ANNUAL REPORT

2012 年度報告

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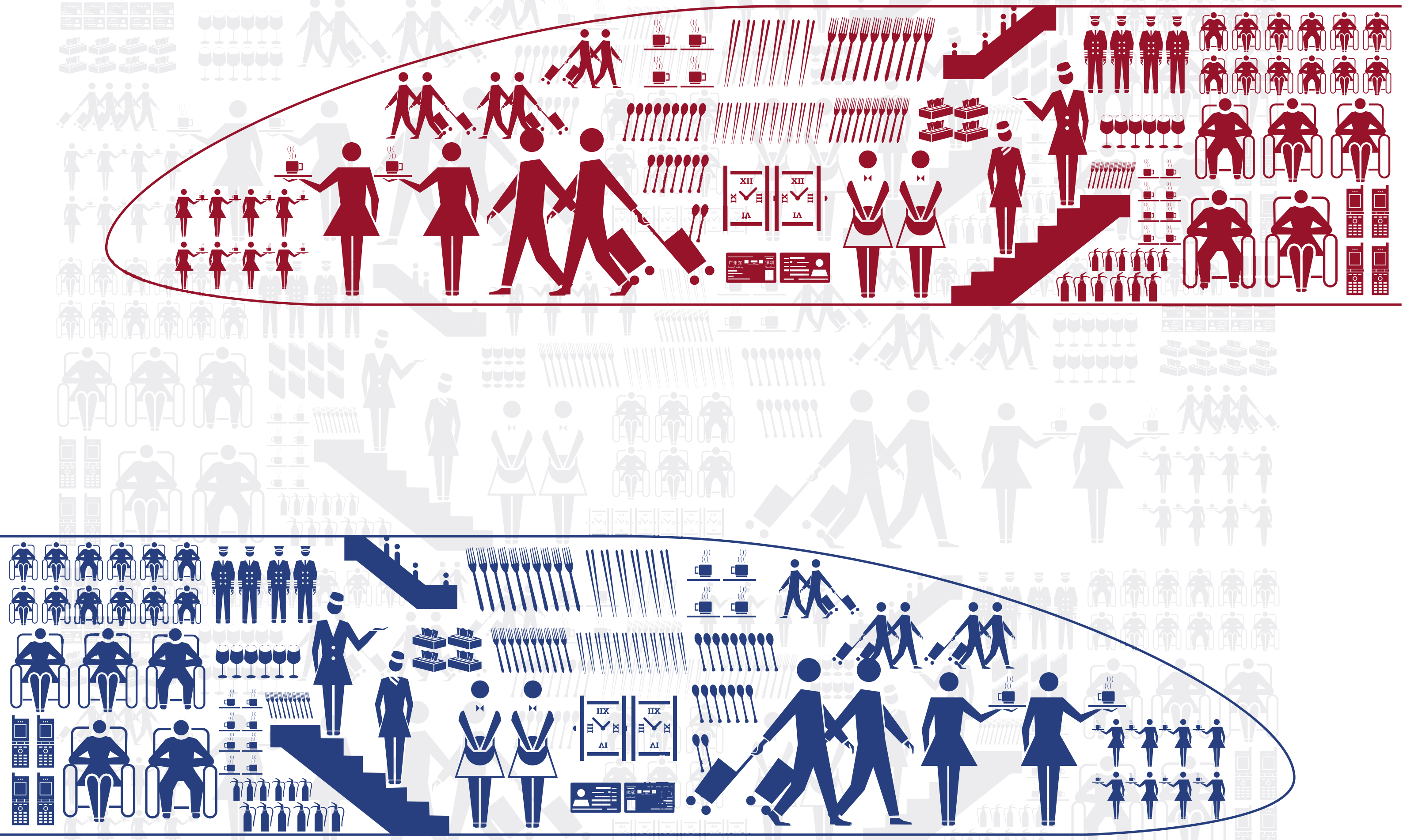


GSRC
广深铁路

ANNUAL REPORT

2012 年度報告

Guangzhou-Shenzhen, Guangzhou-Pingshi and Canton Kowloon

Main Stops of Trains

84,598.7 ('000 persons)

45,050.5 ('000 persons)

35,784.1 ('000 persons)

3,764.1 ('000 persons)

Volume of passenger traffic: 26,788.80 million passenger-kilometers

- Total passenger delivery volume of 2012
- Passenger delivery volume of long-distance trains
- Passenger delivery volume of Guangzhou-Shenzhen inter-city trains
- Passenger delivery volume of Hong Kong Through Trains

62,671.1 ('000 tonnes)

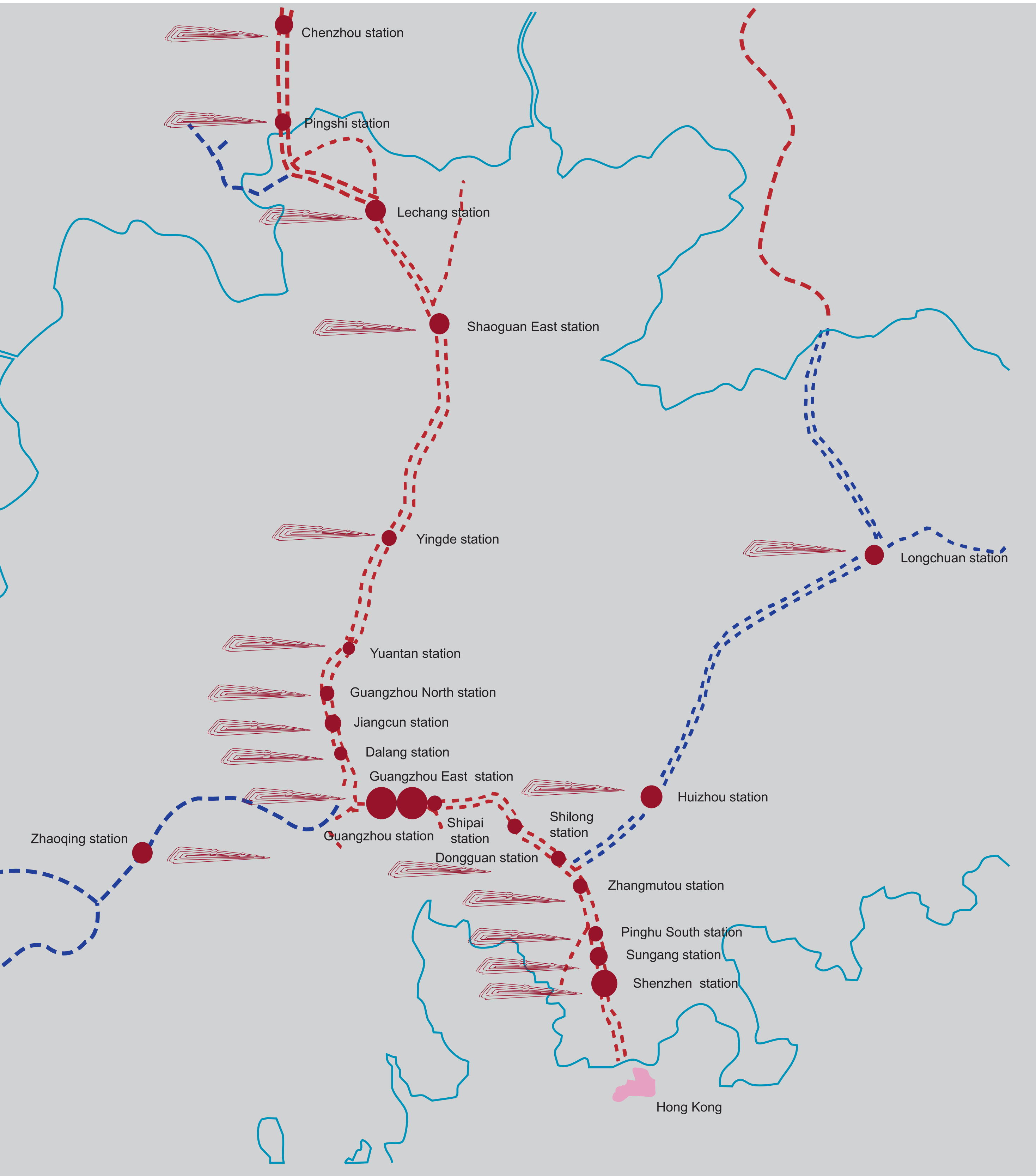
21,372.8 ('000 tonnes)

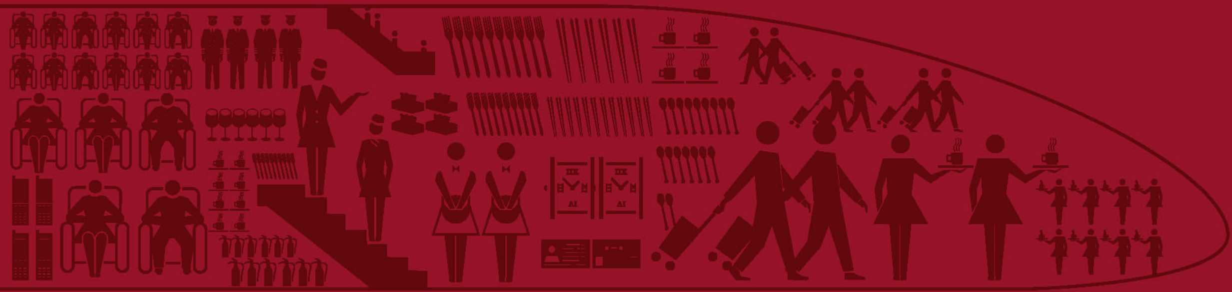
41,298.3 ('000 tonnes)

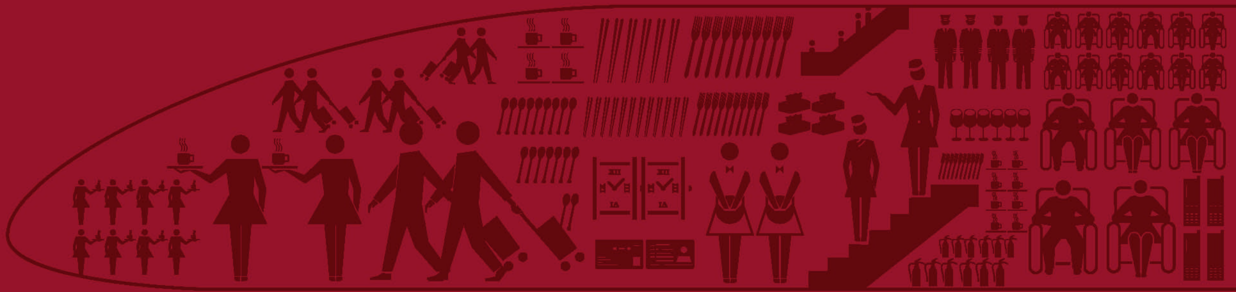
Volume of freight traffic: 14,620.50 million tonne-kilometers

- Total tonnage of freight of 2012
- Outbound freight tonnage
- Inbound freight tonnage (including arrival and pass-through tonnage)

- Single-track railways
- Double- and multi-track railways
- Railways under construction
- Joint venture railways and local railways


Chenzhou station
Pingshi station
Lechang station
Shaoguan East station
Yingde station
Longchuan station
Yuantan station
Guangzhou North station
Jiangcun station
Dalang station
Guangzhou East station
Huizhou station
Zhaoqing station
Guangzhou station
Shipai station
Shilong station
Dongguan station
Zhangmutou station
Pinghu South station
Sungang station
Shenzhen station
Hong Kong



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IMPORTANT NOTICE

The board of directors of the Company ("the Board"), the Supervisory Committee, Directors, Supervisors and senior management of the Company warrant that the contents of this annual report are authentic, accurate and complete, and there are no misrepresentations or misleading statements contained in or material omissions from this annual report, and severally and jointly accept the related legal responsibility.

All Directors of the Company attended the meeting of the Board considering this annual report.

The financial statements of the Company for the year were prepared in accordance with the International Financial Reporting Standards, and were audited and awarded an audit report with standardized and unqualified audit opinions by PricewaterhouseCoopers.

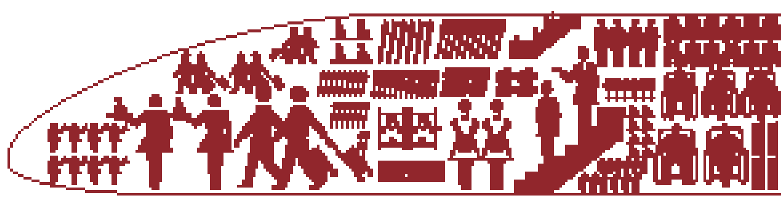
Mr. Li Wenxin, Chairman of the Board, Mr. Shen Yi, General Manager, Mr. Tang Xiangdong, Chief Accountant, Mr. Lin Wensheng, Chief of Finance Department hereby declare that the authenticity, accuracy and completeness of the financial statements contained in this annual report are warranted.

At the twelfth meeting of the sixth session of the Board held on March 26, 2013, the profit distribution plan of the reporting period was passed upon consideration, and the Board recommended the payment of a final cash dividend for 2012 of RMB0.08 per share, including tax, to the shareholders of the Company, based on the total share capital of 7,083,537,000 shares as at December 31, 2012, totaling RMB566,682,960. The above proposal is subject to the 2012 annual general meeting to be held on May 23, 2013 for approval.

Forward-looking statements such as future plans and development strategies mentioned in this annual report do not constitute actual commitments of the Company to the investors. Investors are advised to consider the risks.

There is no non-regular appropriation of the Company's fund by its controlling shareholders and their related parties.

There is no violation of the decision-making procedures with respect to provision of external guarantee by the Company.

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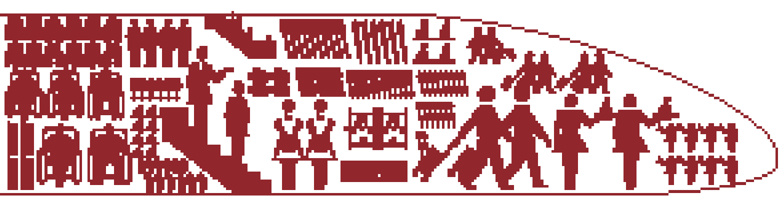

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Chapter 1

Definitions and Statement of Material Risks

I. DEFINITIONS

In this report, unless the context otherwise requires, the expressions as stated below will have the following meanings:

The Company, Company, Guangshen Railway	Guangshen Railway Company Limited
Reporting period, this period, this year	12 months from January 1 to December 31, 2012
Same period last year, last year	12 months from January 1 to December 31, 2011
A shares	Renminbi-denominated ordinary shares of the Company with a par value of RMB1.00 issued in the PRC and listed on the SSE for subscription in Renminbi
H shares	Overseas listed foreign shares of the Company with a par value of RMB1.00 issued in Hong Kong and listed on the SEHK for subscription in Hong Kong dollars.
ADS	U.S. dollar-denominated American Depositary Shares representing ownership of 50 H shares issued by trustees in the United States under the authorization of the Company
CSRC	The China Securities Regulatory Commission
SSRB	The Shenzhen Securities Regulatory Bureau of the China Securities Regulatory Commission
HKSFC	The Securities and Futures Commission of Hong Kong
SSE	The Shanghai Stock Exchange
SEHK	The Hong Kong Stock Exchange
NYSE	The New York Stock Exchange
SFO	The Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
Listing Rules	The listing rules of SEHK and/or the listing rules of SSE (as the case may be)
Articles	The articles of associations of the Company
Company Law	The Company Law of the People's Republic of China
Securities Law	The Securities Law of the People's Republic of China
MOR	The Ministry of Railways of the People's Republic of China (On March 10, 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 will be dismantled.)

GRGC, largest shareholder	Guangzhou Railway (Group) Company
GEDC	Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company
YCR	Guangzhou Railway Group YangCheng Railway Enterprise Development Company
GZIR	Guangdong Guangzhou-Zhuhai Inter-city Railway Traffic Co., Ltd.
WGPR	Wuhan-Guangzhou Passenger Railway Line Co., Ltd.
GSHER	Guangzhou-Shenzhen-Hong Kong Express Rail Link Company Limited

II. NOTICE OF MATERIAL RISKS

This annual report contains details of existing operating risks. Please read 'The Board's Discussion and Analysis on the Future Development of the Company' in the chapter 'Report of Directors' for details.

