Closing balance as at December 31, 2021	463,696

Financial assets and liabilities of the Group measured at amortized cost include trade and other receivables, long-term receivable, term deposits, cash and cash equivalents, and trade and bill payables and other payables, of which the fair values approximate their carrying amounts.

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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.

(a) Provision for impairment of trade receivables

The provision for impairment of trade receivables are recognized on the basis of exposure at default and ECL rates which include consideration of historical credit loss experience, current status and forward-looking information, taking into account the customers/debtors' credit records, historical payment records, financial conditions and the capabilities of collaterals and guarantors comprehensively. The Group reviews the key assumptions related to ECL calculation on a regular basis. In 2021, the Group took into consideration the uncertainty affected by the COVID-19 outbreak, and incorporate relevant impacts into the key macro-economic assumptions and factors used in the forward-looking estimation, such as the risk of economy downturn, external market environment, technical environment and changes in customer's conditions.

Where the actual loss is different from the amounts that were initially recorded based on above estimate, such differences will impact the carrying value of trade receivables of the Group in future periods.

(b) Goodwill Impairment

Goodwill impairment reviews are undertaken at least annually or more frequently if events or changes in circumstances indicate a potential impairment. The recoverable amount of a cash-generating unit ("CGU") or groups of CGUs when goodwill is included in the carrying amount of that unit or units is the higher of value in use and the fair value less costs to sell.

In 2021, the Group's transportation business was greatly affected by the COVID-19 outbreak and the relevant control and prevention measures. Recoverable amount of CGU when goodwill is included in the carrying amount of that unit based on value-in-use calculations which require the use of assumptions. The key assumptions used by the management is disclosed in note (9).

The uncertainty of the development of COVID-19 epidemic and control measures have also increased the estimation uncertainty relating to the key assumptions used for cash flow projections, including growth rate, gross margin and pre-tax discount rate, which could lead to a different assessment result affected by the management judgement.

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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.

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5. SEGMENT INFORMATION (CONTINUED)

The segment results for 2019, 2020 and 2021 are as follows:

	The Railway Transportation Business			All other segments			Elimination			Total		
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Segment revenue												
– Railroad and Business	20,025,568	15,385,428	19,019,131	—	—	—	—	—	—	20,025,568	15,385,428	19,019,131
– Revenue from external customers	20,025,568	15,385,428	19,019,131	—	—	—	—	—	—	—	—	19,019,131
– Inter segment revenue	—	—	—	—	—	—	—	—	—	—	—	—
– Other Businesses	938,066	859,658	1,081,538	271,452	144,203	205,608	(56,735)	(39,923)	(100,120)	1,152,783	963,938	1,187,026
– Revenue from external customers	938,066	859,658	1,081,538	214,717	104,280	105,488	—	—	—	1,152,783	963,938	1,187,026
– Inter segment revenue	—	—	—	56,735	39,923	100,120	(56,735)	(39,923)	(100,120)	—	—	—
Total revenue	<u>20,963,634</u>	<u>16,245,086</u>	<u>20,100,669</u>	<u>271,452</u>	<u>144,203</u>	<u>205,608</u>	<u>(56,735)</u>	<u>(39,923)</u>	<u>(100,120)</u>	<u>21,178,351</u>	<u>16,349,366</u>	<u>20,206,157</u>
Timing of revenue recognition												
– Over time	20,826,847	16,139,060	19,908,398	110,214	47,619	111,941	(56,735)	(39,923)	(100,120)	20,880,326	16,146,756	19,920,219
– At a point in time	136,787	85,664	154,811	161,238	74,118	71,895	—	—	—	298,025	159,782	226,706
– Lease	—	20,362	37,460	—	22,466	21,772	—	—	—	—	42,828	59,232
	<u>20,963,634</u>	<u>16,245,086</u>	<u>20,100,669</u>	<u>271,452</u>	<u>144,203</u>	<u>205,608</u>	<u>(56,735)</u>	<u>(39,923)</u>	<u>(100,120)</u>	<u>21,178,351</u>	<u>16,349,366</u>	<u>20,206,157</u>
Segment result	<u>1,045,581</u>	<u>(584,770)</u>	<u>(1,150,323)</u>	<u>(36,489)</u>	<u>(105,975)</u>	<u>(93,152)</u>	<u>—</u>	<u>—</u>	<u>(6,111)</u>	<u>1,009,092</u>	<u>(690,745)</u>	<u>(1,249,586)</u>
Finance costs - net	56,439	60,464	74,382	271	181	194	—	—	—	56,710	60,645	74,576
Share of results of associates, net of tax	(7,039)	22,162	18,144	—	—	—	—	—	—	(7,039)	22,162	18,144
Depreciation of fixed assets	1,633,185	1,657,475	1,781,921	4,113	4,704	4,190	—	—	—	1,637,298	1,662,179	1,786,110
Depreciation of right-of-use assets	53,992	54,179	57,078	11,332	11,332	11,332	—	—	—	65,324	65,511	68,410
Amortization of long-term prepaid expenses	16,008	18,886	26,760	430	454	621	—	—	—	16,438	19,340	27,381
Impairment of fixed assets	20,697	11,835	16,796	—	—	—	—	—	—	20,697	11,835	16,796
Provision for impairment of materials and supplies	10,793	—	5,695	—	—	—	—	—	—	10,793	—	5,695
Reversal of impairment losses on financial assets	—	(78)	(40,608)	—	(280)	(5)	—	—	—	—	(358)	(40,613)

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5. SEGMENT INFORMATION (CONTINUED)

A reconciliation of the segment results to profit/(loss) of 2019, 2020 and 2021 is as follows:

	The Railway Transportation Business			All other segments			Elimination			Total		
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Segment result	1,045,581	(584,770)	(1,150,323)	(36,489)	(105,975)	(93,152)	—	—	(6,111)	1,009,092	(690,745)	(1,249,586)
Income tax (expense)/credit	(262,942)	130,468	272,442	1,814	2,177	3,181	—	—	—	(261,128)	132,645	275,623
Profit/(loss) for the year	782,639	(454,302)	(877,881)	(34,675)	(103,798)	(89,971)	—	—	(6,111)	747,964	(558,100)	(973,963)

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	
	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000
Total segment assets	36,573,556	37,375,745	443,479	425,806	(236,582)	(398,129)	36,780,453	37,403,422
Total segment assets include:								
Investment in associates	196,848	225,338	—	—	—	—	196,848	225,338
Additions to non-current assets (other than financial instruments and deferred tax assets)	1,748,748	1,744,117	679	662	—	—	1,749,427	1,744,779
Total segment liabilities	8,184,773	9,767,619	656,875	735,783	(217,364)	(304,415)	8,624,284	10,198,986

Revenues of approximately RMB5,511,617,000 (2019: RMB4,400,273,000 and 2020: RMB4,502,560,000) 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.