Chapter 2

Company Profile

I. GENERAL INFORMATION OF THE COMPANY

1. Company Information

Registered name of the Company	廣深鐵路股份有限公司
English name of the Company	Guangshen Railway Company Limited
Legal representative of the Company	Li Wenxin

2. Contact Person and Contact Information

	Company Secretary	Representative of Securities Affairs
Name	Guo Xiangdong	Zheng Bei
Address	No. 1052, Heping Road, Shenzhen Guangdong Province, The People's Republic of China	
Tel	(86) 755-25588150	
Fax	(86) 755-25591480	
Email	ir@gsrc.com	

3. Basic Information

Registered address and place of business of the Company	No. 1052, Heping Road Shenzhen, Guangdong Province The People's Republic of China
Postal code of the Company's Registered address and place of business of the Company	518010
Company's website	http://www.gsrc.com
Company's e-mail	ir@gsrc.com

4. Places for Information Disclosure and Reserve Address

Newspapers for information disclosure of the Company	China Securities Journal, Securities Times, Shanghai Securities News, Securities Daily
Websites publishing the annual report of the Company	http://www.sse.com.cn http://www.hkexnews.hk http://www.gsrc.com
Reserve address of the Company's annual report	No. 1052, Heping Road Shenzhen, Guangdong Province The People's Republic of China

5. Share information of the Company

Type of the Shares	Stock Exchange	Ticker Symbol	Share Code
A Share	Shanghai Stock Exchange	廣深鐵路	601333
H Share	The Stock Exchange of Hong Kong Limited	廣深鐵路	00525
ADS	The New York Stock Exchange, Inc.	—	GSH

6. Registration alternation of the Company during the reporting period

(1) During the reporting period, there was no alternation in the registration of the Company.
(2) For Details of the first time registration of the Company, please see 'General Particulars of the Company' in the 2006 annual report.
(3) There was no change in the principal business since the listing of the Company.
(4) There was no change in the largest shareholder since the listing of the Company.

7. Other relevant information

Domestic auditor	Name	PricewaterhouseCoopers Zhong Tian CPAs Limited Co.
	Office address	11/F PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai, The People's Republic of China
	Name of signing auditor	Yao Wenping Liu Jingping
International auditor	Name	PricewaterhouseCoopers
	Office address	22nd Floor, Prince's Building, Central, Hong Kong
Legal advisor as to PRC law	Name	Beijing Haiwen & Partners
	Office address	21st Floor, Beijing Silver Tower, No. 2 Dong San Huan North Road, Chao Yang District, Beijing Municipal, The People's Republic of China
Legal advisor as to Hong Kong law	Name	Cleary Gottlieb Steen & Hamilton (Hong Kong)
	Office address	39th Floor, Bank of China Tower, One Garden Road, Hong Kong
Legal advisor as to United States law	Name	Shearman & Sterling LLP
	Office address	12th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong
A Share registrar	Name	China Securities Depository and Clearing Corporation Limited Shanghai Branch
	Office address	36th Floor, China Insurance Building, No. 166, Lujiazui East Road, Pudong New district, Shanghai, The People's Republic of China
H Share registrar	Name	Computershare Hong Kong Investor Services Limited
	Office address	Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Depository	Name	JPMorgan Chase Bank, N.A.
	Office address	13th Floor, No. 4 New York Plaza, New York, USA
Principal banker	Name	Construction Bank of China Shenzhen Branch Jiabin Road Sub-branch
	Office address	1st to 4th Floors, Jinwei Building, Jiabin Road, Shenzhen, Guangdong Province, The People's Republic of China

II. COMPANY PROFILE

On March 6, 1996, the Company was registered and established in Shenzhen, the People's Republic of China (the 'PRC') in accordance with the Company Law of the People's Republic of China.

In May 1996, H shares and American Depositary Shares issued by the Company were listed on the SEHK and the NYSE respectively. In December 2006, the A Share issued by the Company were listed on the SSE. The Company is currently the only PRC railway enterprise with its shares listed in Shanghai, Hong Kong and New York.

The Company is mainly engaged in domestic passenger and freight transportation businesses, the Hong Kong Through Train passenger services in cooperation with MTR Corporation Limited (the 'MTR'), and management services for commissioned transportation for other railway companies in the PRC. The Company is also engaged in the provision of integrated services in relation to railway facilities and technology, commercial trading and other industrial businesses that are consistent with the Company's objectives.

The Shenzhen-Guangzhou-Pingshi Railway, which is operated solely and independently by the Company, runs 481.2 kilometers long in operation and connects the entire Guangdong Province vertically. Of which, Guangzhou-Pingshi Railway is the southern part of Beijing-Guangzhou railway, forming an aorta connecting north and south China, whereas Guangzhou-Shenzhen Railway is the only railway passway from mainland China to Hong Kong, and links with the Beijing-Guangzhou, Beijing-Kowloon, Sanshui-Maoming, Pinghu-Nantou, and Pinghu-Yantian lines, as well as to the railway in Hong Kong, forming an important integral part of the railway transportation network in the PRC.

Passenger transportation is the principal business of the Company. As of December 31, 2012, the Company operated 233.5 pairs of passenger trains each day, including 105 pairs of intercity high-speed passenger trains between Guangzhou and Shenzhen (including 19 stand-by pairs), 13 pairs of Hong Kong Through Trains (including 11 pairs of Canton-Kowloon Through Trains, 1 pair of Zhaoqing-Kowloon Through Trains and 1 pair of Beijing/Shanghai-Kowloon Through Trains) and 115.5 pairs of long-distance trains. The Company has successfully implemented the 'As-frequent-as-buses' operation for Guangzhou-Shenzhen inter-city trains, one pair of China Railway High-speed trains (the 'CRHs') is dispatched every 10 minutes on average during peak hours between Guangzhou and Shenzhen.

Freight transportation is an important business of the Company. Railways operated by the Company are closely linked with neighboring ports, logistic bases, building materials markets, large factories and mines and business cooperation has been established. The Company is well-equipped with comprehensive freight facilities and is able to efficiently transport full load cargo, single load cargo, containers, bulky and overweight cargo, dangerous cargo, fresh and live cargo, and oversized cargo. The Company enjoys competitive advantages in domestic freight transportation for medium to long distances in the PRC.

Railway operation service is an extended business of passenger and freight transportation expanded by the Company since the commencement of operation of WGPR in December 2009. So far, the Company has provided such service to WGPR, GZIR and GSHER. With the completion and commencement of operation of a series of high-speed railways and inter-city railways in "Pan Pearl River Delta" in the future, the geographical coverage of railway operation service provided by the Company will be more extensive. Railway operation service will also become a future business growth point of the Company.

Subsequent to the acquisition of the railway operating assets of Guangzhou-Pingshi Railway in 2007, the operation of the Company has expanded from a regional railway to national trunk line networks. The service coverage, operation scale and room for development of the passenger and freight transportation businesses are all significantly expanded, and both the integrated competitiveness and overall operating efficiency have also been greatly enhanced. Given sustained and stable growth of the PRC's economy, gradual deepening of the railway reform, strengthening of economic cooperation within the Pan Pearl River Delta, as well as increasingly frequent economic and trade exchanges among mainland China, Hong Kong and Macau, the Company will enjoy a more promising prospects for future development.

Chapter 3

Summary of Accounting Data and Financial Indicators

I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE PAST FIVE YEARS

(Unit: RMB thousand)

Income Items	2012	2011	Year-on-year increase/decrease (%)	2010	2009	2008
Total revenues	15,091,886	14,690,835	2.73	13,484,448	12,385,757	11,688,655
Total operating expenses	13,229,398	12,101,001	9.32	11,327,270	10,448,645	10,032,424
Profit from operations	1,934,303	2,564,048	(24.56)	2,110,118	1,920,304	1,677,855
Profit before tax	1,758,136	2,378,337	(26.08)	1,925,307	1,684,790	1,464,514
Profit after tax	1,316,985	1,802,372	(26.93)	1,484,918	1,341,387	1,193,907
Consolidated profit attributable to equity holders	1,318,938	1,804,107	(26.89)	1,486,062	1,342,450	1,193,668
Basic earnings per share (RMB)	0.19	0.25	(24.00)	0.21	0.19	0.17
Earnings per ADS (RMB)	9.31	12.73	(26.87)	10.49	9.48	8.43

Assets and Liabilities Items	At the end of 2012	At the end of 2011	Year-on-year increase/decrease (%)	At the end of 2010	At the end of 2009	At the end of 2008
Total assets	32,867,182	32,207,347	2.05	30,604,502	29,427,247	29,011,905
Total liabilities	6,871,143	6,819,939	0.75	6,381,926	6,122,892	6,483,166
Shareholders' equity interests (Excluding Non-controlling interests)	25,945,190	25,334,606	2.41	24,168,017	23,248,638	22,472,791
Net assets per share (RMB)	3.66	3.58	2.23	3.41	3.28	3.17

Chapter 4

Report of Directors

I. CHAIRMAN'S STATEMENT

Dear Shareholders,

I am hereby pleased to present the audited operating results of the Company and its subsidiaries for the year 2012 for the shareholders to review.

1. Business review

In 2012, in spite of a series of 'growth stabilization' control policies successively adopted by the PRC government in face of complex and changing economic environment both in China and overseas, the Chinese economy tumbled downwards with the GDP growth rate going down to 7.8%, whereas the railway transportation business also merely maintained truncated growth despite being a fundamental industry. For the entire year, all railways in the nation recorded a passenger delivery volume of 1,893 million persons, representing a year-to-year increase of 4.8%, while the tonnage of freight maintained at similar level as last year at 3,892 million tonnes. Facing an unfavorable operating environment comprising decelerating economic growth, overall downward demand on the transportation market and diversion of customers away to high-speed railways, the Board, management and entire staff of the Company persisted in following the spearhead of scientific development, strictly upheld the Company's operating objectives, accelerated migration of operation development mode, vigorously improved infrastructure safety proactively promoted the strategy of diversified operation, stepped up regulation of operation management, strived to enhance the quality of services, improved the production and living environments for its staff in real terms, and catalyzed the harmonic stability and healthy development of the Company. All these enabled the Company to achieve a passenger delivery volume of 84.5987 million persons, a tonnage of freight of 21.3728 million tonnes for the entire year, generating operating revenues of RMB 15,092 million, consolidated profit attributable to equity holders of RMB1,319 million, and basic earnings per share of RMB0.19.

In 2012, all members of the Board have conscientiously performed their duties under the Articles, and have faithfully, diligently, proactively and effectively completed their tasks. The Board has convened 6 meetings of the Board and 6 meetings of the audit committee in accordance with the laws, in which major issues related to the strategic development, corporate governance, production and operation as well as system establishment were solved through scientific decision-making process and reasonable arrangements. Paralleled to this, the Board emphasized enhancement of investors' relationship and information disclosure and has organized and convened the 2011 annual general meeting and 2012 extraordinary general meeting in the position of convener so as to maintain sound communication with the shareholders.

Return to the shareholders in the form of high percentage and stable cash dividend has always been the Company's dividend policy. The Board recommends the payment of final cash dividend for 2012 of RMB0.08 per share, representing 42.11% of the basic earnings per share of this year. The final dividend for 2012 shall be subject to approval at the annual general meeting to be held on May 23, 2013.

The achievement of the above performance by the Company is hinged on the trust and support from the shareholders and various sections of the public as well as the pervasive dedication and affirmative devotion of the Board, supervisory committee, management and all the staff of the Company. On behalf of the Board, I hereby express our earnest gratitude to different parties for their strong support and relentless efforts.

2. Prospects

Looking ahead into 2013, the Chinese economy still faces complex and changing internal and external environments, but under the stimulation by the early stage of 'growth stabilization' control policies and the efforts of the new government session in pushing forward a new round of economic reformation measures, the domestic economy will hopefully subsist the upward momentum since the fourth quarter of 2012 and continue to maintain stable growth at a relatively high pace. Optimistically, the railway transportation industry will also enter into a new phase of relative fast growth against a background of economic rebound, additional demand for passenger and freight transportation incited by the network formation and commencement of operation of the high-speed railways. The Company will capitalize on these opportunities and continue to strive for scientific development while rooting the establishment of the operating philosophies of 'service for customers, orientation towards people and corporate governance by law' on the basis of observing the requests of 'expediting development, innovating development, intensive development, safe development and comprehensive development', in order to forcefully develop the core business of passenger and freight transportation and expand the railway operation services, and simultaneously further perfect the corporate governance, regulate the operation and reinforce the management of the Company, and to accelerate the progress in the Company's safety, operation, construction, stability and other tasks.

In respect of safe production: to establish a solid belief in safe development, to reinforce safety infrastructure, to perfect the safety management system and to increase the investment into safety facilities, with the aims of always prioritizing the importance of transportation safety and creating advantageous conditions for production and operation.

In respect of corporate governance: to comply with the new requirements and new trends of both domestic and overseas regulatory authorities and stock exchanges in the continual perfection of corporate governance system and structure, to enhance the internal control system of the Company, to ensure the operation of the Company to be conducted in compliance with laws and regulations; to fortify implementation of the disclosure principle of 'truthfulness, accuracy, completeness, timeliness and fairness' in an effort to enhance the quality of information disclosure and increase the transparency of the Company.

In respect of operation management: to continue fulfillment of corporate responsibilities, to accelerate migration of operation development mode, to reinforce the consciousness as a corporate; to persist in customer and market orientation, to incessantly enhance the quality of service, to facilitate reform of freight transportation organization, to innovate operation mode of freight transportation, to augment the support for diversified economy, to effort for exploration of new business growth points; to strictly implement the internal control system, to regulate tender and procurement exercises, to perfect the management workflow, to reinforce budget management, to execute stringent cost and expense control.

I, together with the members of the Board, believe that in the forthcoming year, the Company is going to attain new achievements in different aspects, create new values for our shareholders and make fresh contributions to the establishment of a harmonious society under the strong support of all shareholders and various sections of the public, along with the joint efforts of the Board, supervisory committee, management and all the staff.

By order of the Board
Li Wenxin
Chairman of the Board

Shenzhen, China
March 26, 2013

II. THE BOARD'S DISCUSSION AND ANALYSIS ON THE OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

In 2012, the operating revenues of the Company were RMB15,092 million, representing an increase of 2.73% from RMB14,691 million of the same period of last year, among which revenues from passenger transportation, freight transportation, railway network usage and other transportation related services, and other businesses were RMB7,841 million, RMB1,344 million, RMB4,891 million and RMB1,016 million, respectively, accounting for 51.95%, 8.91%, 32.41% and 6.73% of the total revenues, respectively. Profit from operation was RMB1,934 million, representing a year-on-year decrease of 24.56% from RMB2,564 million; consolidated profit attributable to equity holders was RMB1,319 million, representing a year-on-year decrease of 26.89% from RMB1,804 million.

I. Analysis of principal operations

1. Changes in items of income statement and cash flow statement

Unit: RMB thousand

Item	Current period	Last period	Change (%)
Operating revenues	15,091,886	14,690,835	2.73
Operating expenses	13,229,398	12,101,001	9.32
Finance costs	187,073	190,970	(2.04)
Cash flows from operating activities	2,177,673	3,329,058	(34.59)
Cash flows from investing activities	(2,160,895)	(3,983,623)	(45.76)
Cash flows from financing activities	(708,522)	(637,736)	11.10

2. Revenue

(1) Passenger transportation

Passenger transportation, which is the most important transportation business segment of the Company, includes transportation business of Guangzhou-Shenzhen inter-city express trains, long-distance trains and Through Trains in Hong Kong. As at December 31, 2012, the Company operated a total of 233.5 pairs of passenger trains on a daily basis according to its train schedule, among which there were 105 pairs of Guangzhou-Shenzhen inter-city express trains (including 19 pairs of back up trains); 13 pairs of Hong Kong Through Trains (including 11 pairs of Canton-Kowloon Through Trains, 1 pair of Zhaoqing-Kowloon Through Trains and 1 pair of Beijing/Shanghai-Kowloon Through Trains) and 115.5 pairs of long-distance trains. The table below sets forth the revenues from passenger transportation and passenger delivery volumes for the period in comparison with those in the same period of last year:

	2012	2011	Year-on-year increase/ decrease (%)
Passenger transportation revenues (RMB)	7,841,090,787	8,026,512,295	(2.31)
— Guangzhou-Shenzhen inter-city trains	2,373,603,654	2,606,543,961	(8.94)
— Through Trains	480,223,336	461,034,860	4.16
— Long-distance trains	4,987,263,797	4,958,933,474	0.57
Passenger delivery volume (persons)	84,598,653	90,827,938	(6.86)
— Guangzhou-Shenzhen inter-city trains	35,784,133	39,046,241	(8.35)
— Through Trains	3,764,122	3,663,328	2.75
— Long-distance trains	45,050,398	48,118,369	(6.38)
Revenue per passenger delivered (RMB)	N/A	N/A	N/A
— Guangzhou-Shenzhen inter-city trains	66.33	66.76	(0.64)
— Through Trains	127.58	125.85	1.37
— Long-distance trains	N/A	N/A	N/A
Total passenger-kilometers (passenger-kilometers)	26,788,800,000	28,523,993,000	(6.08)
Revenue per passenger-kilometer (RMB)	0.29	0.28	3.57

- **The decrease in passenger transportation revenues was mainly due to:** decrease in the transportation capacity of the trains that led to decrease in the passenger delivery volume of Guangzhou-Shenzhen inter-city trains and thereby corresponding decreases in the revenue.