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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 signaling systems RMB'000	Other machinery and equipment RMB'000	Total RMB'000
At January 1, 2020						
Cost	7,825,870	14,817,730	8,102,522	1,852,565	6,757,634	39,356,321
Accumulated depreciation	(3,141,585)	(3,716,630)	(2,905,802)	(1,415,922)	(4,579,251)	(15,759,190)
Impairment	(23,578)	—	—	—	(7,472)	(31,050)
Net book amount	<u>4,660,707</u>	<u>11,101,100</u>	<u>5,196,720</u>	<u>436,643</u>	<u>2,170,911</u>	<u>23,566,081</u>
Year ended December 31, 2020						
Opening net book amount	4,660,707	11,101,100	5,196,720	436,643	2,170,911	23,566,081
Other additions	4,196	—	47,666	2,178	98,138	152,179
Transfer in from construction-in-progress (Note 7)	396,446	198,800	1,932	28,733	154,590	780,501
Transfer out to construction-in-progress for improvement/ modifications (Note 7)	(129)	(231,996)	(434,216)	(9,759)	(9,028)	(685,129)
Transfer in from construction-in-progress after repair	6,291	292,244	744,298	38,726	20,241	1,101,800
Reclassifications	—	—	—	45	(45)	—
Disposals	(26,206)	(95,020)	(68,749)	(5,747)	(29,281)	(225,003)
Depreciation charges	(335,123)	(218,396)	(669,210)	(90,451)	(348,999)	(1,662,179)
Impairment charge	—	—	(11,835)	—	—	(11,835)
Closing net book amount	<u>4,706,182</u>	<u>11,046,732</u>	<u>4,806,606</u>	<u>400,368</u>	<u>2,056,527</u>	<u>23,016,415</u>
At December 31, 2020						
Cost	8,183,873	14,896,863	7,750,874	1,829,279	6,837,991	39,498,880
Accumulated depreciation	(3,454,113)	(3,850,131)	(2,932,433)	(1,428,911)	(4,773,992)	(16,439,580)
Impairment	(23,578)	—	(11,835)	—	(7,472)	(42,885)
Net book amount	<u>4,706,182</u>	<u>11,046,732</u>	<u>4,806,606</u>	<u>400,368</u>	<u>2,056,527</u>	<u>23,016,415</u>
Year ended December 31, 2021						
Opening net book amount	4,706,182	11,046,732	4,806,606	400,368	2,056,527	23,016,415
Other additions	5,122	—	—	2,809	63,109	71,040
Government grant (c)	428,735	211,040	—	3,193	30,910	673,878
Transfer in from construction-in-progress (Note 7)	825,810	57,920	42,714	557,380	258,109	1,741,933
Transfer out to construction-in-progress for improvement/ modifications (Note 7)	—	(489,377)	(1,397,690)	(15,344)	(1,463)	(1,903,874)
Transfer in from construction-in-progress after repair	317	690,534	1,585,558	26,457	3,596	2,306,462
Reclassifications	—	—	—	(9,107)	9,107	—
Disposals	(13,250)	(15)	(59,370)	(6,515)	(15,856)	(95,006)
Depreciation charges	(382,616)	(218,677)	(648,769)	(128,266)	(407,782)	(1,786,110)
Impairment charge	—	(16,796)	—	—	—	(16,796)
Impairment write-off	322	—	—	—	1,897	2,219
Closing net book amount	<u>5,570,622</u>	<u>11,281,361</u>	<u>4,329,049</u>	<u>830,975</u>	<u>1,998,154</u>	<u>24,010,161</u>
At December 31, 2021						
Cost	9,428,440	15,346,319	6,981,827	2,242,637	7,062,632	41,061,855
Accumulated depreciation	(3,834,561)	(4,048,162)	(2,640,943)	(1,411,662)	(5,058,903)	(16,994,231)
Impairment	(23,257)	(16,796)	(11,835)	—	(5,575)	(57,463)
Net book amount	<u>5,570,622</u>	<u>11,281,361</u>	<u>4,329,049</u>	<u>830,975</u>	<u>1,998,154</u>	<u>24,010,161</u>

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6. FIXED ASSETS-NET (CONTINUED)

- (a) As at December 31, 2021, the ownership certificates of certain buildings of the Group with an aggregate carrying value of approximately RMB1,903,653,000 (2020: RMB1,518,731,000) had not been obtained by the Group.

These kind of buildings are classified as below:

	Carrying value as at December 31 2020 RMB'000	Carrying value as at December 31 2021 RMB'000	Reason for delay in obtaining the ownership certificates
Certificates for buildings under application procedures	980,689	1,367,851	The Group commenced such application procedures with the respective authorities in China, there has been progress made and the Group's management does not expect any major difficulties in obtaining the remaining ownership certificates.
Certain buildings located on the land of which the land use right certificates have not been obtained	48,103	47,656	According to relevant laws and regulations in China, the land use right certificates of the land on which these buildings are located must be obtained before the Group can start the application for the respective housing ownership certificates. As a result, the Group will start to apply for the ownership certificates of these buildings after they have completed the procedures to obtain the land use right certificates.
Certain buildings attached to pieces of land which is held by lease	489,939	488,146	Such land is held by lease under certain operating lease arrangements. Due to the fact that the Group does not have the underlying land use right certificates for such land, therefore, the Group cannot apply for the respective ownership certificates of the buildings constructed on top of it. According to the lease agreements and communication with the lessors, and as confirmed by the Company's legal counsel, the Group possesses the right to use and/or own such buildings without the certificates.

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 these buildings and it should not lead to any significant adverse impact on the operations of the Group.

- (b) As at December 31, 2021, fixed assets of the Group with an aggregate net book value of approximately RMB175,184,000 (2020: RMB171,954,000) had been fully depreciated but they were still in use.
- (c) According to the agreements regarding on the relocation project of old Dongguan Station jointly signed by Dongguan Municipal People's Government (the "Government"), the Guangzhou Railway Group and the Company, the Government transferred the asset rights of the New Dongguan Station funded by the Government to the Company for free in October 2021. Total value of the related assets was RMB673,878,000. Such government grants relating to fixed assets were recognized as deferred income (Note 24) and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

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7. CONSTRUCTION-IN-PROGRESS

	2020 RMB'000	2021 RMB'000
At 1 January	2,378,974	2,778,676
Transfer in from fixed assets for improvement/modifications (Note 6)	685,128	1,903,874
Other additions	1,596,875	954,780
Transfer to fixed assets (Note 6)	(780,501)	(1,741,933)
Transfer out to fixed assets after improvement/modifications (Note 6)	(1,101,800)	(2,306,462)
At 31 December	<u>2,778,676</u>	<u>1,588,935</u>

Construction-in-progress as at December 31, 2021 mainly comprise of improvement projects for road existing railway equipment in the PRC.

For the year ended December 31, 2021, no interest expense (2020 and 2019: nil) had been capitalized in the construction-in-progress balance as there were no third party borrowings during the year.

As at December 31, 2021, the balance of the provision for writing down the construction-in-progress was approximately RMB15,456,000 (2020: RMB15,456,000).

8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(1) RIGHT-OF-USE ASSETS

	2021		
	Land use right (a) RMB'000	Lease of Land use right RMB'000	Total RMB'000
Cost			
As at December 31, 2020	2,398,881	1,379,254	3,778,135
Additions	334	989	1,323
As at December 31, 2021	<u>2,399,215</u>	<u>1,380,243</u>	<u>3,779,458</u>
Accumulated depreciation			
As at December 31, 2020	(567,909)	(26,756)	(594,665)
Additions	(52,163)	(16,248)	(68,411)
As at December 31, 2021	<u>(620,072)</u>	<u>(43,004)</u>	<u>(663,076)</u>
Net book value			
As at December 31, 2021	<u>1,779,143</u>	<u>1,337,239</u>	<u>3,116,382</u>
As at December 31, 2020	<u>1,830,972</u>	<u>1,352,498</u>	<u>3,183,470</u>

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8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

(2) LEASE LIABILITIES

	2021 RMB'000	2020 RMB'000
Lease liabilities	1,384,084	1,377,573
Less: current portion of lease liabilities	(63,249)	(61,880)
	<u>1,320,835</u>	<u>1,315,693</u>

The amounts recognized in the Consolidated Comprehensive Income Statement for the year relating to the lease contracts are as follows:

	2020 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets	65,511	68,410
Interest expense on lease liabilities	57,629	67,648
Expense relating to short-term leases	846,606	1,688,137
	<u>969,746</u>	<u>1,824,196</u>

The total cash outflow for leases in 2021 was RMB1,749,164,000 (2020: RMB907,355,000)

The remaining lease period of right-of-use assets as at December 31, 2021 was lease of between 3 to 85 years.

- (a) As at December 31, 2021, the ownership certificates of land with an aggregate carrying value of approximately RMB52,884,000 (2020: RMB54,882,000) that was acquired through assets/business acquisition and group restructuring have not yet been changed from the names of the respective original owners to the name of the Company; and the ownership certificates of the land use rights of the Group with an aggregate carrying value of approximately RMB1,154,591,000 (2020: RMB1,182,379,000) had not been obtained by the Group due to the following fact:

	Carrying value as at December 31 2021 RMB'000	Reason for delay in obtaining the ownership certificates
Certain pieces of land associated with the operations of Guangshen Line IV, one of the railway lines operated by the Company	1,154,591	Due to the fact that Guangshen Line IV spans across several cities, counties and villages in China, it is practically cumbersome and time consuming for the Group to coordinate and execute the procedures for acquiring the respective land use rights certificates with the respective local bureaus and authorities governing the title registration and transfer, and therefore, the progress of acquiring the formal title certificates has been progressing slowly.

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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9. GOODWILL

	RMB'000
Year ended December 31, 2020 and 2021	
Opening net book amount	281,255
Additions	—
Impairment	—
Closing net book amount	<u>281,255</u>
Year ended December 31, 2019 and 2020	
Opening net book amount	281,255
Additions	—
Impairment	—
Closing net book amount	<u>281,255</u>

On December 31, 2021 and 2020, 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 2007.

On January 1, 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 Transportation 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 Transportation 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-years period are extrapolated using the estimated growth rates stated below.

Goodwill is allocated to CGU for the purpose of impairment testing, by comparing the carrying amount with the recoverable amount of Combined Railway Transportation Business. If the recoverable amount is lower than the carrying amount, the difference is recognized directly in profit or loss. The allocation is not changed in 2021.

In 2021 and 2020, the Group's Combined Railway Transportation Business was greatly affected by the COVID-19 outbreak and the relevant control and prevention measures. Based on the assessment result, there is no need to recognize impairment charges against goodwill.

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9. GOODWILL (CONTINUED)

By taking into consideration of the uncertainty of the development of COVID-19 outbreak and the relevant control and prevention measures, the Group estimated the growth rate and gross margin based on past experience and its expectations for the market development. The management expect the impact of the COVID-19 epidemic on the Group's business would recover in the coming 1-2 years, and the revenue growth rate within the five-year period would reach up to 10%. Cash flows beyond the five-year period are extrapolated using the estimated growth rates, which doesn't exceed the long-term average growth rate of the industry. The discount rate used is pre-tax and reflect specific risks relating to the railway transportation business segment.

As at December 31, 2021, the recoverable amount calculated based on value-in-use exceeded carrying value of the CGU by RMB3,495 million (2020: RMB3,937 million).

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

Railroad business	2020	2021
Revenue growth rate (within the five-year period)	8% - 32%	6% - 10%
Long-term growth rate (beyond the five-year period)	3%	3%
Gross margin	3% - 8%	-1% - 7%
Pre-tax discount rate	12%	12%

Even if the long-term growth rate used in the value-in-use calculation for the CGU in Combined Railway Transportation Business had been 10% lower than management's estimates as at December 31, 2021, the Group would not need to recognize impairment charges against goodwill.

Even if the estimated pre-tax discount rate applied to the discounted cash flows for the CGU in Combined Railway Transportation Business had been 1% higher than management's estimates as at December 31, 2021, the Group would not need to recognize impairment charges against goodwill.

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10. SUBSIDIARIES

The following is a list of the principal subsidiaries at December 31, 2021:

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 (%)	Registered capital RMB'000
Dongguan Changsheng Enterprise Company Limited	China, limited liability company	Warehousing in the PRC	51%	51%	49%	38,000
Shenzhen Fu Yuan Enterprise Development Company Limited	China, limited liability company	Hotel management in the PRC	100%	100%	—	18,500
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%	—	10,000
Shenzhen Guangshen Railway Economic and Trade Enterprise Company Limited	China, limited liability company	Catering management in the PRC	100%	100%	—	2,000
Shenzhen Railway Station Passenger Services Company Limited	China, limited liability company	Catering services and sales of merchandise in the PRC	100%	100%	—	1,500
Guangshen Railway Station Dongqun Trade and Commerce Service Company Limited (“Dongqun Trade and Commerce Service”)(ii)	China, limited liability company	Sales of merchandises in the PRC	—	—	—	1,020
Guangzhou Railway Huangpu Service Company Limited	China, limited liability company	Cargo loading and unloading, warehousing, freight transportation in the PRC	100%	100%	—	379
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%	107,050

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10. SUBSIDIARIES (CONTINUED)

- (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 December 31, 2021, 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.
- (ii) In 2021, Dongqun Trade and Commerce Service was liquidated.

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11. INVESTMENTS IN ASSOCIATES

	2020 RMB'000	2021 RMB'000
Share of net assets	196,848	225,338
Less: provision for impairment	—	—
	<u>196,848</u>	<u>225,338</u>

The movement of investments in associates of the Group during the year is as follows:

	2019 RMB'000	2020 RMB'000	2021 RMB'000
Beginning of the year	181,725	174,686	196,848
Share of results after tax	(7,039)	22,162	18,144
Equity dilution (a)	—	—	10,346
End of the year	<u>174,686</u>	<u>196,848</u>	<u>225,338</u>

As at December 31, 2021, 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") (a)	24.42%	RMB206,670,000	Construction of railroad properties

The above associates are limited liability companies and 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.

- (a) On March 2021, according to the resolution passed in the shareholders' meeting of Shentu, Guangzhou Railway Group increased investment amounted to RMB156,200,000 to Shentu with the equity interests of four subsidiaries, thus the proportion of equity interests in Shentu held by Guangzhou Railway Group was changed from 51% to 75.58%, and the proportion of equity interests in Shentu held by the Company was diluted from 49% to 24.42%. The Group recognized dilution gain amounted to RMB10,346,000 in other reserve.

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11. INVESTMENTS IN ASSOCIATES (CONTINUED)

Set out below are the summarized financial information for Tiecheng and Shentu which are accounted for using the equity method in the consolidated financial statements.

Summarized balance sheets:

	Tiecheng		Shentu	
	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000
Current assets	93,571	112,241	1,974,930	3,311,999
Non-current assets	373,860	367,349	10,209	31,500
Total assets	467,431	479,590	1,985,139	3,343,499
Current liabilities	221,928	219,973	1,828,909	2,941,676
Equity	245,503	259,617	156,230	401,823
Share of net assets	120,296	127,213	76,552	98,125
Carrying amount of interest in associates	120,296	127,213	76,552	98,125

Summarized comprehensive income statements:

	Tiecheng			Shentu		
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Revenue	45,673	43,241	46,371	1,222,250	1,519,711	3,039,786
Net profit/(loss)	(23,350)	29,202	14,114	8,986	16,027	54,062
Total comprehensive income/(loss) for the year	(23,350)	29,202	14,114	8,986	16,027	54,062

Reconciliation of the summarized financial information presented to the carrying amount of its interests in associates as follows:

	Tiecheng			Shentu			Total		
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000
Opening net assets	239,651	216,301	245,503	131,217	140,203	156,230	370,868	356,504	401,733
(Loss)/profit for the year	(23,350)	29,202	14,114	8,986	16,027	54,062	(14,364)	45,229	68,176
Increase in net assets arising from capital injection by other shareholder (a)	—	—	—	—	—	191,531	—	—	191,531
Closing net assets	216,301	245,503	259,617	140,203	156,230	401,823	356,504	401,733	661,440
Percentage of ownership interest	49.00%	49.00%	49.00%	49.00%	49.00%	24.42%	—	—	—
Carrying value	105,987	120,296	127,213	68,699	76,552	98,125	174,686	196,848	225,338

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12. DEFERRED TAX ASSETS/(LIABILITIES)

	2020 RMB'000	2021 RMB'000
Deferred tax assets	496,920	769,911
Less: Offsetting of deferred tax liabilities	(73,966)	(71,515)
Deferred tax assets (net)	<u>422,954</u>	<u>698,396</u>
Deferred tax liabilities	(132,879)	(127,935)
Less: Offsetting of deferred tax assets	73,966	71,515
Deferred tax liabilities (net)	<u>(58,913)</u>	<u>(56,420)</u>
	<u>364,041</u>	<u>641,976</u>

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2020 RMB'000	2021 RMB'000
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	394,474	748,500
- Deferred tax assets to be recovered within 12 months	<u>102,446</u>	<u>21,411</u>
	<u>496,920</u>	<u>769,911</u>
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	(127,105)	(122,034)
- Deferred tax liabilities to be recovered within 12 months	<u>(5,774)</u>	<u>(5,901)</u>
	<u>(132,879)</u>	<u>(127,935)</u>

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12. DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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:

	At January 1 2020 RMB'000	Credited/ (Charged) to the comprehensive income statement RMB'000	At December 31 2020 RMB'000	Credited/ (Charged) to the comprehensive income statement RMB'000	At December 31 2021 RMB'000
Deferred tax assets:					
Deductible tax losses	—	302,586	302,586	90,167	392,753
Impairment provision for receivables	17,821	(27)	17,794	(10,231)	7,563
Impairment provision for fixed assets and construction-in-progress	11,626	2,959	14,585	3,645	18,230
Impairment provision for materials and supplies	4,410	(4,410)	—	915	915
Differences in accounting base and tax base of government grants	23,251	2,015	25,266	169,185	194,451
Differences in accounting base and tax base of employee benefits obligations	50,803	35,317	86,120	10,178	96,298
Loss on disposal of fixed assets	25,115	(968)	24,147	525	24,672
Difference in accounting base and tax base of party organization activity fee	16,276	10,146	26,422	(2,793)	23,629
Difference in accounting base and tax base in the recognition of land disposal proceed	212,017	(212,017)	—	—	—
Difference in accounting base and tax base of safety production reserve	—	—	—	2,971	2,971
Others	5,029	(5,029)	—	8,429	8,429
	<u>366,348</u>	<u>130,572</u>	<u>496,920</u>	<u>272,991</u>	<u>769,911</u>
	At January 1 2020 RMB'000	(Credited)/ Charged to the comprehensive income statement RMB'000	At December 31 2020 RMB'000	(Credited)/ Charged to the comprehensive income statement RMB'000	At December 31 2021 RMB'000
Deferred tax liabilities:					
Differences in accounting base and tax base in recognition of fixed assets	5,251	(493)	4,758	(1,528)	3,230
Differences in accounting base and tax base in recognition of leasehold land payments	61,404	(2,491)	58,913	(2,493)	56,420
Changes in the fair value of available-for-sale financial assets	60,647	—	60,647	—	60,647
Others	9,201	(640)	8,561	(923)	7,638
	<u>136,503</u>	<u>(3,624)</u>	<u>132,879</u>	<u>(4,944)</u>	<u>127,935</u>

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12 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

Deferred income tax assets are recognized for tax loss carry-forwards and other temporary difference to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets in respect of tax losses and other temporary difference amounting to RMB323,478,000 (2020: RMB263,450,000) arising from operations of subsidiaries which do not foresee to have enough tax deductible assessable profits in the near future.

	2020 RMB'000	2021 RMB'000
Tax losses that can be carried forward (a)	235,403	306,669
Deductible temporary differences	28,047	16,809
	<u>263,450</u>	<u>323,478</u>

(a) The tax loss carry-forwards in which no deferred income tax assets were recognized will expire in the following years:

	2020 RMB'000	2021 RMB'000
2021	22,090	—
2022	22,245	21,488
2023	36,393	36,393
2024	44,996	44,996
2025	109,679	109,246
2026	—	94,546
	<u>235,403</u>	<u>306,669</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:

	2020 RMB'000	2021 RMB'000
At January 1		
Cost	129,575	151,997
Accumulated amortization	(88,768)	(108,108)
Net book amount	<u>40,807</u>	<u>43,889</u>
Year ended December 31		
Opening net book amount	40,807	43,889
Additions	22,422	47,632
Amortization	(19,340)	(27,381)
Closing net book amount	<u>43,889</u>	<u>64,140</u>
At December 31		
Cost	151,997	199,629
Accumulated amortization	(108,108)	(135,489)
Net book amount	<u>43,889</u>	<u>64,140</u>

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14. FINANCIAL INSTRUMENTS BY CATEGORY

	2020 RMB'000	2021 RMB'000
Financial assets		
Financial assets at amortized cost		
Trade receivables and other receivables excluding prepayments (Notes 19 and 20)	4,317,539	4,812,699
Term deposits (Note 16)	220,000	220,000
Cash and cash equivalents (Note 21)	1,485,232	1,499,462
Long-term receivable (Note 17)	23,734	20,226
FVOCI (Note 15)	377,631	463,696
Total	6,424,136	7,016,083
	2020 RMB'000	2021 RMB'000
Financial liabilities		
Liabilities at amortized cost		
Trade and bill payables and other payables excluding non-financial liabilities (Notes 26 and 28)	3,417,934	4,483,180
Payables for fixed assets and construction-in-progress	2,914,696	2,776,708
Dividends payable	13,749	13,746
Lease liabilities	1,377,573	1,384,084
Total	7,723,952	8,657,718

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(a) Classification of financial assets at FVOCI

Financial assets at FVOCI are equity securities which are strategic investments not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category.

(b) Equity investments at fair value through other comprehensive income

	2020 RMB'000	2021 RMB'000
Non-current assets		
Investments in unlisted companies	377,631	463,696

The FVOCI mainly represent equity interests held by the Group in certain unlisted companies with percentage ownership less than 2% individually.

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.

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15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(c) Amounts recognized in profit or loss and other comprehensive income

During the year, the following gains were recognized in profit or loss and other comprehensive income.

	2020 RMB'000	2021 RMB'000
Dividends from equity investments at FVOCI recognized in profit or loss in other gains/losses - net (Note 32)		
- Related to investments held at the end of the reporting period	7,735	9,802

(d) Fair value

Information about the methods and assumptions used in determining fair value is provided in note 3.3.

All of the financial assets at FVOCI are denominated in RMB. For an analysis of the sensitivity of the assets to price risk refer to note 3.1(a)(iii).

16. TERM DEPOSITS

	2020 RMB'000	2021 RMB'000
Current assets		
Short term deposits	<u>60,000</u>	<u>60,000</u>
Non-current assets		
Long term deposits	<u>160,000</u>	<u>160,000</u>

The original effective interest rate of term deposits was 3.65% per annum (2020: 3.63% per annum).

17. 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 amortized cost using an average effective interest rate of 6.54%.

The balance approximated its fair value as at December 31, 2021 and 2020.

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18. MATERIALS AND SUPPLIES

	2020 RMB'000	2021 RMB'000
Raw materials	197,242	190,328
Reusable rail-line track materials	43,584	39,002
Accessories	54,704	41,918
Retailing consumables	876	335
	<u>296,406</u>	<u>271,583</u>

The costs of materials and supplies consumed by the Group during the year were recognized as “operating expenses” in the amount of RMB1,497,587,000 (2020: RMB1,296,779,000).

As at December 31, 2021, a balance of RMB3,661,000 of the provision was provided for writing down the materials and supplies to their net realizable values (2020: nil).

During the year, an additional provision of RMB5,695,000 was made, no balance was reversed and RMB2,034,000 was written off arising from realization of losses in the disposal of these assets (2020: nil, nil and RMB17,640,000).

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19. TRADE RECEIVABLES

	2020 RMB'000	2021 RMB'000
Trade receivables	3,782,381	4,419,925
Including: receivables from related parties	2,955,797	3,664,894
Less: Provision for impairment of receivables	(60,704)	(23,751)
	<u>3,721,677</u>	<u>4,396,174</u>

As at December 31, 2021 and 2020, 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:

	2020 RMB'000	2021 RMB'000
Within 1 year	2,773,713	3,655,942
Over 1 year but within 2 years	653,062	762,258
Over 2 years but within 3 years	306,410	1,725
Over 3 years	49,196	—
	<u>3,782,381</u>	<u>4,419,925</u>

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss provision for all trade receivables.

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

	2019 RMB'000	2020 RMB'000	2021 RMB'000
At December 31	61,212	61,135	60,704
Reversal of impairment loss provision	—	(358)	(36,953)
Written-off	(77)	(73)	—
At December 31	<u>61,135</u>	<u>60,704</u>	<u>23,751</u>

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.

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20. PREPAYMENTS AND OTHER RECEIVABLES

	2020 RMB'000	2021 RMB'000
Due from third parties	452,921	337,235
Due from related parties	242,601	171,059
	<u>695,522</u>	<u>508,294</u>
	2020 RMB'000	2021 RMB'000
Other receivables	606,452	423,028
Less: Provision for impairment	(10,590)	(6,503)
Other receivables, net (a)	595,862	416,525
Prepayments (b)	99,660	91,769
	<u>695,522</u>	<u>508,294</u>

- (a) Other receivables mainly represent miscellaneous deposits and receivables arising from the course of provision of non-railway transportation services by the Group.

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

	2019 RMB'000	2020 RMB'000	2021 RMB'000
At January 1	10,590	10,590	10,590
Provision for impairment	—	—	—
Reversal of impairment loss provision	—	—	(3,660)
Written off of impairment loss provision	—	—	(427)
At December 31	<u>10,590</u>	<u>10,590</u>	<u>6,503</u>

- (b) Prepayments mainly represent amounts paid in advance to the suppliers for utilities and other operating expenses of the Group. As of December 31, 2021, the input VAT with related invoices not been received or verified amounted to RMB87,575,000 (2020: RMB94,536,000).