- **The decrease in the passenger delivery volume was mainly due to:** (1) decrease in number of trains in operation due to some CRHs being successively sent back to depot for inspection and repair as they reached the repair level for phase 4 repair project, leading to a more significant decrease in the transportation capacity of inter-city trains; (2) passenger overload was subject to new regulations and regular management by the industry responsible bureaus since the spring peak season of 2012 to ensure the operating safety of the trains and the quality of service of train stations and trains that led to a decrease in the passenger flow to a certain extent; (3) the diversion of customers away upon the opening and operation of the Beijing-Guangzhou high-speed railways and the commencement of operation of GSHER.

(2) Freight transportation

Freight transportation is the important transportation business segment of the Company including the freight transportation business on the Shenzhen-Guangzhou-Pingshi Railway. The table below sets forth the revenues from freight transportation and freight tonnage for the period in comparison with those in the same period of last year:

	2012	2011	Year-on-year increase/ decrease (%)
Freight transportation revenues (RMB)	1,344,113,255	1,386,753,009	(3.07)
— Outbound freight	461,792,700	417,148,899	10.70
— Inbound freight, including arrival and pass-through freight	831,916,546	913,564,224	(8.94)
— Other revenues from freight transportation	50,404,009	56,039,886	(10.06)
Tonnage of freight (tonnes)	62,671,108	68,702,788	(8.78)
— Outbound freight	21,372,843	22,331,366	(4.29)
— Inbound freight, including arrival and pass-through freight	41,298,265	46,371,422	(10.94)
Revenue per tonne (RMB)	21.45	20.18	6.29
— Outbound freight	21.61	18.68	15.69
— Inbound freight, including arrival and pass-through freight	20.14	19.70	2.23
Total tonne-kilometers (tonne-kilometers)	14,620,500,000	15,519,097,000	(5.79)
Revenue per tonne-kilometer (RMB)	0.09	0.09	—

- **The decrease in freight transportation revenues was mainly due to:** decrease in the inbound freight volume that led to decrease in the revenue from inbound freight transportation.

- **The decrease in freight volume was mainly due to:** (1) frail recovery in developed countries such as Europe and United States coupled with a slowdown in the economic growth in China that led to a decrease in freight going through railway transportation; (2) the opening and operation of the Yi (Yiyang)-Zhan (Zhanjiang) railway subsection has diverted some of the freights that originally transported by the Beijing-Guangzhou railway.

(3) Railway network usage and other transportation related services business

Railway network usage and services provided by the Company mainly include locomotive traction, track usage, vehicle coupling, electric catenary usage and other services, and the other transportation services include provision of railway operation services, locomotive and passenger car leasing and other transportation services. The table below sets forth the revenues from railway network usage and other transportation related services for the year in comparison with those of the same period of last year:

	2012	2011	Year-on-year increase/ decrease (%)
Railway network usage and other transportation related services (RMB)	4,890,639,998	4,255,995,409	14.91
(1) Railway network usage services	3,474,241,302	3,254,511,416	6.75
— Locomotive traction	1,549,459,970	1,413,007,929	9.66
— Track usage	1,059,938,819	1,021,080,360	3.81
— Vehicle coupling	337,928,100	313,791,771	7.69
— Electric catenary usage	326,567,693	302,359,373	8.01
— Other services	200,346,720	204,271,983	(1.92)
(2) Railway operation services	1,078,244,830	717,280,000	50.32
(3) Other transportation services	338,153,866	284,203,993	18.98

- **The increase in revenue from railway network usage services was mainly due to:** (1) an increase in the number of long-distance trains operated by other railway bureaus (companies) that ran to or ran through various stations within the Company's railway tracks; (2) an increase in the unit settlement price for railway locomotive traction fees in China.

- **The increase in revenues of railway operation services was mainly due to:** (1) an increase in the provision of services to WGPR and GZIR; (2) commencement to provide railway operation services to GSHER from December 26, 2011.

(4) Other businesses

Other businesses of the Company mainly include train repair, sales of materials and supplies, on-board catering services, sale of goods, labor services, leasing, loading and unloading and other businesses related to railway transportation. In 2012, revenues from other businesses of the Company were RMB1,016 million, representing a decrease of 0.54% from RMB1,022 million of the same period last year.

(5) Major customers

During the reporting period, turnover from top 5 customers of the Company was RMB13,465 million, accounting for 89.20% of the total operating revenues for the year.

3. Costs

(1) Analysis of costs

Unit: RMB thousand

By industry	Item	2012	Percentage to total cost (%)	2011	Percentage to total cost (%)	Year-on-year increase/ decrease (%)
Railway business	Business tax	340,035	2.77	369,115	3.32	(7.88)
	Labor and benefits	3,516,589	28.68	2,973,529	26.73	18.26
	Equipment leases and service	4,022,514	32.80	3,604,408	32.40	11.60
	Lease of land use right	54,800	0.45	53,600	0.48	2.24
	Materials and supplies	1,532,559	12.50	1,530,659	13.76	0.12
	Repair expenses (excluding materials and supplies)	696,884	5.68	647,120	5.82	7.69
	Depreciation of fixed assets	1,358,527	11.08	1,344,927	12.09	1.01
	Amortization of leasehold land payment	15,001	0.12	15,001	0.14	—
	Social services fees	93,090	0.76	115,190	1.04	(19.19)
	Utility and office expenses	107,216	0.87	128,795	1.16	(16.75)
	Others	525,806	4.29	340,789	3.06	54.29
	Subtotal	12,263,021	100.00	11,123,133	100.00	10.25
Other businesses	Business tax	32,845	3.40	32,148	3.29	2.17
	Labor and benefits	458,349	47.43	414,326	42.37	10.63
	Materials and supplies	317,738	32.88	391,673	40.05	(18.88)
	Depreciation of fixed assets	23,877	2.47	25,034	2.56	(4.62)
	Amortization of leasehold land payment	987	0.10	987	0.10	—
	Utility and office expenses	132,581	13.72	113,700	11.63	16.61
	Subtotal	966,377	100.00	977,868	100.00	(1.18)
Total		13,229,398	—	12,101,001	—	9.32

The increase in the costs of railway business was mainly due to: (a) increases in salaries across the industry, increases in the number of employees providing railway operation services, increases in housing fund and base of social security payments, and increases in salaries and benefits expenses; (b) the opening of Shenzhen-Shanghai South and Guangzhou-Yantai long distance trains by the Company in 2012, increases in the unit settlement prices for locomotive traction fees, electric catenary fees in China, and increases in expenses for railway network usage settlement; (c) increases in the railway operation services in 2012 provided to WGPR, GZIR and GSHER leading to increases in the related expenses and expenditures; (d) some CRHs being successively sent back to depot for inspection and repair as they reached the repair level for phase 4 repair project that led to the increase in repair expenses.

(2) Major suppliers

During the reporting period, purchases from top 5 suppliers of the Company was RMB4,114 million, accounting for 32.50% of the total purchases for the year.

4. Expenses

Unit: RMB thousand

Item	2012	2011	Year-on-year increase/ decrease (%)	Major reason for the changes
Finance costs	187,073	190,970	(2.04)	—
Income tax expenses	441,151	575,965	(23.41)	Decrease in total profit.

5. Cash flow

In 2012, the principal capital sources of the Company were revenues generated from operating activities. The Company's capital was mainly used for operating and capital expenses, payment of taxes and dividends. The Company has sufficient cash flow and it believes it has sufficient working capital, bank loans and other capital sources to meet its operation and development needs.

Unit: RMB thousand

	2012	2011	Year-on-year increase/ decrease (%)	Major reason for the changes
Net cash flows from operating activities	2,177,673	3,329,058	(34.59)	Mainly due to significant year-on-year increases in operating cash outflow expenses including expenses for purchase of goods, receipt of services and payment of employee salaries and benefits.
Net cash flows from investment activities	(2,160,895)	(3,983,623)	(45.76)	Mainly due to significant year-on-year decreases in time deposit of more than three months for the period
Net cash flows from financing activities	(708,522)	(637,736)	11.10	—

(II) Analysis of operation by industry, product or geography

1. By industry

Unit: RMB thousand

By industry	Revenue	Cost	Gross profit margin (%)	Year-on-year increase/ decrease in revenue (%)	Year-on-year increase/ decrease in cost (%)	Year-on-year increase/ decrease in gross profit margin (%)
Railway business	14,075,844	12,263,021	12.88	2.97	10.25	(5.75)
Other businesses	1,016,042	966,377	4.89	(0.54)	(1.18)	0.61
Total	15,091,886	13,229,398	12.34	2.73	9.32	(5.29)

2. By geography

Unit: RMB thousand

Region	Operating revenue	Year-on-year increase/ decrease in operating revenue (%)
PRC	15,091,886	2.73

(III) Analysis of assets and liabilities

1. Table of analysis of assets and liabilities

Unit: RMB thousand

Item	December 31, 2012	Percentage to total assets (%)	December 31, 2011	Percentage to total assets (%)	Increase/ Decrease (%)
Construction-in-progress	679,528	2.07	911,962	2.83	(25.49)
Prepayments for fixed assets and construction-in-progress	49,336	0.15	16,986	0.05	190.45
Long-term prepaid expenses	40,120	0.12	—	—	100.00
Materials and supplies	437,297	1.33	330,736	1.03	32.22
Trade receivables	1,000,025	3.04	613,999	1.91	62.87
Cash and cash equivalents	675,013	2.05	1,366,757	4.24	(50.61)
Employee benefits obligations	113,901	0.35	168,276	0.52	(32.31)

The decrease in construction-in-progress was mainly due to completion of the reconstruction work of Buji auxiliary passenger station and subsequent transfer to fixed assets.

The increase in prepayments for fixed assets and construction-in-progress was mainly due to prepayment for construction works.

The increase in long-term prepaid expenses was mainly due to purchase of uniforms for employees.

The increase in materials and suppliers was mainly due to increases in old rail materials and fuel.

The increase in trade receivables was mainly due to increases in unsettled amounts.

The decrease in cash and cash equivalents was mainly due to decreases in deposits held at call with banks.

The decrease in employee benefits obligations was mainly due to increases in retirement and staff resignation benefits paid during the year.

As at the end of the reporting period, the gearing ratio (calculated by total liabilities divided by total assets) of the Company was 20.91%.

As at the end of the reporting period, the Company had no charge on any of its assets and had not provided any guarantees, and had no entrusted deposits.

2. Assets at fair value and changes in the nature of measurement for the major assets

As at the end of the reporting period, the Company had no assets at fair value and there was no change in the nature of measurement for the major assets.

(IV) Analysis on investment position

1. General analysis on investments in external equity interests

During the reporting period, the Company had not made investment in securities such as stock, warrants or convertible bonds, and had not held or dealt in equity interests of other listed companies and non-listed financial enterprises. Details of investments on external equity interests of the Company at the end of the reporting period are set out in Notes 11 and 15 to the financial statements.

2. Entrusted investment and derivatives investment on non-financial companies

During the reporting period, there was no entrusted investment or entrusted loan or derivatives investment by the Company.

3. General use of raised proceeds

During the reporting period, the Company had not raised any funds and no funds raised previously have been used during the reporting period.

4. Use of non-raised proceeds

During the reporting period, material investment projects of the Company using non-raised proceeds are as follows:

Unit: RMB thousand

Project	Amount	Progress	Investment amount for the year	Accumulated actual investment amount
Purchase of two CRH1A-200 CRHs	265,050	Purchased	265,050	265,050
Purchase of 25T soft-seat trains for Canton-Kowloon Through Trains	240,000	Purchased	237,500	237,500
Replacement with new steel rails for Beijing-Guangzhou southbound line (165 km)	230,789	87% completed	200,446	200,446
Replacement of rail switches and switch sleepers for Beijing-Guangzhou main line (263 groups)	167,296	60% completed	134,057	134,057
Construction of Buji auxiliary passenger station building	618,880	Basically completed and commenced operation	151,414	573,596

III. THE BOARD'S DISCUSSION AND ANALYSIS ON THE FUTURE DEVELOPMENT OF THE COMPANY

(1) Industry development trend and competition scenario

Industry regulatory changes: The Company is principally engaged in the business of railway passenger and freight transportation. The railway passenger and freight transportation service is originally supervised by the MOR. 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 MOR will be dismantled. Administrative functions pertaining to railway development planning and policies will be covered by the Ministry of Transport. The proposed State Railway Administration, to be supervised by the Ministry of Transport, will run the other administrative functions of the MOR. The proposed China Railway Corporation will carry out the commercial function of the MOR.

The establishment of China Railway Corporation has been approved. It is a state-authorized investment institution and state holding company with registered capital of RMB1.036 trillion. The Ministry of Finance will fund its setting up on behalf of the State Council, while the Ministry of Transport and the State Railway Administration will supervise its business and performance.

Pursuant to the approved establishment plan of China Railway Corporation, the relevant assets, debt and employees of the original MOR will be transferred to China Railway Corporation. The interests in 18 railway bureaus (including GRGC and QingHai-Tibet Railway Company) under the MOR and relevant professional transport companies and other enterprises will be injected as the state-owned capital of China Railway Corporation.

China Railway Corporation will carry out the passenger and freight transportation service operation management function of the original MOR, and be responsible for relevant matters such as unified dispatch and command of railway transportation.

The above institutional reforms may result in changes in railway operation mode. The Company believes that such institutional reforms will not affect its present and future railway transportation business.

Industry development trend: being the aorta of the nation's economy, an important infrastructure of the nation and a popular form of transportation, railway is of crucial importance for nation's economic and social development. As current railway development in China falls short of satiating the demand for nation's economic and social development, leading to tight demand railway passenger and freight transportation, the State Council has promulgated the Medium and Long-term Plan for Adjustment of Railway Network and the 12th Five-Year Development Plan for Integrated Transportation System in 2008 and 2012, respectively, which has opened up a new peak in the construction of railways, especially high-speed railways and inter-city railways, in China. Accordingly, it is anticipated that in a rather long time coming, the railway transportation industry will greet a new period of development opportunities with the capacity for railway passenger and freight transportation and market competitive position achieving notable enhancements as the PRC sustains continued stable growth, the State's high-speed railway network with Four East-West Lines and Four South-North Lines and numerous inter-city railways complete construction and commence operation, as well as the marketization reform of the railway industry proceeds.

Industry competition scenario: in the railway transportation industry which is naturally monopoly, competition within the industry has always been very low. Currently, competition mainly comes from other transportation industries such as highway, aviation and water transportation, and is expected to exist in the long run. However, 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, the entry barrier to the industry will decrease, investors of the industry will become more diversified and the State's high-speed railway network with Four East-West Lines and Four South-North Lines and numerous inter-city railways will complete construction and commence operation, the competition structure of the railway transportation industry is expected to experience substantial changes in the future, with more intense competition not only externally from the highway, aviation and water transportation industries but also within the industry itself.

(2) Development strategies of the Company

Following the spearhead of scientific development, the Company will capitalize the historic opportunity of extensive railway construction, proactively adapt to the policy direction of railway system reform in order to establish a steadfast foothold in the Pan Pearl River Delta, perfect and enhance its business portfolio centered on railway passenger and freight transportation and complemented by the railway-related businesses. Striving to become a top-notch railway transportation services enterprise in the PRC and actualize its development objective of scaling up and consolidating its strengths, the Company will also focus on the improvement of quality of service in the continued efforts for the advancement of management innovation, service innovation and technology innovation.

(3) Operating plans for 2013

At the twelfth meeting of the sixth session of the Board held on March 26, 2013, the financial budget for 2013 were passed upon consideration. The Company plans to achieve passenger delivery volume of 90.65 million persons (excluding commissioned transportation), goods delivery volume of 21.7 million tonnes. To actualize the aforesaid objectives, the Company will follow the sound leadership and scientific decisions of the Board and carry through the spirit of the 18th National Congress of the CPC and the deployment requirements for the scientific development of the railway industry under the guidance of scientific development, and on the other hand persevere in the principle of 'reinforcing the foundation and enhancing the quality', fulfill the responsibilities as a market corporate, adjust its mode of development, fortify the safety foundation, regulate the management of operation, enhance the quality of service, with a focus on the following tasks:

(1) In respect of safe production: to perfect the management and coordination system for safety risks, step up the research and judgment of safety risks, implement the precautionary and control measures for safety risks; step up the regulation and control of material safety risks, coordinate plans and budgets, and prioritize input into regulatory items under control projects for material safety risks.

(2) In respect of passenger transportation business: firstly, in response to the new situation of the transportation market after GSHER commences operation, to increase the marketing efforts for the Guangzhou-Shenzhen section of passenger transportation, to enhance the operating plan of Guangzhou-Shenzhen section, to aggressively explore new growth points for the Guangzhou-Shenzhen inter-city passenger trains, to expedite the establishment of new inter-city passenger transportation business at Pinghu stations. Secondly, to leverage on the opportunities brought by the completion of reconstruction and commencement of operation of Shenzhen East station in order to enhance the operating plans for long-distance trains in the Shenzhen region, and to improve the transportation capacity and transportation efficiency of long-distance trains. Thirdly, to persistently cater to the needs of travelers, improve the hardware of passenger transportation services, and enhance the quality of passenger transportation services.