The carrying amounts of the Group's prepayments and other receivables are denominated in the following currencies:

	2020 RMB'000	2021 RMB'000
RMB	695,522	507,854
HKD	—	440
	<u>695,522</u>	<u>508,294</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.

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21. CASH AND CASH EQUIVALENTS AND SHORT-TERM DEPOSITS

	2020 RMB'000	2021 RMB'000
Cash at bank and on hand	<u>1,485,232</u>	<u>1,499,462</u>

- (a) The carrying amounts of the cash and cash equivalents and short-term deposits are denominated in the following currencies:

	2020 RMB'000	2021 RMB'000
RMB	1,458,200	1,476,340
HKD	27,003	23,122
USD	29	—
	<u>1,485,232</u>	<u>1,499,462</u>

22. SHARE CAPITAL

As at December 31, 2021 and 2020, the total authorized 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 December 31 2019 RMB'000	Movement RMB'000	As at December 31 2020 RMB'000	Movement RMB'000	As at December 31 2021 RMB'000
Authorized, 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>

23. RESERVES

- (a) Statutory surplus reserve and discretionary surplus reserve

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.

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23. RESERVES (CONTINUED)

(a) Statutory surplus reserve and discretionary surplus reserve (continued)

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.

For the year ended December 31, 2019, 2020 and 2021, the directors proposed the following appropriations to reserves of the Company:

	2019 Percentage	2019 RMB'000	2020 Percentage	2020 RMB'000	2021 Percentage	2021 RMB'000
Statutory surplus reserve	10%	78,264	—	—	—	—

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.

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23. RESERVES (CONTINUED)

(b) Other reserves

(i) Special reserve - Safety Production Fund

For the year 2019, 2020 and 2021, the movement of “Special reserve - Safety Production Fund” of the Group are as below:

	2019 RMB'000	2020 RMB'000	2021 RMB'000
At January 1	—	—	—
Appropriation for retained earnings	264,871	281,277	126,524
Utilization	(264,871)	(281,277)	(114,640)
At December 31	<u>—</u>	<u>—</u>	<u>11,884</u>

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:

(i) 1% for regular freight business;

(ii) 1.5% for passenger transportation, dangerous goods delivery business and other special business.

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 utilized, the actual expenses incurred are charged to profit or loss.

(ii) FVOCI reserve

The Group has elected to recognize changes in the fair value of certain investments in equity securities in OCI, as explained in note 2.10. These changes are accumulated within the FVOCI reserve within equity. As at December 31, 2021, the Group had a balance of FVOCI reserve of RMB181,941,000 (2019 and 2020: RMB181,941,000). The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognized.

(iii) Others

This reserve is used to record the differences which may arise as a result of reduction in the ownership interest in an associate but significant influence is retained. As at December 31, 2021, the Group had a balance of such reserve of RMB10,346,000 (2019 and 2020: nil), as explained in note 11.

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24. DEFERRED INCOME

	2020 RMB'000	2021 RMB'000
Government grants	<u>104,939</u>	<u>781,563</u>

Government grants relating to costs are deferred and recognized 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.

25. EMPLOYEE BENEFITS OBLIGATIONS

	2021 RMB'000	2020 RMB'000
Employee benefits obligations	22,761	24,487
Less: current portion included in accruals and other payables (Note 28)	<u>(22,761)</u>	<u>(24,487)</u>
	<u>—</u>	<u>—</u>

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, the Group has also assumed certain retirement and termination benefits obligations associated with the operations of Yangcheng Railway Business, GRCL 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.

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25. EMPLOYEE BENEFITS OBLIGATIONS (CONTINUED)

The movement in the employee benefits obligation during current year is as follows:

	2020 RMB'000	2021 RMB'000
At January 1	26,345	24,487
Additions	—	—
Payments	(1,858)	(1,726)
At December 31	<u>24,487</u>	<u>22,761</u>

26. TRADE AND BILL PAYABLES

	2020 RMB'000	2021 RMB'000
Trade payables (a)	2,073,922	2,812,710
Bill payables (b)	—	300,000
	<u>2,073,922</u>	<u>3,112,710</u>

(a) Trade payables

	2020 RMB'000	2021 RMB'000
Payables to third parties	812,629	1,037,841
Payables to related parties	1,261,293	1,774,869
	<u>2,073,922</u>	<u>2,812,710</u>

(b) Bill payables

	2020 RMB'000	2021 RMB'000
Bank acceptance bills	—	300,000

The aging analysis of trade and bill payables was as follows:

	2020 RMB'000	2021 RMB'000
Within 1 year	1,874,224	2,577,337
Over 1 year but within 2 years	146,717	482,169
Over 2 years but within 3 years	8,993	20,392
Over 3 years	43,988	32,813
	<u>2,073,922</u>	<u>3,112,710</u>

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27. CONTRACT LIABILITIES

	2020 RMB'000	2021 RMB'000
Advances received from customers	186,959	52,546
Frequent traveler program	28,346	59,896
	<u>215,305</u>	<u>112,442</u>

In 2021, RMB211,219,000 (2020: RMB455,328,000) of last year's contract liabilities were recognized in revenue, of which RMB182,873,000 (2020: RMB435,213,000) were advances received from customers, and RMB28,346,000 (2020: RMB20,115,443) were frequent traveler program.

28. ACCRUALS AND OTHER PAYABLES

	2020 RMB'000	2021 RMB'000
Due to third parties	1,401,338	1,367,508
Due to related parties	448,318	587,667
	<u>1,849,656</u>	<u>1,955,175</u>

	2020 RMB'000	2021 RMB'000
Payables to GIDC assumed by business combination	360,560	357,560
Other deposits received	308,890	297,736
Salary and welfare payables	418,214	486,644
Deposits received for construction projects	131,965	117,366
Other taxes payable	62,942	75,286
Amounts received on behalf of Labor Union	87,566	68,030
Deposits received from ticketing agencies	25,408	30,078
Employee benefits obligations (Note 25)	24,487	22,761
Housing maintenance fund	2,480	—
Payables assumed by capital increase in FVOCI	—	86,065
Other payables	427,144	413,649
	<u>1,849,656</u>	<u>1,955,175</u>

29. AUDITORS' REMUNERATION

Auditors' remuneration in respect of audit and non-audit services provided by the auditors for the year ended December 31, 2021 were RMB8,400,000 and RMB510,000 respectively (2019: RMB8,400,000 and RMB930,000 respectively and 2020: RMB8,400,000 and RMB610,000 respectively).

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30. EMPLOYEE BENEFITS

	2019 RMB'000	2020 RMB'000	2021 RMB'000
Wages and salaries	5,726,123	5,949,037	6,135,683
Provision for medical, housing scheme and other employee benefits (a)	1,353,800	1,326,476	1,399,931
Contributions to the defined contribution scheme (b)	999,020	408,922	1,153,849
	<u>8,078,943</u>	<u>7,684,435</u>	<u>8,689,463</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 the standard salary set by the provincial government. 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 (2019 and 2020: one), four senior executives (2019 and 2020: four) and no supervisor (2019 and 2020: nil), whose emoluments are reflected in the analysis shown in Note 42. No remuneration has been paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office.

The emolument range of each individual is within the band of Nil to RMB611,000 (2020: Nil to RMB512,000).

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31. OTHER OPERATING EXPENSES

	2019 RMB'000	2020 RMB'000	2021 RMB'000
Passenger security inspection expenses	222,705	173,257	184,280
Carriage cleaning expenses	139,130	107,118	113,617
Train station housekeeping expenses	98,467	90,919	86,646
Staff accommodation expenses	86,445	82,634	91,737
Other safety maintenance expenses	89,831	75,726	115,489
Bunk cleaning expenses	97,899	68,125	77,627
Passenger transportation facility maintenance	42,572	22,434	20,471
Professional expenses	37,351	21,675	14,984
Administrative expenses and others	396,270	93,214	123,550
	<u>1,273,670</u>	<u>735,102</u>	<u>828,401</u>

32. OTHER(LOSSES)/GAINS- NET

	2019 RMB'000	2020 RMB'000	2021 RMB'000
Loss on disposal of fixed assets - net	(103,560)	(101,377)	(4,734)
Interest income from banks	24,736	30,811	29,716
Government grants	22,492	63,061	18,523
Dividend income from FVOCI	7,047	7,735	9,802
Income from compensation	1,092	115	1,908
Impairment of fixed assets, materials and supplies	(20,697)	(11,835)	(22,491)
Unwinding of interest accrued on long-term receivable	3,749	3,786	4,515
Reversal of renovation cost for the separation and transfer of Facilities	—	—	65,937
Write-back of outstanding of payables	—	2,903	20,354
Others	36,045	960	11,188
	<u>(29,096)</u>	<u>(3,841)</u>	<u>134,718</u>

33. FINANCE COSTS - NET

	2019 RMB'000	2020 RMB'000	2021 RMB'000
Interest expense of lease liabilities	(57,670)	(57,629)	(67,648)
Net foreign exchange gains/(loss)	2,592	(1,452)	(689)
Bank charges	(1,632)	(1,564)	(6,239)
	<u>(56,710)</u>	<u>(60,645)</u>	<u>(74,576)</u>

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34. INCOME TAX EXPENSE/(CREDIT)

In 2019, 2020 and 2021, the applicable income tax rate of the Company was 25%.