(3) In respect of freight transportation: firstly, to fully capitalize the opportunities of release of the freight transportation capability of Beijing-Guangzhou line, to optimize and consolidate the freight transportation resources within the channel, to research and innovate new model of freight transportation operation, to introduce new marketing systems, and to promote the logisticization and marketization of the freight yards. Secondly, to advance the reform of freight transportation organization, to build an e-commerce platform for freight transportation, to adjust the model of services and to enhance the quality of service.

(4) In respect of financial management: to strengthen budget management, and to reasonably arrange budgeting expenses in stringent adherence to the principle of 'weighting the importance and urgency, all-round coordinating, highlighting the key points, balancing income and expense' on the prerequisite of ensuring the safety of transportation and quality of service. To raise the quality of the tendering process, to regulate procurement activities, and to effectively lower the procurement expenses of the Company.

(4) Future capital demand

Currently, the Company has not investment projects of significant amount under way, and possesses adequate liquidity to maintain existing businesses. In 2013, apart from daily operating expense, the Company has planned for capital investment projects with a capital demand of approximately RMB1,866 million, which will be funded by its own accumulated funds from daily operating revenues. For details of capital commitments and operation commitments of the Company as at the end of the reporting period, please read note 38 to the financial statements.

(5) Potential risks

(1) Risks of operating environment: as the main supplier for the Shenzhen-Guangzhou-Pingshi railway transportation business, the passenger and freight transportation service of the Company mainly draws businesses from Guangdong and Hong Kong. The economic development and growth of these places pose direct influences on the development of the Company's passenger and freight transportation business. Any slowdown in the economy growth of Guangdong and Hong Kong will lead to insufficient market demand for the transportation service of the Company and thereby affect the passenger and freight transportation business of the Company.

(2) Risks of market competition: the passenger and freight transportation service of the Company competes with other modes of transportation such as highways, water transportation and aviation. In many aspects including price, convenience, running frequency, quality of service and safety, the Company competes with vehicle transportation companies, shipping companies and airlines. Furthermore, with the opening of numerous high-speed passenger special railway lines in China and the gradual maturity of the rail transportation network in the Pearl River Delta, there is notable changes in the competition related to passenger and freight transportation in areas covered by the Company's passenger and freight transportation service, which brings along relatively high risks to the Company's existing passenger and freight transportation business.

(3) Risks of fluctuations and adjustments in transportation price: transportation price is one of the chief factors affecting the operating revenue of the Company. Any adjustments in the railway transportation price policy or any discrepancy between the implemented price with the expected price under the transportation price policy caused by market and other reasons will create risks to the operation of the Company.

(4) Financial risks: details on potential financial risks faced by the Company are set out in Note 3 to the financial statements.

(5) Risks of natural disasters: compared to other forms of transportation, railway transportation is less affected by natural disasters. However, serious natural disasters such as widespread and sustained rain, snow and cold temperature and floods pose relatively serious threats to railway transportation and bring relatively significant risks to the operation of the Company.

IV. DURING THE REPORTING PERIOD, THERE WAS NO CHANGE IN THE COMPANY'S ACCOUNTING POLICIES, ACCOUNTING ESTIMATES, AUDIT METHODS AND RECTIFICATION OF MATERIAL ACCOUNTING ERRORS OF PREVIOUS ACCOUNTING PERIODS.

V. PLANS FOR PROFITS DISTRIBUTION OR COMMON RESERVE CAPITALIZATION

(1) Formulation, implementation, adjustment of cash dividend distribution policy

Pursuant to the related requirements of the 'Notice on Further Implementing Issues concerning Cash Dividends Distribution of Listed Companies' by CSRC and SSRB, in order to further perfect the Company's cash dividend distribution policy, regulate the decision-making mechanisms and procedures concerning its distribution plan, protect the interests of its investors, and improve the transparency of the work of cash dividend distribution, the Company proposes to amend provisions related to profit distribution in the Articles during the reporting period. The amended Articles clearly stipulate the standards, percentages and related decision-making procedures for cash dividend distribution by the Company, the detailed conditions, decision-making procedures and mechanisms for adjustments to the profit distribution policy by the Company, which will provide systematic guarantee of the due diligence of the Independent Directors and the full expression of the minority shareholders' requests and fully protect the legal interests of minority shareholders.

Since its listing in 1996, the Company has consistently adhered to a sustained and stable profit distribution policy, emphasized on reasonable return to investors, and at the same time strived for the sustainable development of the Company. During the reporting period, the Company implemented the profit distribution plan for 2011 and distributed a cash dividend of RMB1.00 (tax inclusive) per 10 shares to all shareholders of the Company, totaling RMB708,353,700 on the basis of the total share capital at the end of 2011.

(2) Profit distribution plan or budget of the Company for the past three years (including the reporting period)

Unit: RMB thousand

Year of distribution	Amount of dividend per 10 shares (incl. tax)	Amount of cash dividend (incl. tax)	Net profit for the year of distribution (*)	Percentage to net profit (%)
2012	0.80	566,683	1,318,938	42.97
2011	1.00	708,354	1,804,107	39.26
2010	0.90	637,518	1,486,062	42.90

* represents the consolidated profit attributable to the shareholders audited in accordance with the International Financial Reporting Standards.

Explanation of the profit distribution plan 2012: the Board recommended the payment of a final cash dividend for 2012 of RMB0.08 per share, including tax, to the shareholders of the Company, based on the total share capital of 7,083,537,000 shares as at December 31, 2012, totaling RMB566,682,960. The above proposal is subject to the 2012 annual general meeting to be held on May 23, 2013 for approval.

For holders of A Shares, the Company will issue a separate announcement on distribution of dividends for 2012 which contains details of the distribution of the final dividends for 2012. Holders of A Shares are reminded to carefully read the announcement.

For holders of H Shares, the final dividends for 2012 will be distributed to shareholders whose names appear on the register of members of the Company's H shares on June 3, 2013. The register of members of the Company's H shares will be closed from May 29, 2013 to June 3, 2013 (both days inclusive). For any holders of H Shares to be qualified for the final dividends, all share transfer documents, accompanied by the relevant share certificates, must be lodged with Hong Kong Registrars Limited, the registrar of H Shares of the Company, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on May 28, 2013. For other matters related to the distribution of the final dividends for 2012 to holders of H Shares, holders of H Shares are reminded to carefully read the notice of the 2012 annual general meeting and the announcement of poll results of the 2012 annual general meeting issued or to be issued by the Company on March 26, 2013 and May 23, 2013, respectively.

To the best knowledge of the Company, as at the date of publication of this annual report, there were no any arrangements of shareholders waiving or agreeing to waive the proposed distribution of final dividend for 2012.

VI. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

During the reporting period, the Company did not have significant environment protection or other significant social safety issues. For Details of the fulfillment of social responsibilities by the Company in 2012, please read the Social Responsibility Report 2012 disclosed on the website of SSE (http://www.sse.com.cn), the website of SEHK (http://www.hkexnews.hk) and the website of the Company (http://www.gsrc.com).

VII. OTHER DISCLOSURES

1. Taxation

Details of income tax applicable to the Company during the reporting period are set out in Note 32 to the financial statements.

2. Interest Capitalized

During the reporting period, no interest was capitalized in the fixed assets or construction-in-progress of the Company.

3. Fixed Assets

Movements in the fixed assets of the Company during the reporting period are set out in Note 6 to the financial statements.

4. Undistributed Profit

Details of movements in the undistributed profit of the Company during the reporting period are set out in the Statements of Changes in Equity.

5. Statutory Surplus Reserve

Details of movements in the statutory surplus reserve of the Company during the reporting period are set out in Note 22 to the financial statements.

6. Subsidiaries

Details of the principal subsidiaries of the Company as at the end of the reporting period are set out in Note 10 to the financial statements.

7. Material investments held, material acquisitions and disposals of subsidiaries and associates, and future plans of material investments or acquisition of capital assets

Except as disclosed in this annual report, during the reporting period, the Company had no material investment held, and had not carried out any material acquisition or disposal of subsidiaries and associates. During the reporting period, the Company had no definite plan for material investment or acquisition of capital assets.

8. Risk of foreign currency fluctuations and related hedges

Details on the risks of foreign currency fluctuations and related hedges were set out in Note 3.1(b) to the financial statements.

9. Contingent liabilities

During the reporting period, the Company had no contingent liability.

Chapter 5

Matters of Importance

I. MATERIAL LITIGATION, ARBITRATION AND MATTERS DOUBTFUL TO THE GENERAL MEDIA

The Company was not involved in any material litigation, arbitration or any matters questioned by public media in the reporting period.

II. APPROPRIATION OF FUND AND PROGRESS OF DEBT CLEARANCE DURING THE REPORTING PERIOD

During the reporting period, there was no non-operational appropriation of the Company's fund by its controlling shareholders and their related parties.

III. BANKRUPTCY AND RESTRUCTURING AND SUSPENSION OF LISTING OR TERMINATION OF LISTING

During the reporting period, the Company had no matters in relation to bankruptcy, restructuring and no incidents of suspension of listing or termination of listing.

IV. TRADE OF ASSETS AND MERGERS OF ENTERPRISES

During the reporting period, the Company had no trade of assets or mergers of enterprises.

V. MATERIAL CONNECTED TRANSACTIONS

1. Connected transactions related to daily operations

Unit: RMB thousand

Party involved in connection transaction	Relationship	Type of connected transaction	Content of connected transaction	Pricing principle	Amount of connected transaction
GRGC and its subsidiaries	Largest shareholder and its subsidiaries	Provision of services	Revenues settled through the MOR	Determined by the MOR based on its standard charges applied to a nationwide basis	1,238,431
GRGC and its subsidiaries	Largest shareholder and its subsidiaries	Provision of services	Train services	Determined based on a pricing scheme set by the MOR or based on negotiation between the contracting parties with reference to full cost principle	352,973
GZIR and GSHER	Subsidiaries of largest shareholder	Provision of services	Railway operation services	Levied based on contract prices determined based on cost plus a profit margin and explicitly agreed between both parties	278,669
GRGC and its subsidiaries	Largest shareholder and its subsidiaries	Receipt of services	Train services	Determined based on a pricing scheme set by the MOR or based on negotiation between the contracting parties with reference to full cost principle	653,787
GEDC and YCR	Subsidiaries of largest shareholder	Receipt of services	Consolidated transportation services	Levied based on contract prices determined based on cost plus a profit margin and explicitly agreed between both parties	93,090
GRGC and its subsidiaries	Largest shareholder and its subsidiaries	Receipt of services	Maintenance and repair services	Determined based on negotiation between the contracting parties with reference to full cost principle	240,761
GRGC and its subsidiaries	Largest shareholder and its subsidiaries	Receipt of services	Project construction services	Determined by the budget under the national railway engineering quota	287,903
GRGC and its subsidiaries	Largest shareholder and its subsidiaries	Receipt of services	Railway network usage fees settled through the MOR	Determined by the MOR based on its standard charges applied to a nationwide basis	1,578,108
GRGC and its subsidiaries	Largest shareholder and its subsidiaries	Purchase of Goods	Purchase of materials and supplies	Determined by the parties after negotiation with reference to procurement cost plus management fee	766,309
GRGC and its subsidiaries	Largest shareholder and its subsidiaries	Sale of goods	Sale of materials and supplies	Determined based on negotiation between the contracting parties with reference to full cost principle	11,218
GRGC	Largest shareholder	Leasing of land	Lease of the land use right for the railway of Guangzhou-Pingshi section	Determined in reference to the contract between the both parties	54,800

Explanation regarding the daily continuing connected transactions:

The conditional leasing agreement entered into by the Company and GRGC on November 15, 2004 became effective on January 1, 2007, pursuant to which, the land use right for the Guangzhou-Pingshi Railway line was leased to the Company by GRCG for a leasing term of 20 years. It has been agreed by the two parties that the annual land rent should not exceed RMB74 million. In 2012, the Company paid a rent of RMB54.8 million to GRGC.

On October 27, 2010, the Company entered into a conditional comprehensive service framework agreement regarding a continuous connected transaction ("Comprehensive Service Framework Agreement") with GRGC and agreed the annual caps of the continuing connected transaction for each of the three financial years ended December 31, 2013. On December 21, 2010, the Company convened 2010 Extraordinary General Meeting, during which shareholders approved the Comprehensive Services Framework Agreement and confirmed the annual caps of the connected transaction for 2011 to 2013. During the reporting period, the amount of connected transactions between the Company and GRGC did not exceed the cap approved at the Extraordinary General Meeting.

As railway transportation business is conducted on an inseparable network of rail lines, the Company must use the rail lines under the control of GRGC or its subsidiaries for the dispatching of part of its passengers or freight. Thus, the mutual provision of repair or other services is necessary between the Company and GRGC and its subsidiaries. The regular connected transactions occurring between the Company and GRGC and its subsidiaries are determined on the basis of fairness and reasonableness and are priced with reference to market price, industrial guidance price or at cost plus a mark-up. These transactions are strictly subject to timely disclosure and approval of independent shareholders as required by relative regulatory rules, thus safeguarding the Company's interests by the greatest extent.

2. Contracts entered into with the largest shareholder and its subsidiaries

Except as disclosed in this annual report, none of the Company or its subsidiaries had entered into other material contracts with the largest shareholder or its subsidiaries.

3. Connected transactions related to acquisition or disposal of assets

During the reporting period, the Company had no connected transactions related to acquisition or disposal of assets.

4. Material connected transactions related to joint external investment

As at the end of the reporting period, the Company had no material connected transaction related to joint external investment.

5. Connected transactions due to factors including partial restructuring

During the period, the Company had no connected transaction due to factors including partial restructuring, characteristics of the industry, national policies or mergers and acquisitions.

6. Other material connected transactions

Except as disclosed in this annual report, during the reporting period, the Company had no other material connected transaction.

7. Related claim and debt

Unit: thousand RMB

Related party	Relationship	Fund provided to related party Opening balance	Addition	Closing balance
Shenzhen Pinghu Qun Yi Railway Store Loading and Unloading Company Limited	Subsidiary of the Company	9,080	—	9,080
Guangzhou Tiecheng Enterprise Company Limited	Associate of the Company	13,770	290	14,060
Other entities/companies	Associate of the Company	—	30	30
Total		22,850	320	23,170
Addition to fund provided to the controlling shareholder and its subsidiaries by the Company during the Reporting Period				—
Balance of fund provided to the controlling shareholder and its subsidiaries by the Company				—
Impact of the related claim and debt on the operating results and financial position of the Company		No significant impact on the operating results and financial position of the Company		

8. Confirmation of connected transactions by independent Directors

The independent non-executive Directors of the Company confirmed that the connected transactions entered into by the Company during 2012 were entered into in the ordinary and usual course of its business and conducted on normal commercial terms, in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole, and had not exceeded the caps disclosed in the previous announcements.

In respect of each continuing connected transaction disclosed in Note 39 to the financial statements prepared in accordance with IFRS, the Company confirms that it has complied with the relevant requirements under the Listing Rules.

Details of the other related party transactions entered by the Company during the year ended the end of reporting period are set out in Note 39 to the financial statements prepared in accordance with IFRS. These transactions do not constitute connected transactions under the Listing Rules.

9. Confirmation of connected transactions by the auditor

For the purpose of Rule 14A.38 of the Listing Rules, the auditors of the Company have carried out procedures on the above connected transactions disclosed herein for the year ended the end of the reporting period in accordance with the Hong Kong Standard on Assurance Engagements 3000 'Assurance Engagement Other Than Audits or Reviews of Historical Financial Information' and with reference to Practice Note 740 'Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules' issued by the Hong Kong Institute of Certified Public Accountants and reported that, in respect of the above connected transactions:

(1) nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions had not been approved by the Board;

(2) for transactions involving the provision of goods or services by the Group, nothing has come to our attention that causes us to believe that such transactions were not, in all material respects, in accordance with the pricing policies of the Company;

(3) nothing has come to our attention that causes us to believe that such transactions were not entered into, in all material respects, in accordance with the terms of agreements governing such transactions;

(4) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to our attention that causes us to believe that the value of such continuing connected transactions have exceeded the maximum aggregate annual caps disclosed in the previous announcements.

VI. MATERIAL CONTRACTS AND THE IMPLEMENTATION

1. Trust, contracted businesses and leasing affairs

During the reporting period, the Company did not engage in any trust, contracted businesses and leasing affairs which contribute over 10% (including 10%) of the Company's total profit for the year.

2. Guarantee

During the reporting period, the Company did not have any guarantee.

3. Other material contracts

During the reporting period, the Company did not enter into any other material contracts.

VII. FULFILLMENT OF COMMITMENTS

During the reporting period, GRGC, the largest shareholder of the Company, fulfilled the following commitments:

1. GRGC and any of its subsidiaries will not engage, directly or indirectly, by any means, in any business activities that may compete with the railway transportation and related businesses of the Company within the service territory of the Company. After the acquisition of the transportation operational assets and businesses of Guangzhou-Pingshi Railway, GRGC and any of its subsidiaries will not compete with the Company within the service territory of the Company either.