An analysis of the current year income tax expense is as follows:

	2019 RMB'000	2020 RMB'000	2021 RMB'000
Current income tax	357,576	1,551	2,312
Deferred income tax (Note 12)	(96,448)	(134,196)	(277,935)
	<u>261,128</u>	<u>(132,645)</u>	<u>(275,623)</u>

The tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2019 RMB'000	2020 RMB'000	2021 RMB'000
Profit/(loss) before tax	<u>1,009,092</u>	<u>(690,745)</u>	<u>(1,249,586)</u>
Tax calculated at the statutory rate of 25%	252,273	(172,686)	(312,397)
Effect of expenses not deductible for tax purposes	2,921	18,939	23,307
Effect of income not subject to tax	(1,762)	(7,474)	(6,986)
Tax losses and temporary differences in accounting base and tax base for which no deferred tax asset was recognized	11,249	27,420	20,827
Adjustments for current tax of prior periods	(2,410)	1,194	(77)
Utilization of previously unrecognized tax losses and temporary differences	<u>(1,143)</u>	<u>(38)</u>	<u>(297)</u>
Income tax expense/(credit)	<u>261,128</u>	<u>(132,645)</u>	<u>(275,623)</u>

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35. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit/(loss) for the year attributable to equity holders of approximately RMB973,119,000 (loss) (2019 and 2020: profit of RMB748,439,000 and loss of RMB557,876,000, respectively), divided by the weighted average number of ordinary shares outstanding during the year of 7,083,537,000 shares (2019 and 2020: 7,083,537,000 shares). There were no dilutive potential ordinary shares during each of the three years in the period ended December 31, 2021. The calculation of earnings per equivalent ADS is based on the net profit/(loss) 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 (2019 and 2020: 141,670,740 ADSs).

	2019 RMB'000	2020 RMB'000	2021 RMB'000
Profit/(Loss) attributable to owners of the Company	748,439	(557,876)	(973,119)
Weighted average number of ordinary shares in issue	7,083,537	7,083,537	7,083,537
Weighted average equivalent ADSs	141,671	141,671	141,671
Basic and diluted earnings/(loss) per share	RMB0.11	RMB(0.08)	RMB(0.14)
Basic and diluted earnings/(loss) per equivalent ADS	RMB5.28	RMB(3.94)	RMB(6.87)

36. DIVIDENDS

No dividend was proposed for the year ended December 31, 2021 (2019 and 2020: RMB425,012,000 per share and nil).

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37. CASH FLOW GENERATED FROM OPERATIONS

(a) Reconciliation from profit before income tax to net cash generated from operations:

	2019 RMB'000	2020 RMB'000	2021 RMB'000
Profit/(loss) before income tax:	1,009,092	(690,745)	(1,249,586)
Adjustments for:			
Depreciation of fixed assets (Note 6)	1,637,298	1,662,179	1,786,110
Depreciation of right-of-use assets (Note 8)	65,324	65,511	68,410
Impairment of fixed assets (Note 6)	20,697	11,835	16,796
Gains on disposal of assets classified as held for sale	—	(1,188,645)	—
Provision for impairment of materials and supplies (Note 18)	10,793	—	5,695
Loss on disposal of fixed assets and costs on repairs	161,435	165,253	53,854
Amortization of long-term prepaid expenses (Note 13)	16,438	19,340	27,381
Share of results of associates , net of tax (Note 11)	7,039	(22,162)	(18,144)
Dividend income on FVOCI/AFS (Note 32)	(7,047)	(7,735)	(9,802)
Reversal of impairment of receivables	—	(358)	(40,613)
Reversal of renovation cost for the separation and transfer of facilities (Note 32)	—	—	(65,937)
Write-back of outstanding of payables (Note 32)	—	(2,903)	(20,354)
Amortization of deferred income	(2,299)	(8,377)	(11,164)
Interest expense on lease liabilities (Note 33)	57,670	57,629	67,648
Interest income	(4,606)	(8,310)	(9,927)
Operating profit before working capital changes	2,971,834	55,415	600,367
(Increase)/decrease in trade receivables	(638,401)	780,765	(637,544)
Decrease in materials and supplies	16,438	2,005	28,868
(Increase)/decrease in prepayments and other receivables	(64,221)	(108,998)	94,431
Decrease in long-term receivable	6,000	6,155	8,023
Increase in trade payables	98,393	701,825	993,459
Increase/(decrease) in accruals and other payables	358,625	159,454	(84,724)
Net cash generated from operations	<u>2,748,668</u>	<u>1,587,621</u>	<u>1,002,880</u>

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37. CASH FLOW GENERATED FROM OPERATIONS (CONTINUED)

(b) In the cash flow statement, proceeds from disposal of fixed assets comprise:

	2019 RMB'000	2020 RMB'000	2021 RMB'000
Net book amount (Note 6)	168,806	225,003	92,790
Payable arising from disposal of fixed assets	(2,063)	—	—
Transfer to materials and supplies	(2,272)	(27,151)	(9,740)
Loss on disposal of fixed assets and costs on repairs	(161,435)	(165,253)	(53,854)
Proceeds from disposal of fixed assets	<u>3,036</u>	<u>32,599</u>	<u>29,196</u>

(c) Material non-cash investing activities

	2019 RMB'000	2020 RMB'000	2021 RMB'000
Government grants relating to fixed assets (Note 6)	<u>—</u>	<u>—</u>	<u>673,878</u>

38. CONTINGENCY

There were no significant contingent liabilities as at December 31, 2021 and 2020 up to the date of approval of these financial statements.

39. COMMITMENTS

(a) Capital commitments

As at December 31, 2021 and 2020, the Group had the following capital commitments:

	2020 RMB'000	2021 RMB'000
Contracted but not provided for	444,270	46,553
Authorized but not contracted for	505,730	493,447
	<u>950,000</u>	<u>540,000</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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40. 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
<i>Single largest shareholder and its subsidiaries</i>	
Guangzhou Railway Group	Single largest shareholder
Guangzhou Railway Group YangCheng Railway Enterprise Development Company	Subsidiary of the single largest shareholder
Guangdong Railway Company Limited.	Subsidiary of the single largest shareholder
GIDC	Subsidiary of the single largest shareholder
Guangzhou Railway Material Supply Company	Subsidiary of the single largest shareholder
Guangzhou Railway Station Service Centre	Subsidiary of the single largest shareholder
Guangzhou Yuetie Operational Development Company	Subsidiary of the single largest shareholder
Guangzhou Railway Rolling Stock Works Company Limited	Subsidiary of the single largest shareholder
Guangdong Tieqing International Travel Agency Company Limited	Subsidiary of the single largest shareholder
Xiashen Railway Guangdong Company Limited	Subsidiary of the single largest shareholder
Guangzhou Railway Real Estate Construction Engineering Co., Ltd.	Subsidiary of the single largest shareholder
Guangdong Yuetong Railway Logistics Company Limited	Subsidiary of the single largest shareholder
Sanmao Railway Company Xiaotangxi Freight Field Service Company	Subsidiary of the single largest shareholder
Guangzhou Railway Technology Development Co., Ltd.	Subsidiary of the single largest shareholder
Guangzhou Anmao Railway Consulting Construction Company Limited	Subsidiary of the single largest shareholder
Guangzhou Beiyang Information Technology Company Limited	Subsidiary of the single largest shareholder
Hunan Railway Lianchuang Technology Development Co., Ltd.	Subsidiary of the single largest shareholder
Guangzhou Northeast Freight Car Outer Winding Railway Co., Ltd.	Subsidiary of the single largest shareholder
Hunan Changtie Loading & Unloading Co., Ltd.	Subsidiary of the single largest shareholder
Guangzhou Ruiwei Economy Development Co., Ltd	Subsidiary of the single largest shareholder
Guangzhou Railway Technology Development Surveying Co., Ltd.	Subsidiary of the single largest shareholder

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40. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Nature of the principal related parties that do not control/are not controlled by the Company (continued):

(ii) Associates of the Group:

Associates of the Group

Tiecheng

Associate of the Group

Shentu

Associate of the Group

(iii) Relationship with CSRG and other railway companies

On March 14, 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 CSRG. Accordingly, the equity interests of Guangzhou Railway Group which was wholly controlled by MOR previously were transferred to the CSRG (“Reform”). The Reform was completed since January 1, 2017 and the Company disclosed details of transactions undertaken with CSRG Group for the years of 2019, 2020 and 2021 for reference. Unless otherwise specified, the transactions with CSRG Group disclosed below have excluded transactions undertaken with Guangzhou Railway Group and its subsidiaries.