2. GRGC will reduce the number of connected transactions as much as practicable in its operation relations with the Company. For necessary connected transactions, GRGC will perform these connected transactions on the basis of openness, justice and fairness without abusing its position as the largest shareholder and behaving in a manner that is detrimental to the interests of the Company.

During the reporting period, the above-mentioned commitments were fulfilled properly and no breach of any commitment occurred.

VIII. ENGAGEMENT AND DISMISSAL OF ACCOUNTING FIRMS

Unit: RMB ten thousand

Any change in accounting firm engaged	Nil (the Company had no change in auditors during the past three years)	
Domestic auditor	Name	PricewaterhouseCoopers Zhong Tian CPAs Limited Co.
	Remuneration	175
	Term of engagement	5
International auditor	Name	PricewaterhouseCoopers
	Remuneration	565
	Term of engagement	10
Auditor for internal control	Name	PricewaterhouseCoopers Zhong Tian CPAs Limited Co.
	Remuneration	30
Financial adviser	Name	Deloitte Touche Tohmatsu CPA Ltd.
	Remuneration	100

IX. PUNISHMENT ON THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS, DE FACTO CONTROLLER, PURCHASER AND THE RECTIFICATION THEREOF

During the reporting period, none of the Company, its Directors, Supervisors, senior management, shareholders with a shareholding of more than 5%, de facto controller and purchaser was subject to any punishment by administrative institutions, judicial authorities, CSRC and relevant stock exchanges.

X. EXPLANATION OF OTHER MATERIAL EVENTS

There was no other material event during the reporting period.

Chapter 6

Changes in Share Capital and Particulars of Shareholders

I. PARTICULARS OF CHANGES IN SHARE CAPITAL

1. Changes in share capital

Unit: share

	Before this change		Increase/Decrease during the reporting period (+,-)		After this change	
	Number	Percentage (%)	Other	Subtotal	Number	Percentage (%)
I. Shares with selling restrictions	274,798,700	3.88	-274,798,700	-274,798,700	—	—
1. Other domestic shares	274,798,700	3.88	-274,798,700	-274,798,700	—	—
II. Shares without selling restrictions	6,808,738,300	96.12	+274,798,700	+274,798,700	7,083,537,000	100.00
1. Renminbi-denominated ordinary shares	5,377,438,300	75.91	+274,798,700	+274,798,700	5,652,237,000	79.79
2. Overseas listed foreign shares	1,431,300,000	20.21	—	—	1,431,300,000	20.21
III. Total number of shares	7,083,537,000	100.00	—	—	7,083,537,000	100.00

Explanation of the change: on December 24, 2012, 274,798,700 state-owned shares of the Company transferred by GRGC, the largest shareholder of the Company, to the National Council for Social Security Fund on September 22, 2009 became shares without selling restrictions upon expiry of the lock-up period.

2. Changes in shares with selling restrictions

Name of shareholder	Number of shares with selling restrictions at the beginning of the year	Number of shares with selling restrictions released during the year	Number of shares with selling restrictions at the end of the year	Reason for selling restrictions	Date of releasing selling restrictions
Account No. 2 of the National Council for Social Security Fund	274,798,700	274,798,700	—	Extension of lock-up period by three years for transfer of state-owned shares into shares	December 24, 2012
Total	274,798,700	274,798,700	—	—	—

II. PARTICULARS OF SECURITIES ISSUE AND LISTING

1. The Company had not issued any securities for the 3 years prior to the end of the reporting period.

2. During the reporting period, except that the National Council for Social Security Fund became a holder of tradable shares of the Company upon expiration of the lock-up period, there was no change in the total number of shares and structure of the asset and liability of the Company as a result of bonus issue, conversion from reserves, placing, allotment of new shares or other reasons.

3. The Company had not issued shares to any of its employees.

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLERS

1. Number of shareholders

Number of shareholders as at the end of the reporting period (Number)	368,671 (A shares: 368,128; H shares: 543)
Number of shareholders as at the end of the fifth trading day before the date of disclosure of the annual report (Number)	367,075 (A shares: 366,575; H shares: 500)

2. Particulars of the shareholding of the top ten shareholders

Unit: share

Name of shareholder (Full name)	Particulars of the shareholding of the top ten shareholders				
	Number of shares held at the end of the period	Percentage (%)	Number of shares with selling restriction held	Number of shares in pledge or frozen	Nature of shareholder
Guangzhou Railway (Group) Company	2,629,451,300	37.12	—	None	State-owned legal person
HKSCC NOMINEES LIMITED (Note)	1,380,970,831	19.50	—	Unknown	Foreign-funded shareholder
Account No. 2 of the National Council for Social Security Fund	274,798,700	3.88	—	Unknown	Other
Bank of China — Jiashi Theme Selection Mix Securities Investment Fund	54,640,992	0.77	—	Unknown	Other
Taiyuan Iron & Steel (Group) Company Limited	50,776,147	0.72	—	Unknown	State-owned legal person
Bank of Communications — Fortis Haitong Selected Securities Investment Fund	50,751,519	0.72	—	Unknown	Other
China Construction Bank — ChinaAMC Dividend Mixed Openend Securities Investment Fund	44,508,944	0.63	—	Unknown	Other
Bank of China Limited — Jiashi Hushen 300 Trading Open-end Index Securities Investment Fund	22,399,100	0.32	—	Unknown	Other
China Pacific Life Insurance Company Limited — Bonus — Personal Bonus	22,089,020	0.31	—	Unknown	Other
China Life Insurance Company Limited — Bonus — Personal Bonus — 005L — FH002Hu	18,268,383	0.26	—	Unknown	Other

Name of shareholder (Full name)	Particulars of the shareholding of the top ten holders of shares without selling restrictions Number of shares without selling restrictions held	Class and number of shares Class	Number
Guangzhou Railway (Group) Company	2,629,451,300	A shares	2,629,451,300
HKSCC NOMINEES LIMITED (Note)	1,380,970,831	H shares	1,380,970,831
Account No. 2 of the National Council for Social Security Fund	274,798,700	A shares	274,798,700
Bank of China — Jiashi Theme Selection Mix Securities Investment Fund	54,640,992	A shares	54,640,992
Taiyuan Iron & Steel (Group) Company Limited	50,776,147	A shares	50,776,147
Bank of Communications — Fortis Haitong Selected Securities Investment Fund	50,751,519	A shares	50,751,519
China Construction Bank — ChinaAMC Dividend Mixed Openend Securities Investment Fund	44,508,944	A shares	44,508,944
Bank of China Limited — Jiashi Hushen 300 Trading Open-end Index Securities Investment Fund	22,399,100	A shares	22,399,100
China Pacific Life Insurance Company Limited — Bonus — Personal Bonus	22,089,020	A shares	22,089,020
China Life Insurance Company Limited — Bonus — Personal Bonus — 005L — FH002Hu	18,268,383	A shares	18,268,383
Statement regarding connected relationship or concerted action of the above shareholders	Apart from Jiashi Theme Selection Mix Securities Investment Fund and Jiashi Hushen 300 Trading Open-end Index Securities Investment Fund both being managed by Jiashi Fund Management Company Limited, the Company is unaware whether the above remaining shareholders are connected or concerted as defined in Measures on Administration of Acquisitions of Listed Companies.		

Note: HKSCC NOMINEES LIMITED represents 香港中央結算(代理人)有限公司, which held 1,380,970,831 H shares of the Company, representing 96.48% of the H shares in issue of the Company. These H shares were held on behalf of various clients respectively.

3. **So far as the Directors, Supervisors and senior management of the Company are aware, at the end of the reporting period, the following persons, other than Directors, Supervisors and senior management of the Company, held interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of Part XV of the SFO (Chapter 571 of the Laws of Hong Kong) as follows:**

Unit: share

Name of shareholder	Class of shares	Number of shares held	Capacity	Percentage of issued share capital of the same class (%)	Percentage of total share capital (%)
Guangzhou Railway (Group) Company	A shares	2,629,451,300(L)	Beneficial owner	46.52(L)	37.12(L)
FIL Limited	H shares	158,256,000(L)	Investment manager	11.06(L)	2.23(L)
Hillhouse Capital Management, Ltd.	H shares	86,286,000(L)	Investment manager	6.03(L)	1.22(L)
Gaoling Fund, L.P.	H shares	86,026,000(L)	Beneficial owner	6.01(L)	1.21(L)
The Bank of New York Mellon Corporation	H shares	85,213,884(L)	Interests of controlled company	5.95(L)	1.20(L)
		62,115,684(P)	Approved lending agent	4.34(P)	0.88(P)
Credit Suisse Group AG	H shares	84,921,007(L) 56,636,164(S)	Interests of controlled company	5.93(L) 3.96(S)	1.20(L) 0.80(S)

Note: The letter 'L' denotes a long position; 'S' denotes a short position; and 'P' denotes the lending pool.

4. Information on the largest shareholder and its de facto controller

At the end of the reporting period, the largest shareholder of the Company is GRGC, which was established in the PRC and whose de facto controller is the MOR.

(1) Information on the largest shareholder

Unit: RMB ten thousand

Name	Legal Representative	Date of Incorporation	Organization code	Registered capital	Principal operations
GRGC	Li Wenxin	December 5, 1992	19034882-4	6,512,704	Organization and management of railway passenger and freight transportation, technologies and other industrial development etc.

(2) Changes in the largest shareholder and its de facto controller

During the reporting period, there was no change in the largest shareholder of the Company and its de facto controller.

(3) Chart on the property rights and controlling relationship amongst the Company and the largest shareholder and its de facto controller

MOR $\xrightarrow{100\%}$ GRGC $\xrightarrow{37.12\%}$ The Company

5. Other corporate shareholders with a shareholding of 10% or above

As at the end of the reporting period, apart from the aforesaid largest shareholder, there was no other corporate shareholder with a shareholding of 10% or above in the Company (except for HKSCC NOMINEES LIMITED).

6. Public float

As of the end of the reporting period, the public float of the Company was in compliance with the requirements of the relevant rules on the sufficiency of public float.

IV. REPURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

As of the end of the reporting period, there was no repurchase, sale or redemption by the Company, or any of its subsidiaries, of the listed shares of the Company.

V. PRE-EMPTIVE RIGHT

Under the Articles of the Company and the PRC Laws, there is no pre-emptive right, which requires the Company to offer new shares to its existing shareholders on a pro rata basis.

VI. TRANSACTIONS INVOLVING ITS OWN SECURITIES

As at the end of the reporting period, none of the Company and its subsidiaries has issued or granted any convertible securities, options, warrants or other similar rights, and redeemable securities.

VII. TAX DEDUCTION FOR HOLDERS OF LISTED SECURITIES

As at the end of the reporting period, holders of listed securities of the Company were not entitled to obtain any relief from taxation by reason of their holding of such securities pursuant to the laws of the PRC.


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Chapter 7

Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDINGS AND REMUNERATIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CURRENT AND RESIGNED DURING THE REPORTING PERIOD)

Name	Position	Gender	Age	Beginning of engagement period	End of engagement period (Note)	Total remuneration received from the Company in the reporting period (RMB ten thousand)	Total remuneration payable received from shareholders in the reporting period (RMB ten thousand)
Li Wenxin	Chairman of the Board and executive Director	Male	49	January 31, 2012	–	–	43.60
	Non-executive Director			November 10, 2011	January 30, 2012		
Shen Yi	Executive Director	Male	57	June 2, 2011	–	52.6	–
	General manager			October 10, 2008	Current		
Sun Jing	Non-executive Director	Male	47	May 22, 2012	–	–	35.06
Yu Zhiming	Non-executive Director	Male	53	June 2, 2011	–	–	34.97
Li Liang	Non-executive Director	Male	52	June 2, 2011	–	–	42.19
Luo Qing	Executive Director	Male	48	June 2, 2011	–	42.6	–
Lo Mun Lam	Independent non-executive Director	Male	59	June 2, 2011	–	13.7	–
Liu Xueheng	Independent non-executive Director	Male	39	June 2, 2011	–	13.7	–
Liu Feiming	Independent non-executive Director	Female	43	June 2, 2011	–	11.2	–
Xu Ling	Chairman of the Supervisory Committee	Male	57	June 2, 2011	–	–	35.27
Chen Shaohong	Supervisor representing shareholders	Male	46	June 2, 2011	–	–	26.16
Shen Jiancong	Supervisor representing shareholders	Male	44	June 2, 2011	–	–	22.48
Li Zhiming	Supervisor representing shareholders	Male	51	June 2, 2011	–	–	19.74
Xu Huiliang	Supervisor representing employees	Male	49	June 2, 2011	–	29.2	–
Chen Jianping	Supervisor representing employees	Male	46	June 2, 2011	–	21.3	–
Mu Anyun	Deputy general manager	Male	52	February 23, 2009	Current	42.6	–
Guo Xiangdong	Deputy general manager	Male	47	December 28, 2010	Current	42.4	–
	Secretary of the Board			January 6, 2004	Current		
Tang Xiangdong	Chief accountant	Male	44	December 19, 2008	Current	42.3	–
Xu Xiaoming	Non-executive Director	Male	57	January 31, 2012	May 21, 2012	–	–
	Chairman of the Board, Executive Director			June 2, 2011	January 30, 2012		
Total	–	–	–	–	–	311.6	259.47

Note:
(1) The end of engagement period set out in the above table is based on the date of passing the resolutions at the general meeting for the election of a new session of Directors and (non-employee) Supervisors.
(2) During the reporting period, none of the Directors, Supervisors or senior management has held or dealt in the shares of the Company, or has held the Company's share option or has been granted any shares with selling restrictions.
(3) On May 22, 2012, Mr. Xu Xiaoming ceased to be a Director of the Company and Mr. Sun Jing became a Director of the Company upon consideration and approval at the 2011 annual general meeting of the Company.

Biographies of the last five years of the current Directors, Supervisors and senior management of the Company

Li Wenxin, aged 49, joined the Company in November 2011 and is the Chairman of the Board and an executive Director of the Company. He is a postgraduate with a master degree, a senior engineer and an associate researcher. He has worked at the Science Research Institute of the Ministry of Railways, Guangzhou Railway Bureau, GRGC, Qingzang Railway Company, transportation command center of the MOR, and Transportation Bureau of the MOR before 2007. From January 2007 to August 2009, he served as secretary of party committee and deputy dean of Railway Science Research Institute. He served as chief of diversified operation development center of MOR from September 2009 to May 2011. From June 2011 to November 2011, he has served as deputy chairman of the board of directors, general manager and deputy secretary of party committee of GRGC. Since December 2011, he has served as chairman of the board, general manager and deputy secretary of party committee of GRGC. Currently, Mr. Li is also the chairman of the board of Guangmeishan Railway Co., Ltd., Guangdong Sanmao Railway Co., Ltd., Guanghai Railway Co., Ltd. and Shichang Railway Co., Ltd..

Shen Yi, aged 57, joined the Company in October 2008 and is an executive Director and general manager of the Company. Mr. Shen graduated from the Northern Jiaotong University (now, Beijing Jiaotong University) and holds a bachelor's degree in railway transportation. Mr. Shen has more than 30 years of experience in railway transportation management and has served at different railway stations and sections, Railway Sub-bureaus and Railway Bureaus. He was general manager of Hong Kong Qiwen Trade Company Limited, Guangmeishan Railway Company Limited and Huaihua Railway Company of GRGC successively. Before joining the Company in October 2008, he was the general manager of Shichang Railway Company Limited. Currently, Mr. Shen is also a director of Guangzhou Tiecheng Enterprise Company Limited.

Sun Jing, aged 47, joined the Company in May 2012 and is a non-executive Director of the Company. He is a graduate with a bachelor degree, an engineering master degree holder and also a senior engineer. Before June 2004, Mr. Sun has successively worked at the northern locomotive section of Zhengzhou Sub-bureau of Zhengzhou Railway Bureau, locomotive department of Zhengzhou Railway Bureau and Yueshan locomotive section of Zhengzhou Sub-bureau of Zhengzhou Railway Bureau. From June 2004 to March 2007, he has served as division chief of locomotive department of Zhengzhou Railway Bureau. He was an assistant to the director of Zhengzhou Railway Bureau from April 2007. He has been served as deputy general manager of GRGC since May 2007. Mr. Sun is now a director of Guangzhou Electric Locomotive Co., Ltd..

Yu Zhiming, aged 53, joined the Company in June 2008, now as a non-executive Director of the Company. Mr. Yu is a graduate with a bachelor degree, obtained a master degree of engineering and is a senior accountant. He has many years of experience in the financial field. Before April 2008, he has successively served as director of the Sub-division of Finance of Wuhan Railway Sub-bureau of Zhengzhou Railway Bureau, the director of the finance department of Wuhan Railway Bureau, director of capital settlement center of Wuhan Railway Bureau, and the standing vice-director of capital settlement center of MOR. Since April 2008, he has been chief accountant of GRGC. Currently, Mr. Yu is also the chairman of the board of China Railway (HK) Holdings Ltd, chairman of the supervisory committee of Yuehai Railway Company Limited, Guangdong Guangzhou–Zhuhai Inter-city Railway Traffic Co., Ltd. and MaoZhan Railway Company Limited. Mr. Yu is the director of Guangmeishan Railway Company Limited, Sanmao Railway Company Limited, Shichang Railway Company Limited, Hukun Passenger Railway Line (Hunan) Co., Ltd., Guangdong Pearl River Delta Inter-city Railway Traffic Co., Ltd., Hainan Eastern Ring Railway Company Limited, Ganshao Railway Company Limited, China Railway Container Transportation Limited and China Railway Special Goods Transportation Limited and a supervisor of Guangzhou–Zhuhai Railway Company Limited.