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40. 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:

	2019 RMB'000	2020 RMB'000	2021 RMB'000
<i>Provision of services and sales of goods</i>			
<i>Transportation related services</i>			
Provision of train transportation services to Guangzhou Railway Group and its subsidiaries (i)	2,060,518	2,345,512	3,323,844
Revenue collected by CSRG for railway network usage and related services provided to Guangzhou Railway Group and its subsidiaries (ii)	1,563,191	1,332,346	1,325,614
Revenue from railway operation service provided to Guangzhou Railway Group's subsidiaries (iii)	812,470	842,350	865,220
	<u>4,436,179</u>	<u>4,520,208</u>	<u>5,514,678</u>
<i>Other services</i>			
Sales of materials and supplies to Guangzhou Railway Group and its subsidiaries (iv)	45,642	34,705	89,042
<i>Services received and purchase made</i>			
<i>Transportation related services</i>			
Provision of train transportation services by Guangzhou Railway Group and its subsidiaries (i)(vi)	774,291	753,288	796,142
Cost settled by CSRG for railway network usage and related services provided by Guangzhou Railway Group and its subsidiaries (ii)	2,194,467	1,985,768	2,896,222
	<u>2,968,758</u>	<u>2,739,056</u>	<u>3,692,364</u>
<i>Other services</i>			
Provision of repair and maintenance services by Guangzhou Railway Group and its subsidiaries (iv)	441,719	297,809	311,080
Purchase of materials and supplies from Guangzhou Railway Group and its subsidiaries (iv)	623,433	722,487	770,683
Provision of construction services by Guangzhou Railway Group and its subsidiaries (v)	363,424	285,616	172,592
	<u>1,428,576</u>	<u>1,305,912</u>	<u>1,254,355</u>

(i) The service charges are determined based on a pricing scheme set by the CSRG or based on negotiation between the contracting parties with reference to actual costs incurred.

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40. 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 (continued):
- (ii) Such revenues/charges are determined by the CSRG 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) Based on construction amount determined under national railway engineering guidelines.
 - (vi) The amount recognized in 2021 does not include the payment of short term leases related to the lease of passenger trains paid to Guangzhou Railway Group amounting to RMB400,473,000 (2019 and 2020: RMB247,714,000 and RMB292,603,000).
- (II) Material transactions with CSRG and other railway companies
- When the passenger trains and freight trains operated by the Group pass through rail lines owned by other railway companies controlled by the CSRG, the Group need to pay those companies for the services rendered (track usage, locomotive traction and electric catenaries service, etc.), and vice versa. The charge rate of such services are instructed by the CSRG and are collected and settled by the CSRG according to its central recording and settlement systems (see details in note 2.22).

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40. 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 CSRG 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 CSRG Group:

	2019 RMB'000	2020 RMB'000	2021 RMB'000
<i>Provision of services and sales of goods</i>			
<i>Transportation related services</i>			
Provision of train transportation services to CSRG Group (i)	69,958	57,349	138,219
Revenue collected by CSRG for services provided to CSRG Group (ii)	2,479,015	2,105,206	2,275,132
Revenue from railway operation service provided to CSRG Group (iii)	2,392,333	2,214,460	2,232,346
	<u>4,941,306</u>	<u>4,377,015</u>	<u>4,645,697</u>
<i>Other services</i>			
Provision of repairing services for cargo trucks to CSRG Group (ii)	370,990	436,955	470,143
Sales of materials and supplies to CSRG Group (iv)	8,330	—	—
Provision of apartment leasing services to CSRG Group (iv)	574	456	2,064
Others	—	887	607
	<u>379,894</u>	<u>438,298</u>	<u>472,814</u>
<i>Services received and purchases made</i>			
<i>Transportation related services</i>			
Provision of train transportation services by CSRG Group (i)(vi)	37,408	18,872	58,121
Cost settled by CSRG for services provided by CSRG Group (ii) (vi)	2,107,765	1,506,541	1,769,170
	<u>2,145,173</u>	<u>1,525,413</u>	<u>1,827,291</u>
<i>Other services</i>			
Provision of repair and maintenance services by CSRG Group (iv)	29,066	28,928	28,185
Purchase of materials and supplies from CSRG Group (iv)	23,968	12,362	3,203
Provision of construction services by CSRG Group (v)	23,636	2,662	—
	<u>76,670</u>	<u>43,952</u>	<u>31,388</u>

- (i) The service charges are determined based on a pricing scheme set by the CSRG or based on negotiation between the contracting parties with reference to actual costs incurred.

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40. 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 CSRG and other railway companies (continued):
- (ii) Such revenue/charges are determined by the CSRG 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) Based on construction amounts determined under national railway engineering guidelines.
- (vi) The amount recognized in 2021 does not include the payment of short term leases related to the lease of passenger trains and freight trains to CSRG amounting to RMB 1,286,566,000 (2019 and 2020: RMB436,323,000 and RMB554,003,000)
- (III) Revenues collected and settled through the CSRG:

	2019 RMB'000	2020 RMB'000	2021 RMB'000
- Passenger transportation	7,475,003	3,769,231	6,054,100
- Freight transportation	1,740,907	1,456,605	1,701,842
- Other transportation related services	74,870	24,048	8,488
	<u>9,290,780</u>	<u>5,249,884</u>	<u>7,764,430</u>

(IV) Lease – as lessee:

In 2021, the depreciation expense of the right-of-use assets was RMB16,246,000 (2019 and 2020: RMB 13,378,000), the interest expense of lease liabilities was RMB67,605,000 (2019 and 2020: RMB57,670,000 and RMB 57,629,000), and the actual payment to Guangzhou Railway Group was RMB61,887,000 (2019 and 2020: RMB59,620,000 and RMB60,750,000).

The payment of short-term leases related to related parties are shown in notes 40(c)(I)(vi) and 40(c)(II)(vi).

(d) Key management compensation

In 2021, the compensation paid or payable to key management for employee services was RMB4,151,000 (2019 and 2020: RMB4,073,000 and RMB3,696,000).

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(All amounts expressed in Renminbi unless otherwise stated)

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) As at December 31, 2021 and 2020, the Group had the following material balances maintained with related parties:

(II) Material balances with Guangzhou Railway Group and its subsidiaries:

	2020 RMB'000	2021 RMB'000
Trade receivables	1,853,846	2,881,069
- Guangzhou Railway Group (i)	208,024	600,042
- Subsidiaries of Guangzhou Railway Group (i)	1,645,822	2,281,027
- Associates	—	—
Less: Provision for impairment	(24,099)	(16,028)
	1,829,747	2,865,041
Prepayments and other receivables	59,580	83,808
- Guangzhou Railway Group	431	1,944
- Subsidiaries of Guangzhou Railway Group	59,070	81,790
- Associates	79	74
Less: Provision for impairment	(51)	(62)
	59,529	83,746
Prepayments for fixed assets and construction-in-progress	—	7,270
- Subsidiaries of Guangzhou Railway Group (ii)	—	7,270
- Associates	—	—
Trade and bill payables	1,243,372	1,882,872
- Guangzhou Railway Group (i)	67,889	71,414
- Subsidiaries of Guangzhou Railway Group (ii)	1,145,025	1,730,317
- Associates	30,458	81,141
Payables for fixed assets and construction-in-progress	876,031	1,038,742
- Guangzhou Railway Group	111,799	334,313
- Subsidiaries of Guangzhou Railway Group	342,123	326,023
- Associates	422,109	378,406
Contract liabilities	436	4,346
- Subsidiaries of Guangzhou Railway Group	297	3,940
- Associates	139	406
Accruals and other payables	443,754	495,930
- Guangzhou Railway Group	4,379	8,600
- Subsidiaries of Guangzhou Railway Group (iii)	426,821	468,064
- Associates (iv)	12,554	19,266

(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.