Li Liang, aged 52, joined the Company in June 2009 and is a non-executive Director of the Company. He is a graduate of university specialty education and is an engineer. Before December 2006, he has been section chief of Anyang engineering section and Xinxiang engineering section of Xinxiang Railway Sub-bureau of Zhengzhou Railway Bureau, deputy-director of Zhengzhou Railway Sub-bureau of Zhengzhou Railway Bureau, deputy-director of Wuhan Railway Sub-bureau of Zhengzhou Railway Bureau, deputy-director of Wuhan Railway Bureau. He has been standing deputy general manager of GRGC from December 2006 to March 2012. Since April 2012, he has been standing deputy general manager of Guangdong Pearl River Delta Inter-city Railway Traffic Co., Ltd..

Luo Qing, aged 48, joined the Company in December 2008 and is an executive Director of the Company. Mr. Luo graduated from the Correspondence College of the Party School of CPC, a bachelor majoring in economic management and is a political engineer. Before April 2006, he had served as sportsman, coach and secretary-general of Guangdong Physical Culture and Sports Team, labor union of Guangzhou Railway Sub-bureau of Guangzhou Railway Bureau, labor union of YangCheng Railway Company of GRGC, Locomotive Sports Association of YangCheng Railway Company of GRGC and Locomotive Sports Association of GRGC. Between April 2006 and October 2008, he was the chief of the organization department of trade union of GRGC. From November 2008 to April 2010, he served as the chairman of the trade union of the Company. Since May 2010, he has been the deputy secretary of the party and working committee and secretary of the discipline inspection and working commission of the Company and also the chairman of the trade union of the Company.

Lo Mun Lam, aged 59, joined the Company in June 2011 and is an independent non-executive Director of the Company. Mr. Lo graduated from University of Wisconsin-Madison and obtained a L.L.M. degree from the University of Hong Kong and a J.D. degree from the University of California. He has professional certificates or qualifications in accounting, finance, real estate and hospitality fields. Mr. Lo is a chartered accountant of U.K. and Canada. He is a licensed with the HKSFC as a Type 6 responsible officer (advising on corporate finance). Mr. Lo has served as a director and strategy consultant of multinational financial corporations and emerging international corporations. Currently, he is in charge of an investment and corporate financing consulting entity which has offices in London and Hong Kong. He concurrently serves as an independent non-executive director of Luk Fook Holdings (International) Limited, a non-executive director and vice chairman of Asian Capital Resources (Holdings) Limited, and an independent non-executive director of Shanghai Zendai Property Limited (all these companies are listed in Hong Kong).

Liu Xueheng, aged 39, joined the Company in June 2011 and is an independent non-executive Director of the Company. Mr. Liu obtained an MBA degree from Cambridge University in the UK in 1999. Mr. Liu has served as a senior assistant manager of DBS Bank, Hong Kong since 2000, an executive director of Partners Capital International Limited since 2002, an executive director of Vision Finance Group Limited since June 2006 and an executive director of Beijing Properties (Holdings) Limited since January 2011 which is listed in Hong Kong.

Liu Feiming, aged 43, joined the Company in June 2011 and is an independent non-executive Director of the Company. Ms. Liu graduated from Hefei Industrial University in 1989, majoring in management engineering. Ms. Liu obtained a master's degree in economics from Nankai University in July 1997 and a doctor's degree in international economics from Nankai University in July 2007. From August 1989 to February 1994, she worked in the business administrative office of Anhui Huainan Chemistry Industrial Company. She served as finance manager of Hengxing Electronic Science (Shenzhen) Co., Ltd. since March 1994, finance manager of China Motion Telecom Group Limited since May 1996 and vice president of China Motion Telecom International Limited since October 2002. She has been a director and finance president of Shangkai Group (Shenzhen) Limited Company since April 2004.

Xu Ling, aged 57, joined the Company in June 2010 and is the Chairman of the Supervisory Committee of the Company. He graduated with a bachelor degree and is a senior political engineer. Mr. Xu Ling joined the railway industry in 1977 and has more than 30 years of experience in railway transportation management. He served as the vice-secretary of the Party Committee of Guangzhou Railway Bureau, general party branch secretary of Guangzhou Railway Material Factory of Guangzhou Railway Bureau, chairman of the Trade Union of departments directly under GRGC, vice secretary of the Disciplinary Committee and head of the Supervisory Department of GRGC. Mr. Xu served as the secretary of the party committee in the Huaihua Railway Company of GRGC and the director and secretary of the Party Work Committee in the Huaihua Railway Office of GRGC; director and secretary of the Party Work Committee in the Changsha Railway Office of GRGC. Since March 2010, he has been serving as the vice-secretary of the Party Committee and the secretary of the disciplinary committee of GRGC. Mr. Xu also serves as the Chairman of supervisory committee of Guangmeishan Railway Company Limited and Guangdong Sanmao Railway Company Limited and also the supervisor of Guangzhou–Zhuhai Railway Company Limited.

Chen Shaohong, aged 46, joined the Company in June 2008 and is a supervisor representing shareholders of the Company. Mr. Chen holds a bachelor degree and is an 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 and legal affairs department of GRGC. From April 2006 to May 2008, he served as director of corporate and legal affairs department of GRGC. Since June 2008, Mr. Chen has been vice-chief economist and director of corporate and legal affairs department of GRGC. Mr. Chen is also the chairman of supervisory committee of Shichang Railway Company Limited, Hukun Passenger Railway Line (Hunan) Co., Ltd. and Hainan Railway Economic and Technological Development Corporation Company; director of Guangmeishan Railway Company Limited, Guangdong Sanmao Railway Enterprise Development Company, Yuehai Railway Company Limited, Xia Shen Railway (Guangdong) Company Limited and Jingyue Railway Company Limited and the supervisor of Guangdong Sanmao Railway Company Limited, Hunan Inter-city Railway Company Limited, Guangzhou Electric Locomotive Co., Ltd., Guangdong Pearl River Delta Inter-city Railway Traffic Co., Ltd., Hainan Eastern Ring Railway Company Limited, Ganshao Railway Company Limited and China Railway Express Co., Ltd.

Shen Jiancong, aged 44, joined the Company in June 2011 and is a Supervisor representing shareholders of the Company. He is a graduate with a bachelor degree and an economist. Before March 2011, Mr. Shen has worked as secretary of Chinese Youth League of the Guangzhou mechanical refrigerator car depot of Guangzhou Sub-bureau of Guangzhou Railway Bureau, deputy director and director of division of personnel of GRGC, deputy director of Division of Human Resources of GRGC, concurrently as deputy director of organization department of Party Committee of GRGC, and secretary of CPC committee and vice stationmaster of Shenzhen station of the Company. He has been director of division of human resources and director of organization department of party committee of GRGC since March 2011.

Li Zhiming, aged 51, joined the Company in May 2005 and is a Supervisor representing shareholders of the Company. Mr. Li graduated from the Party School of CPC, is a bachelor majoring in economics and management and is an accountant. Before 1996, Mr. Li had served in various managerial positions in Hengyang Railway Sub-bureau of Guangzhou Railway Bureau and Changsha Railway Company of GRGC. From 1996 to March 2005, he was chief of Finance Sub-division of Changsha Railway Company of GRGC. Since April 2005, Mr. Li has been deputy chief and chief of the audit department of GRGC. Mr. Li is also the chairman of the supervisory committee of Guangzhou Tiecheng Enterprise Company Limited, chairman of the supervisory committee of Xingguangji Trade Company Limited; director of Hong Kong Qiwen Limited and Hainan Railway Economic and Technological Development Corporation; supervisor of Guangmeishan Railway Company Limited, Guangdong Sanmao Railway Company Limited, Guangdong Sanmao Railway Enterprise Development Company Limited, Yuehai Railway Company Limited, Shichang Railway Company Limited, Hukun Passenger Railway Line (Hunan) Co., Ltd, Xia Shen Railway (Guangdong) Company Limited, Ganshao Railway Company Limited, Guiyang-Guangzhou Railway Co., Ltd, Hunan — Guangzhou Railway Co., Ltd and Jingyue Railway Company Limited.

Xu Huiliang, aged 49, joined the Company in 1992 and is a Supervisor representing employees of the Company. Mr. Xu graduated from Southwest Jiaotong University, majoring in electronic computer technology, and is a graduate with a bachelor degree and holds a master degree in engineering and is a senior engineer. Mr. Xu has been engaged in the railway information technology industry and has developed various computer engineering projects. Mr. Xu was entitled to enjoy special subsidies awarded by the State Council in 2001. Since March 2009, he served as the director of information technology department of the Company and has been elected as the supervisor representing employees of the Company from June 2010.

Chen Jianping, aged 46, joined the Company in 2007 and is a Supervisor representing employees of the Company. Mr. Chen worked with the First High School of Guangzhou Railway and Locomotive Sports Association of GRGC and is working with GRGC and the Company. Mr. Chen served as the office secretary of the trade union of GRGC, director of the logistic department of the Company, deputy secretary of the party committee and concurrently the secretary of committee for disciplinary inspection of the passenger transportation business unit of the Company, deputy office manager of the Company, chairman of the trade union of the mechanized line center of GRGC. From 2007 to October 2012, he has served as the section chief of Guangzhou Passenger Transportation Division, and since November 2012, he has been the general manager of diversified operation and development center, deputy secretary of the party committee and director of various operation and management offices of GRGC. Since June 2011, he has been a Supervisor representing employees of the Company. Mr. Chen is also chairman of the board of directors of Hainan Railway Economic and Technology Development Company.

Mu Anyun, aged 52, joined the Company in February 2009 and is a deputy general manager of the Company. Mr. Mu holds a bachelor degree, an MBA degree of Macau University of Science and technology and is an economist. Mr. Mu joined the railway departments in 1981 and had served in various managerial positions in Guangzhou Railway Bureau and GRGC. From May 2000 to January 2009, he was director and deputy general manager of Guangmeishan Railway Company Limited. Since February 2009, he has been deputy general manager of the Company.

Guo Xiangdong, aged 47, joined the Company in 1991 and is the Deputy General Manager and secretary of the Board. Mr. Guo graduated from Central China Normal University and is a graduate with a bachelor degree and holds an MBA degree, and is an economist. Before January 2004, he has been deputy section chief, deputy head and head of secretariat of the Board. From January 2004 to November 2010, he has been appointed as the secretary of the Board and since December 2010, Mr. Guo has been appointed as the deputy general manager and secretary of the Board.

Tang Xiangdong, aged 44, joined the Company in June 1990 and is Chief Accountant of the Company. Mr. Tang graduated from Jinan University majoring in business administration and is a graduate with a bachelor degree and holds 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 the Company. From March 2006 to November 2008, he was director of Finance Department of the Company. Since December 2008, Mr. Tang has been the chief accountant of the Company. Mr. Tang is also a supervisor of Guangzhou Tiecheng Enterprise Company Limited.

II. ENGAGEMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CURRENT AND RESIGNED DURING THE REPORTING PERIOD)

1. Engagements in shareholders

Name	Name of shareholder	Position at shareholder	Beginning of engagement	End of engagement
Li Wenxin	GRGC	Chairman of the board	December 2011	Current
		General manager and deputy secretary of the party committee	June 2011	Current
		Vice-chairman of the board	June 2011	November 2011
Xu Xiaoming	GRGC	Chairman of the board and secretary of the party committee	May 2010	November 2011
Sun Jing	GRGC	Deputy general manager	May 2007	Current
Yu Zhiming	GRGC	Chief accountant	April 2008	Current
Li Liang	GRGC	Standing deputy general manager	December 2006	March 2012
Xu Ling	GRGC	Vice secretary of the party committee and secretary of the commission for inspecting discipline	March 2010	Current
Chen Shaohong	GRGC	Vice-chief economist	June 2008	Current
		Director of corporate and legal affairs department	April 2006	Current
Shen Jiancong	GRGC	Director of human resources division and organization department head of the party committee	March 2011	Current
Li Zhiming	GRGC	Chief of audit division	April 2006	Current
Chen Jianping	GRGC	General manager of diversified operation and development center, deputy secretary of the party committee and director of various operation and management office	November 2012	Current

2. Engagements in other companies

Please refer to 'Biographies of the last five years of the current Directors, Supervisors and senior management of the Company'.

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedure	Remuneration or allowance standards of the Directors and Supervisors of the Company should be submitted for approval at the general meeting of the Company after consideration and discussion by the Board.
Basis for determination	Determined with reference to the level of remuneration in Shenzhen, where the Company is located, the job nature of individual staff, as well as the annual objective of the Company, the completion and status of works and targets and the operating results of the Company.
Remuneration payable	During the reporting period, none of the Directors Mr. Li Wenxin, Mr. Xu Xiaoming, Mr. Sun Jing, Mr. Yu Zhiming and Mr. Li Liang, and the Supervisors Mr. Xu Ling, Mr. Chen Shaohong, Mr. Shen Jiancong and Mr. Li Zhiming has received remuneration from the Company and they would waive their rights to request the Company to pay the remuneration for the reporting period. For details of the payment payable to the Directors, Supervisors and senior management, please see the section 'I. Changes in shareholdings and remunerations of Directors, Supervisors and senior management (current and resigned during the reporting period)' above.
Actual total amount of remuneration received	During the reporting period, the Directors, Supervisors and senior management received a total remuneration in the amount of RMB5,710,700.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change	Reason for change
Xu Xiaoming	Chairman of the Board, Director, chairman and member of remuneration committee	Disengagement	Changes in duties
Li Wenxin	Chairman of the Board and member of remuneration committee	Engagement	Election by the Board
Sun Jing	Director	Engagement	Election at general meeting
Lo Mun Lam	Chairman of remuneration committee	Engagement	Election by the Board

1. On January 31, 2012, the Company convened the fifth meeting of the sixth session of the Board, at which it was resolved to terminate the office of Mr. Xu Xiaoming as Chairman of the Board, chairman and member of remuneration committee, to elect Mr. Li Wenxin as Chairman of the Board and member of remuneration committee of the Company, and to elect independent non-executive Director, Mr. Lo Mun Lam, as chairman of remuneration committee.

2. On May 22, 2012, the Company convened the 2011 annual general meeting, at which it was approved that the office of Mr. Xu Xiaoming as a Director of the Board was terminated, and Mr. Sun Jing were elected as a Director of the Board.

V. OTHER INFORMATION ON DIRECTORS AND SUPERVISORS AND SENIOR MANAGEMENT

1. Equity interests of Directors and Supervisors

As at the end of the reporting period, there was no record of interests or short positions (including the interests and short positions which were taken or deemed to have under the provisions of the SFO) of the Directors or Supervisors of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) in the register required to be kept under section 352 of the SFO. The Company had not received notification of such interests or short positions from any Director or Supervisor of the Company as required to be made to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the 'Model Code') in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the 'listing rules of SEHK'). None of the Company's Directors or Supervisors or their respective spouses or children under the age of 18 was granted by the Company any right to subscribe for any shares or debentures of the Company.

Other companies in which Directors and Supervisors of the Company were directors or employees did not have interests in shares and underlying shares of the Company required to be disclosed to the Company under Sections 2 and 3 of Part XV of the SFO.

2. Service contracts of Directors and Supervisors

Each of the Directors of the Company has entered into a service contract with the Company. None of the Directors or Supervisors has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

3. Interests of Directors and Supervisors in contracts

None of the Directors or Supervisors of the Company has any direct or indirect interests in any contract or arrangement of significance subsisting during the year to which the Company or any of its subsidiaries was a party.

VI. INFORMATION OF EMPLOYEES OF PARENT COMPANY AND MAJOR SUBSIDIARIES

1. Information of employees

Unit: Person

Number of current employees	34,573
Number of disengaged and retired employees for whom the parent company and major subsidiaries shall be liable to expenses	182
Category of profession	Number
Transit operation personnel	14,583
Engineering personnel	4,302
Driving personnel	2,850
Public works personnel	3,711
Electricity personnel	1,373
Electricity and water supplies personnel	1,762
Building construction personnel	1,037
Various operations and other employees of subsidiaries	222
Technical and administrative personnel	4,173
Other employees	560
Total	34,573
Level of education	Number
Postgraduate or above	72
University graduate	2,101
College for professional training	6,211
Other (Secondary vocational school, high school and vocational technical school, etc.)	26,189
Total	34,573

2. Remuneration policy

The Company implements salary budget management, under which an annual salary budget is formulated at the beginning of each year jointly by the budget department and labor department of the Company. Budget is first discussed and approved at the meeting of the general manager's office, and then is organized for implementation by the labor department of the Company after being considered and approved by the Board of Directors.