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

40. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) As at December 31, 2021 and 2020, the Group had the following material balances maintained with related parties (continued):

(I) Material balances with Guangzhou Railway Group and its subsidiaries (continued):

- (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 December 31, 2021 and 2020, all the balances maintained with related parties were unsecured, non-interest bearing and were repayable on demand.

(II) Material balances with CSRG Group:

	2020 RMB'000	2021 RMB'000
Due from CSRG Group		
- Trade receivables	1,101,951	783,707
- Other receivables	<u>183,021</u>	<u>87,251</u>
Due to CSRG Group		
- Trade payables and payables for fixed assets and construction-in-progress	71,082	114,481
- Other payables	<u>4,564</u>	<u>91,737</u>

As at December 31, 2021 and 2020, all the balances maintained with CSRG Group were unsecured, non-interest bearing and were repayable on demand.

Capital Increase Agreement

Party A: Guangshen Railway Co., Ltd.
 Domicile: No. 1052, Heping Road, Luohu District, Shenzhen
 Legal representative: Wu Yong

Party B: China Railway Express Co., Ltd.
 Domicile: No. 7, Zhonghe Road, Science City, Fengtai District, Beijing
 Legal representative: Zhou Hongyun

Party A and Party B hereby, based on the principles of voluntariness, fairness and impartiality, enter into the following terms through friendly consultation in respect of matters concerning Party B's capital increase by Party A in accordance with the relevant laws and regulations of the People's Republic of China:

Article I Overview of Capital Increase Plan

In order to optimize Party B's capital structure, improve operating efficiency and market competitiveness, and achieve high-quality development, Party B shall carry out the capital increase according to the *Notice of China State Railway Group Co., Ltd. on Capital Increase of China Railway Express Co., Ltd.* (TJKH [2020] No. 89).

Party B plans to increase its capital by RMB 21,187,339,531.23, including RMB 20,998,817,254.53 to be increased by China State Railway Group Co., Ltd. (hereinafter referred to as "China State Railway Group") by means of debt-to-equity swap, RMB 102,457,758.60 to be increased by Tibet Lingfeng Industrial Group Co., Ltd. (hereinafter referred to as "Tibet Lingfeng") and RMB 86,064,518.10 to be increased by Party A in cash according to their respective original shareholding ratios.

After the capital increase, the registered capital of Party B will increase to RMB 24,079,695,290, where the shareholding ratio of China State Railway Group will increase to 94.67%, the shareholding ratio of 18 wholly-owned railway bureau group companies of China State Railway Group will decrease to 4.44%, and the shareholding ratios of Tibet Lingfeng and Party A will remain unchanged at 0.48% and 0.41% respectively.

Article II Method and Amount of Capital Increase

Party A will increase Party B's capital by RMB 86,064,518.10 in cash.

Article III Capital Increase Account

Party A shall remit the total capital increase amount of RMB 86,064,518.10 to the account designated by Party B, and the specific bank account information is as follows:

Company name: China Railway Express Co., Ltd.
 Bank of deposit: Beijing Qingnianhu Sub-branch of Industrial and Commercial Bank of China
 Account No.: 0200204309020008885

Article IV Share Conversion Ratio

The total amount of this capital increase is RMB 21,187,339,531.23, which will be converted into Party B's shares at a ratio of 1:1, totaling 21,187,339,530 shares, and the remaining RMB 1.23 will be transferred to Party B's capital reserve. The amount of capital increase by Party A will be converted into 86,064,518 shares, and the remaining RMB 0.10 will be transferred to Party B's capital reserve.

Article V Number and Proportion of Shares Held

Before this capital increase, Party A holds 11,748,960 shares of Party B, with a shareholding ratio of 0.41%; after this capital increase, Party A will hold 97,813,478 shares of Party B, with the shareholding ratio remaining unchanged at 0.41%.

Article VI Approval and Recognition

The capital increase project has been approved by the respective authorities of Party A and Party B. Party B shall apply for the change of industrial and commercial registration related to this capital increase.

Article VII Force Majeure

If any unavoidable and insurmountable objective circumstances that are unforeseeable by the Parties at the time of signing of the Agreement occur at any time before the end of the performance of the Agreement, including earthquake, flood, major infectious diseases, war and other force majeure events, the Parties may decide to suspend or terminate the performance of the Agreement through consultation.

Article VIII Liability for Breach of Agreement

Both Parties shall strictly abide by this Agreement once this Agreement is signed. If either Party breaches this Agreement, it shall bear the losses caused thereby to the observant party.

Article IX Dispute Settlement

Any disputes arising out of or in connection with the Agreement shall be settled by the Parties through friendly negotiation. If such negotiation fails, a lawsuit shall be filed with the Railway Transportation Court of Guangzhou.

Article X Matters Not Covered

This Agreement is the basic principle and content agreed by the Parties for this capital increase. For specific matters involved and matters not covered herein, the Parties may enter into a supplementary agreement without violating the provisions of the Agreement. The supplementary agreement shall have the same legal effect as this Agreement.

Article XI Effectiveness

This Agreement shall come into effect after being stamped by both Parties and signed by the legal representatives or authorized representatives of both Parties. This Agreement is made in quadruplicate, with each Party holding two copies.

This page has no text and is the signing page of the Capital Increase Agreement between Guangshen Railway Co., Ltd. and China Railway Express Co., Ltd.

Party A: (seal)

Legal representative (person in charge) or entrusted agent:

Chen Longwei

(Signature)

June 4, 2021

Party B: (seal)

Legal representative (person in charge) or entrusted agent:

Zhou Hongyun

(Signature)

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, 2021:

	<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%
Guangshen Railway Economic and Trade Enterprise Company Limited	PRC	100%
Shenzhen Railway Station Passenger Services Company Limited	PRC	100%
Guangzhou Railway Huangpu Service Company Limited	PRC	100%
Zengcheng Lihua Stock Company Limited	PRC	44.7%

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 Guangshen as of, and for, the periods presented in this report;
4. Guangshen’s other certifying officers 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 Guangshen 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 Guangshen, 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 Guangshen’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 Guangshen’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, Guangshen’s internal control over financial reporting; and
5. Guangshen’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Guangshen’s auditors and the audit committee of Guangshen’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 Guangshen’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 Guangshen’s internal control over financial reporting.

Date: April 28, 2022

/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 Guangshen as of, and for, the periods presented in this report;
4. Guangshen’s other certifying officers 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 Guangshen 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 Guangshen, 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 Guangshen’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 Guangshen’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, Guangshen’s internal control over financial reporting; and
5. Guangshen’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Guangshen’s auditors and the audit committee of Guangshen’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 Guangshen’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 Guangshen’s internal control over financial reporting.

Date: April 28, 2022

/s/ Hu Lingling

Hu Lingling

General Manager

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE

SARBANES-OXLEY ACT OF 2002

I, Luo Xinpeng, 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 Guangshen as of, and for, the periods presented in this report;
4. Guangshen’s other certifying officers 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 Guangshen 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 Guangshen, 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 Guangshen’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 Guangshen’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, Guangshen’s internal control over financial reporting; and
5. Guangshen’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Guangshen’s auditors and the audit committee of Guangshen’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 Guangshen’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 Guangshen’s internal control over financial reporting.

Date: April 28, 2022

/s/ Luo Xinpeng

Luo Xinpeng

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, 2021, as filed with the Securities and Exchange Commission on the date hereof, or the Report, the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) 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 28, 2022

/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, 2021, as filed with the Securities and Exchange Commission on the date hereof, or the Report, the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) 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 28, 2022

/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, 2021, as filed with the Securities and Exchange Commission on the date hereof, or the Report the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) 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 28, 2022

/s/ Luo Xinpeng

Luo Xinpeng

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.