Salary of the Company's staff is mainly comprised of basic salary, performance-based salary and benefit plans. Basic salary includes post salaries, skill salaries and various allowances and subsidies accounted for under salaries payable as required. Performance-based salary refers to salaries calculated on the basis of economic benefits and social benefits, or piece rates calculated on the basis of workload, or performance-based salary calculated on the basis of the performance of the staff at the position. Benefit plans include various social insurance and housing funds paid as required by the relevant policies. Please refer to Note 29 to the financial statements for the total wages and benefits paid by the Company to its employees in 2012.

In the process of staff salary allocation, the Company always adheres to the principles of allocation based on labor, efficiency-orientation and fairness. It follows that allocation of staff salary is determined on the premises of macro-control, on the basis of post labor assessment, and on the foundation of staff performance assessment, which fully bring out the importance of allocation arrangement in the incentive system of the Company and motivate the staff's initiative.

3. Training plan

Training of the Company mainly includes training on post standardization, adaptability and continuing education. In 2012, a total of 512,884 person-times participated in trainings, completing 100% of the annual training plan of the Company for the year.

4. Employee insurance and benefits plan

Pursuant to applicable national policies and industrial regulations, the Company provides the employees with a series of insurance and benefits plan that mainly include: housing fund, retirement pension (basic medical insurance, supplemental retirement pension), medical insurance (basic medical insurance, supplemental medical insurance, birth medical insurance), work-related injury insurance and unemployment insurance.

Chapter 8

Corporate Governance

I. INFORMATION OF CORPORATE GOVERNANCE AND MANAGEMENT OF REGISTRY OF INSIDERS

(1) Overview of corporate governance

Since the listing of the Company on the SEHK and the NYSE in 1996 and on the SSE in 2006, the Company has been continuously improving its corporate governance structure, perfecting the internal control and management systems, enhancing information disclosures and regulating its operation in accordance with the relevant domestic and overseas listing rules and regulatory requirements, after taking into account the actual status of affairs of the Company. General meeting, the Board and the Supervisory Committee of the Company have clearly defined powers and duties, each assuming and performing its specific responsibilities and making its own decisions in an independent, efficient and transparent manner. Currently, there is no material difference between the status quo of the Company's corporate governance structure and the regulatory documents of the regulatory authorities of the place of listing of the Company's stocks related to corporate governance of listed company.

During the reporting period, the Company further perfected the corporate governance system of the Company, and made related amendments to terms of the Articles, the Terms of Reference of the Remuneration Committee and the System for the Management of Inside Information and Insiders in accordance with the regulatory requirements in the PRC and overseas. It has also formulated the System for the Management of Investor Relationship and the Management Method of Disclosure of Information on Corporate Debts and Finance Instrument.

Improvement of corporate governance is a long-term systematic project, which needs continuous improvement and enhancement. The Company will, as it has always had, continue to promptly update and improve its internal systems according to the relevant regulations, timely discover and solve problems, strengthen its management basis and enhance its awareness of standardized operation and level of governance to promote the regulated, healthy and sustainable development of the Company.

(2) Establishment and implementation of the management system for the registry of insiders

The Company has established the Management System for Inside Information and Insiders, and strictly implements the related requirements on management of inside information users of the Company to prevent the leakage of information and ensure the fairness of information disclosure. During the reporting period, after self-examination conducted by the Company, there were no situations of insiders using inside information to trade the Company's shares before the publication of material sensitive information that would affect the share price, and therefore the Company had not been the subject to any regulatory measures or administrative punishments by the regulatory authorities.

During the reporting period, as the national railway industry operated on a concentrated and unified commanding transportation system, Guangzhou Railway (Group) Company, the largest shareholder of the Company, required financial information of the Company in order to carry out administrative roles as the industry leader in accordance with legal and administrative regulations. Such information was provided in the monthly reports by the Company during the reporting period. Accordingly, the Company continued to comply with the Notice on listed companies regarding enhancement of supervison of unregulated governance activities such as disclosure of unreleased information to its shareholders and de facto controllers of SSRB (Shen Zheng Ju Gong Si Zi [2007] No. 39), and has obtained an undertaking letter from Guangzhou Railway (Group) Company, in relation to enhancement on managing unreleased information. This undertaking letter is to remind the shareholder to comply with its obligations under the confidential undertaking and avoid inside trading. The Company has also submitted a list of insiders to relevant securities governing authorities.

II. SUMMARY OF GENERAL MEETINGS

Session of meeting	Date	Name of resolution	Result of resolution	Media in which resolutions were Disclosed	Date of disclosure
Annual general meeting of 2011	May 22, 2012	The work report of the Board of Directors for 2011, the work report of the Supervisory Committee for 2011, the audited financial statements for 2011, the profits distribution proposal for 2011, the financial budget proposal for 2012, the resolution in relation to the re-appointment of domestic auditor and international auditor for 2012, the resolution in relation to the termination of Mr. Xu Xiaoming as a Director of the Board, the resolution in relation to the election of Mr. Sun Jing as a Director of the Board	Passed unanimously upon consideration	Website of SSE (www.sse.com.cn) and HKExnews website of SEHK (www.hkexnews.hk)	May 23, 2012
Extraordinary general meeting of 2012	September 27, 2012	Resolution for the approval of proposed amendments to the articles of association of the Company	Passed upon consideration	Website of SSE (www.sse.com.cn) and HKExnews website of SEHK (www.hkexnews.hk)	September 28, 2012

III. PERFORMANCE OF DUTIES BY DIRECTORS

(1) Attendance at Board meetings and general meetings by Directors

Name	Independent Director or not	Board meeting Number of meetings to attend	Number of meetings attended in person	Attendance rate	Number of meetings attended by way of telecommunication	Number of meetings attended by proxy	Number of absence	Two consecutive Board meetings not attended or not	General meeting Number of attendance in person	Attendance rate	Attendance at annual general meeting or not
Li Wenxin	No	6	6	100%	5	0	0	No	0	N/A	No
Xu Xiaoming (*)	No	3	2	66.67%	2	1	0	No	0	N/A	No
Shen Yi	No	6	6	100%	5	0	0	No	2	100%	Yes
Sun Jing (*)	No	3	3	100%	3	0	0	No	0	N/A	No
Yu Zhiming	No	6	6	100%	5	0	0	No	2	100%	Yes
Li Liang	No	6	5	83.33%	5	1	0	No	0	N/A	No
Luo Qing	No	6	6	100%	5	0	0	No	2	100%	Yes
Lo Mun Lam	Yes	6	6	100%	5	0	0	No	2	100%	Yes
Liu Xueheng	Yes	6	5	83.33%	5	1	0	No	0	N/A	No
Liu Feiming	Yes	6	6	100%	5	0	0	No	2	100%	Yes

There was no incident of non-attendance in person at two consecutive Board meetings.

Number of Board meetings held during the year	6
Including: Number of on-site meetings	1
Number of meetings held by way of telecommunication	5
Number of meetings held in a mixed model	0

* On May 22, 2012 at the 2011 annual general meeting, it was approved that Mr. Xu Xiaoming left the office of a Director of the Board, and Mr. Sun Jing was elected as a Director of the Company.

(2) The independent Directors' objection to related matters of the Company

During the reporting period, the Company's three independent Directors faithfully performed their responsibilities and obligations stipulated by laws, regulations, the Articles and Working Rules of Independent Directors with an attitude of responsibility towards all the shareholders. They showed solicitude for the Company's operation and compliance with laws, proactively attended Board meetings and other relative meetings, carefully reviewed proposals of the meetings, made valuable suggestions and opinions on important project investments, operation and management of the Company with their professional knowledge. They also raised independent opinions, according to relevant rules and facts to their knowledge, on material affairs of the Company, such as connected transactions and the engagement of Director. During the preparation and disclosure process of the annual report, independent Directors of the Company fulfilled their duties required by the security regulatory authorities and the Annual Report Working Rules of the Audit Committee and Independent Directors. They communicated with the Company, finance and auditing firms adequately and carefully and raised useful suggestions. The independent Directors exerted their independent functions adequately and ensured the legitimate rights and interests of the shareholders, especially minority shareholders, of the Company.

During the reporting period, no objection to the proposals raised at the meetings of the Board or other matters which were not the proposals of the Board meetings of the Company was lodged by the independent Directors.

IV. SPECIAL COMMITTEES UNDER THE BOARD HAD NOT MADE IMPORTANT OPINIONS AND SUGGESTIONS IN THE PERFORMANCE OF THEIR DUTIES DURING THE REPORTING PERIOD.

V. THE SUPERVISORY COMMITTEE OF THE COMPANY HAD NO OBJECTION TO THE MATTERS OF SUPERVISION DURING THE REPORTING PERIOD.

VI. EXPLANATION OF THE COMPANY'S INDEPENDENCE FROM THE LARGEST SHAREHOLDER, AUTONOMY IN OPERATION AND SOLUTION FOR PEER COMPETITION

During the reporting period, the Company maintained autonomy in operation and finance, and maintained independence from the largest shareholder, GRGC, in such respects as business, staff, assets, organization and finance.

During the reporting period, there was no peer competition due to factors including partial restructuring, characteristics of the industry, national policies or mergers and acquisitions for the Company. The Company's largest shareholder, GRGC, also committed to avoid peer competition and minimize connected transactions. Details of the related commitments and their implementation are set out in the chapter 'Matters of Importance' of this annual report.

VII. ESTABLISHMENT AND IMPLEMENTATION OF THE COMPANY'S APPRAISAL AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT

To strengthen the incentive and restriction of senior management, motivate the senior management to enhance their management capability and level, and to review and evaluate the work and performance of the individual senior management, the Company implements the objective responsibility assessment mechanism on senior management, under which the Board and the senior management of the Company and its subsidiaries enter into target assessment responsibility letters at the beginning of every year in relation to indicators including passenger and freight transportation volume, revenues from transportation, safety, costs, profit and management, etc.. After the assessment period, the Company realizes its incentive commitments on an individual basis based on the completion of targets and tasks by individual senior management and their assessment results.

VIII. CORPORATE GOVERNANCE REPORT

1. Compliance with the Corporate Governance Code

During the reporting period, apart from the provision of the Corporate Governance Code on the establishment of a nomination committee, as far as the Company and its Directors are aware, the Company has complied with the relevant code provisions set out in the Corporate Governance Code in Appendix 14 to the Listing Rules of the SEHK.

As at the end of the reporting period, the Board decided not to set up a nomination committee after prudent consideration of the policy environment and background of the industry to which the Company belongs as well as the corporate governance structure over a long time. According to the requirements of the Articles and the Procedures for Shareholders to Propose a Person for Election as Director, upon expiration of the term of a Director or there is a vacancy for Director, shareholders individually or collectively holding three percent or above of the issued shares of the Company may nominate a candidate for non-independent Director by way of written proposal to the Company; shareholders individually or collectively holding one percent or above of the issued shares of the Company may nominate a candidate for an independent Director by way of written proposal to the Company. Directors of the Company shall be elected at general meetings for a term of office of three years. Upon expiration of his term, Director shall be entitled to be re-elected.

2. Securities transactions by Directors, Supervisors and senior management and Interests on competitive business

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the 'Model Code') as set out in Appendix 10 to the Listing Rules of the SEHK and the Administrative Rules on Shares Held by the Directors, Supervisors and Senior Management Officers of Listed Companies and the Changes Thereof (Zheng Jian Gong Si Zi [2007] No. 56) of CSRC as its own code of conduct regarding securities transactions of the Directors. The Company formulated the Administrative Rules on Shares Held by the Directors, Supervisors and Senior Management Officers of Guangshen Railway Company Limited and the Changes Thereof, which was approved at the 22nd meeting of the fourth session of the Board.

After making specific enquiries with all the Directors, Supervisors and senior management, the Company confirms that during the reporting period, all the Directors, Supervisors and senior management have complied with the required standard set out in the above-mentioned code, rules and regulations and system requirements.

After making specific enquiries with all the executive Directors, non-executive Directors and Supervisors, the Company confirms that during the reporting period, none of the Directors, non-executive Directors and Supervisors has held any interests in businesses that compete or may compete with the businesses of the Company directly or indirectly.

3. Board

The Board leads the Company in a responsible attitude and effective manner. Details of functions and responsibilities are set out in the Articles of the Company.

The Board comprises nine members, including three independent non-executive Directors. The executive Directors have years of experience in the railway industry. The independent non-executive Directors come from various industries with different backgrounds and rich experiences and they all possess appropriate professional qualifications in accounting or related fields. The names, biographical details and occupations of the Directors are set out in the relevant part of the chapter 'Directors, Supervisors, Senior Management and Employees' of this annual report.

The Company provides information on business development of the Company to all the Directors, including statements of various forms, documents and minutes of meetings. The independent Directors timely obtain in-depth knowledge of operating situation of the Company through hearing reports of the management of the Company regarding production and operation and on-the spot investigation. The Company undertakes to provide independent non-executive Directors with working conditions necessary for the performance of duties. The secretary to the Board actively assists independent Directors in performing their duties and other relevant persons of the Company cooperate with the independent Directors in their work performance of their duties. The fees required for the engagement of intermediaries and discharge of other duties by the independent directors shall be borne by the Company so that independent directors can effectively perform their duties.

During the reporting period, the Board held 6 meetings, which were the 5th to 10th meetings of the sixth session of the Board. For details of the attendance of the Directors at the Board meetings, please read the relevant parts of 'Performance of Duties by Directors' of this chapter.

There is no financial, business, family or other material or connected relationship between members of the Board and between the Chairman of the Board and the general manager.

The Board has established the audit committee and the remuneration committee to supervise relevant affairs of the Company. Each committee has specific responsibilities, reports to and gives advice to the Board on a regular basis.

4. Chairman of the Board and general manager

Mr. Li Wenxin and Mr. Shen Yi are the Chairman of the Board and the General Manager of the Company, respectively. The Chairman of the Board is responsible for the leadership and effective running of the Board and ensuring that all key and appropriate issues are discussed by the Board in a timely manner. The Company does not have a chief executive officer and the relevant duties of a chief executive officer (including the implementation of annual business plan and investment proposal of the Company and decision-making on production, operation and management, etc.) are performed by the general manager of the Company.

5. Tenure of non-executive Directors and independence confirmation of independent non-executive Directors

For the tenure of the existing non-executive Directors of the Company, please refer to the relevant part of the section 'Directors, Supervisors, Senior Management and Employees' of this annual report.

The Company has received annual confirmation letters for this year from Mr. Lo Mun Lam, Mr. Liu Xueheng and Ms. Liu Feiming, independent non-executive Directors, in respect of their independence pursuant to Rule 3.13 of the listing rules of the SEHK. The Company concurs with their independence.

6. Remuneration committee and remuneration of Directors

Members of the remuneration committee are appointed by the Board. It consists of three independent non-executive Directors and two executive Directors, namely, Mr. Lo Mun Lam (chairman of remuneration committee), Mr. Liu Xueheng, Ms. Liu Feiming, Mr. Li Wenxin and Mr. Shen Yi.

According to the requirements of the Working Rules of the Remuneration Committee of the Company, the principal duties of the remuneration committee include reviewing and making recommendations to the Board for the remuneration packages for the Directors and the Supervisors of the Company. The remuneration policy of the Company seeks to provide, in accordance with the Company's business development strategy, reasonable remuneration to attract and retain high caliber executives. The remuneration committee shall obtain the benchmark information from internal and external sources in relation to market remuneration standard, packages offered in the industry and consider the overall performance of the Company when determining the Directors' and the Supervisors' emoluments and recommending the Directors' and the Supervisors' emoluments to the Board. The remuneration committee is provided with adequate resources from the Company to perform its duties.

During the reporting period, the remuneration committee of the Company did not convene any meeting.

On January 31, 2012, the Company convened the fifth meeting of the sixth session of the Board to terminate the office of Mr. Xu Xiaoming as the chairman and member of remuneration committee, and elect Mr. Lo Mun Lam, as the chairman of remuneration committee and to elect Mr. Li Wenxin as a member of remuneration committee.

At the annual general meeting of 2010 held by the Company on June 2, 2011, it was considered and approved that the remuneration of each of domestic independent non-executive Directors was RMB100,000 per year and the remuneration of each of overseas independent non-executive Directors was HKD150,000 per year. For details of remuneration of Directors during 2012, please refer to the relevant parts of the section 'Directors, Supervisors, Senior management and Employees' of this annual report.

7. Audit committee

Members of the audit committee are appointed by the Board. It consists of three independent non-executive Directors, namely, Mr. Lo Mun Lam (chairman of audit committee), Mr. Liu Xueheng and Ms. Liu Feiming. They possess appropriate academic and professional qualifications or related financial management expertise. The secretary to the Board, Mr. Guo Xiangdong is the secretary of the audit committee.

According to the requirements of the Working Rules of the Audit Committee of the Company, the principal duties of the audit committee include but are not limited to reviewing the financial performance of the Company and its subsidiaries, confirming the nature and scope of audit as well as supervising the establishment of the internal control and compliance with the relevant laws and regulations. It shall also discuss matters raised by the internal auditors, external auditors and regulatory authorities to ensure that appropriate recommendations are implemented. The audit committee has been provided with adequate resources to perform its duties.

During the reporting period, the audit committee held 6 meetings to examine, review and supervise the Company's internal control performance related to financial reporting, review the Company's financial statements and auditing results of the auditors, and recommend the appointment of external auditors to the Board.

Attendance of each member of the audit committee is set out as below:

Name of member	Number of meetings to be attended	Number of meetings attended	Attendance rate
Lo Mun Lam	6	6	100%
Liu Xueheng	6	5	83.33%
Liu Feiming	6	6	100%

The Audit Committee discussed with external auditors on the audit plan of the annual report and urged the external auditors to submit the auditing report timely. The Audit Committee reviewed the Company's financial and accounting statements before external auditors commenced their work and made suggestions in written form. When the external auditor's made initial opinion, the Audit Committee reviewed the statements and made written suggestions again. The Company's 2012 quarterly financial statements, 2012 interim financial statements, and 2012 annual financial statements and results announcements have been reviewed by the Audit Committee.

8. Auditors remuneration and related professional fee

The Company has appointed PricewaterhouseCoopers Zhong Tian CPAs Limited Co. as its domestic auditor and PricewaterhouseCoopers as its international auditor for 2012. As at the end of the reporting period, the Company's domestic auditor has served for a consecutive term of 5 year and its international auditor has served for a consecutive term of 10 years. The rotation of persons in charge of auditing affairs and endorsing CPA is in compliance with the Requirements on the Regular Rotation of the Endorsing Accountants for Securities and Futures Auditing Services of the CSRC and the Ministry of Finance of the PRC.

During the reporting period, the Company paid a remuneration of RMB2.05 million (including RMB300,000 as audit fee for internal control) and RMB5.65 million to PricewaterhouseCoopers Zhong Tian CPAs Limited Co. and PricewaterhouseCoopers for their annual auditing services of 2012 respectively. In addition, the Company paid a fee of RMB250,000 to PricewaterhouseCoopers Consultants (ShenZhen) Limited for its non-audit service.

9. Training of Directors and company secretary

The Company places high importance on the continuing training of the Directors, Supervisors and senior management. Each Director receives materials on training of directors upon joining the Board, which contains guide on conduct and other important matters related to governance. Apart from this, we encourage all Directors to participate in related training courses and document the training record of the Directors. During the reporting period, the Company proactively arranged for a Director, Mr. Luo Qing, and a Supervisor, Mr. Chen Shaohong to participate in the 2012 Training Course for Directors and Supervisors of Listing Companies in Shenzhen jointly organized by Shenzhen Bureau of CSRC and Shenzhen Listed Companies Association. The deputy general manager and Secretary to the Board, Mr. Guo Xiangdong also participated in a series of business training activities organized by the SSE, the SEHK and The Hong Kong Institute of Chartered Secretaries respectively.

10. Shareholders' rights

In accordance with the requirements of the Articles, two or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the proposed general meeting shall have the right, by delivery of one or more written requests signed in counterparts through mail or electronic mail to the Board or the company secretary to require an extraordinary general meeting or a class meeting to be called by the Board for the business specified in such request. The Board shall as soon as possible proceed to convene the extraordinary general meeting or a class meeting after receiving such request; shareholder or shareholders individually or collectively holding 3% or more of the shares carrying the right to vote at the proposed general meeting shall have the right, by delivery of one or more written requests signed in counterparts through mail or electronic mail to the Board or the company secretary to require the proposal set forth in the written request to be considered at the proposed general meeting.

Shareholders shall attend the general meetings to raise questions or opinions in relation to the results, operation, strategies and/or management of the Company. The chairman or deputy chairman of the Board, appropriate management and administrative personnel and the external auditors shall attend the general meetings to answer questions from the shareholders. Each general meeting shall make reasonable arrangements for a questioning session for the shareholders.

Shareholders may raise enquiries to the Board based on the contact information provided by the Company and make proposals at the general meetings. For contact information, please read 'Chapter 2 – Company Profile' of this annual report.

11. Investor relationship

The secretary to the Board is in charge of information disclosure and investor relationship of the Company. The Company has formulated Working Rules of Secretary to the Board, Management Method of Information Disclosure and Management System for Investor Relationship. The Company has strictly fulfilled the obligation of information disclosure and commenced management of investor relationship in accordance with the relevant requirements. Investors may raise enquiries to the secretariat to the Board by mail or electronic mail. The Company shall reply to the relevant enquiries as soon as practicable.

During the reporting period, the Company has amended the terms related to profit distribution in the Articles in accordance with the relevant requirements of the Notice on Further Implementing Issues concerning Cash Dividends Distribution of Listed Companies of CSRC and SSRB. The amended Articles clearly stipulates the standards, percentages, related decision-making procedures for cash dividend distribution, and the detailed conditions, decision-making procedures and mechanisms for adjustments to the profit distribution policy by the Company, which will provide systematic guarantee of the due diligence of the Independent Directors and the full expression of the minority shareholders' requests and fully protect the legal interests of minority shareholders.

12. Accountability and auditing

The Directors of the Company acknowledge their responsibility for preparing the accounts and supervising the preparation of the accounts for each financial period, so that the accounts can truly and fairly reflect the business position, results and cash flow of the Company during the period. During the preparation of the accounts for the year ended December 31, 2012, the Directors adopted and consistently applied appropriate accounting policies, made scrupulous judgments and estimates, and prepared the accounts on a going concern basis.

The Company announced its annual and interim reports in a timely manner within the limits of 4 months and 3 months, respectively after the end of the relevant period in accordance with the Listing Rules of the SEHK. The Company also announced its annual, interim and quarter results timely in accordance with the Rules for the Listing of Stocks of SSE.

The responsibility statements of the Directors and the auditors as to the preparation of the financial statements of the Company are set out in the auditors' report.

Chapter 9

Internal Control

I. STATEMENT OF THE BOARD ON THE RESPONSIBILITY OF INTERNAL CONTROL AND ESTABLISHMENT OF INTERNAL CONTROL SYSTEM

The Board is responsible for the establishment and maintenance of adequate internal control system related to financial reporting. The objective of internal control system related to financial reporting is to ensure the trueness, accuracy and completeness of the information contained in the financial statements, and to avoid the risk of material incorrect disclosure. As there are intrinsic limitations of internal control, reasonable assurance can only be made in respect of the above objective.

Since 2006, the Company has started to commence the establishment and assessment of the efficacy of internal control related to financial reporting in accordance with the requirements of Section 404 of the United States Sarbanes-Oxley Act of 2002. Since 2011, the Company has started to consistently implement the Basic Regulations on Enterprise Internal Control and Implementation Guidelines for Enterprise Internal Control jointly promulgated by five departments of the PRC, and has established the fundamental governance structure of 'three independent powers, clearly defined powers and duties, each assuming and performing its specific responsibilities' for the general meetings, the Board and the Supervisory Committee, forming an internal control system that centers around the different departments and units under the group companies and encompasses finance management, information disclosure, budget management, fund management, contract management, project management, procurement and payment, sales and payment collection, costs and expenses, personnel management and preparation of financial reports. The Company has basically built up an internal control system that strings up decision-making, implementation and supervision, an equalizing system that separates different positions, and a management regulation and workflow that adapts to the operation characteristics of the Company to form a relatively comprehensive assessment system for internal control, which is under continuously monitor of the Company for its effective operation.

During the reporting period, the Board has complied with the relevant domestic and overseas requirements and carried out assessment of the internal control related to financial reporting. For details of the assessment report, please read the Report on Internal Control 2012 disclosed on the website of SSE (http://www.sse.com.cn), the HKExnews website of SEHK (http://www.hkexnews.hk) and the website of the Company (http://www.gsrc.com).

II. AUDIT REPORT ON INTERNAL CONTROL

The Company has engaged PricewaterhouseCoopers Zhong Tian CPAs Limited Co. to assess the efficacy of the internal control system related to financial reporting by the Board. The Board is of the view that as at December 31, 2012, the internal control of the Company and its subsidiaries were sound and effective, and the external auditor engaged by the Company also published unqualified audit opinions on this matter. For details of the audit report, please read the Audit Report of Internal Control 2012 disclosed on the website of SSE (http://www.sse.com.cn), the HKExnews website of SEHK (http://www.hkexnews.hk) and the website of the Company (http://www.gsrc.com).

III. ESTABLISHMENT AND IMPLEMENTATION OF THE INVESTIGATION SYSTEM OF RESPONSIBILITIES FOR MATERIAL ERRORS IN DISCLOSURE OF ANNUAL REPORT INFORMATION

In order to ensure the authenticity, veracity, timeliness and integrality of the Company's annual report information disclosure and to improve the quality and transparency of the Company's annual report information disclosure, the Company formulated the Investigation System of Responsibilities for Material Errors in Disclosure of Annual Report Information as required by CSRC, the SSE and SSRB. This system clearly stipulates the definition, content, scope, recognition criteria and accountability measures of material errors in disclosure of annual report information. The Company will implement this system strictly to avoid material errors in disclosure of annual report information and ensure the trueness, accuracy and completeness of annual report information.

During the reporting period, there was no correction of material accounting mistakes, supplement of material omissions or modification of operating results forenotice.

Chapter 10

Financial Statements

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

To the shareholders of Guangshen Railway Company Limited
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Guangshen Railway Company Limited ("the Company") and its subsidiaries (together, the "Group") set out on pages 81 to 177, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated comprehensive income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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pwc 羅兵咸永道

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2013

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

(All amounts in Renminbi thousands)

	Note	As at 31 December **2012**	2011
ASSETS			
Non-current assets			
Fixed assets	*6*	**24,524,248**	23,987,080
Construction-in-progress	*7*	**679,528**	911,962
Prepayments for fixed assets and construction-in-progress		**49,336**	16,986
Leasehold land payments	*8*	**528,296**	544,403
Goodwill	*9*	**281,255**	281,255
Investments in associates	*11*	**136,826**	125,920
Deferred tax assets	*12*	**109,161**	108,079
Deferred employee costs		**—**	1,800
Long-term prepaid expenses	*13*	**40,120**	—
Available-for-sale investments	*15*	**53,826**	53,826
Long-term receivable	*16*	**30,863**	34,108
		26,433,459	26,065,419
Current assets			
Materials and supplies	*17*	**437,297**	330,736
Trade receivables	*18*	**1,000,025**	613,999
Prepayments and other receivables	*19*	**147,388**	144,436
Short-term deposits	*20*	**4,174,000**	3,686,000
Cash and cash equivalents	*20, 36(c)*	**675,013**	1,366,757
		6,433,723	6,141,928
Total assets		**32,867,182**	32,207,347
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*21*	**7,083,537**	7,083,537
Share premium		**11,564,581**	11,564,581
Other reserves	*22*	**2,402,266**	2,269,095
Retained earnings		**4,894,806**	4,417,393
— Proposed final dividend		**566,683**	708,354
		25,945,190	25,334,606
Non-controlling interests		**50,849**	52,802
Total equity		**25,996,039**	25,387,408

CONSOLIDATED BALANCE SHEET *(continued)*

As at 31 December 2012
(All amounts in Renminbi thousands)

	Note	As at 31 December **2012**	2011
LIABILITIES			
Non-current liabilities			
Deferred income related to government grants	*23*	**92,864**	96,022
Bonds payable	*24*	**3,485,473**	3,478,568
Employee benefits obligations	*25*	**113,901**	168,276
		3,692,238	3,742,866
Current liabilities			
Trade payables	*26*	**1,131,624**	1,064,741
Payables for fixed assets and construction-in-progress		**915,081**	814,129
Dividends payable		**15**	25
Income tax payable		**229,271**	316,731
Accruals and other payables	*27*	**902,914**	881,447
		3,178,905	3,077,073
Total liabilities		**6,871,143**	6,819,939
Total equity and liabilities		**32,867,182**	32,207,347
Net current assets		**3,254,818**	3,064,855
Total assets less current liabilities		**29,688,277**	29,130,274

The accompanying notes form an integral part of these financial statements.

The financial statements on pages 81 to 177 were approved by the Board of Directors on 26 March 2013 and were signed on its behalf.

Li Wenxin
Director

Shen Yi
Director

BALANCE SHEET

As at 31 December 2012

(All amounts in Renminbi thousands)

	Note	As at 31 December 2012	2011
ASSETS			
Non-current assets			
Fixed assets	6	**24,440,108**	23,905,530
Construction-in-progress	7	**679,528**	911,962
Prepayments for fixed assets and construction-in-progress		**48,058**	16,986
Leasehold land payments	8	**497,547**	512,548
Goodwill	9	**281,255**	281,255
Investments in subsidiaries	10	**80,774**	80,274
Investments in associates	11	**111,075**	111,075
Deferred tax assets	12	**108,293**	106,659
Deferred employee costs		**—**	1,789
Long-term prepaid expenses	13	**39,429**	—
Available-for-sale investments	15	**52,108**	52,108
Long-term receivable	16	**30,863**	34,108
		26,369,038	26,014,294
Current assets			
Materials and supplies	17	**429,931**	323,914
Trade receivables	18	**995,097**	611,046
Prepayments and other receivables	19	**196,846**	178,183
Short-term deposits	20	**4,168,000**	3,680,000
Cash and cash equivalents	20	**659,459**	1,350,992
		6,449,333	6,144,135
Total assets		**32,818,371**	32,158,429
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	21	**7,083,537**	7,083,537
Share premium		**11,564,462**	11,564,462
Other reserves	22	**2,402,266**	2,269,095
Retained earnings		**4,875,547**	4,396,267
— Proposed final dividend		**566,683**	708,354
Total equity		**25,925,812**	25,313,361

BALANCE SHEET *(continued)*

As at 31 December 2012

(All amounts in Renminbi thousands)

	Note	As at 31 December 2012	2011
LIABILITIES			
Non-current liabilities			
Deferred income related to government grants	*23*	**92,864**	96,022
Bonds payable	*24*	**3,485,473**	3,478,568
Employee benefits obligations	*25*	**111,223**	163,037
		3,689,560	3,737,627
Current liabilities			
Trade payables	*26*	**1,118,544**	1,054,453
Payables for fixed assets and construction-in-progress		**914,926**	814,129
Dividends payable		**15**	25
Income tax payable		**228,279**	313,957
Accruals and other payables	*27*	**941,235**	924,877
		3,202,999	3,107,441
Total liabilities		**6,892,559**	6,845,068
Total equity and liabilities		**32,818,371**	32,158,429
Net current assets		**3,246,334**	3,036,694
Total assets less current liabilities		**29,615,372**	29,050,988

The accompanying notes form an integral part of these financial statements.

The financial statements on pages 81 to 177 were approved by the Board of Directors on 26 March 2013 and were signed on its behalf.

Li Wenxin
Director

Shen Yi
Director

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For the year ended 31 December 2012

(All amounts in Renminbi thousands, except for earnings per share data)

	Note	Year ended 31 December 2012	2011
Revenue from Railroad Businesses			
Passenger		**7,841,091**	8,026,512
Freight		**1,344,113**	1,386,753
Railway network usage and other transportation related services		**4,890,640**	4,255,996
		14,075,844	13,669,261
Revenue from Other Businesses		**1,016,042**	1,021,574
Total revenue		**15,091,886**	14,690,835
Operating expenses:			
Railroad Businesses			
Business tax		**(340,035)**	(369,115)
Labour and benefits	*29*	**(3,516,589)**	(2,973,529)
Equipment leases and services		**(4,022,514)**	(3,604,408)
Land use right leases	*38(b)*	**(54,800)**	(53,600)
Materials and supplies		**(1,532,559)**	(1,530,659)
Repairs and facilities maintenance costs, excluding materials and supplies		**(696,884)**	(647,120)
Depreciation of fixed assets		**(1,358,527)**	(1,344,927)
Amortisation of leasehold land payments		**(15,001)**	(15,001)
Social services expenses		**(93,090)**	(115,190)
Utility and office expenses		**(107,216)**	(128,795)
Others		**(525,806)**	(340,789)
		(12,263,021)	(11,123,133)
Other Businesses			
Business tax		**(32,845)**	(32,148)
Labour and benefits	*29*	**(458,349)**	(414,326)
Materials and supplies		**(317,738)**	(391,673)
Depreciation of fixed assets		**(23,877)**	(25,034)
Amortisation of leasehold land payments		**(987)**	(987)
Utility and office expenses		**(132,581)**	(113,700)
		(966,377)	(977,868)
Total operating expenses		**(13,229,398)**	(12,101,001)
Other income/(expense) and other gains/(losses) — net	*30*	**71,815**	(25,786)
Profit from operations		**1,934,303**	2,564,048
Finance costs	*31*	**(187,073)**	(190,970)
Share of results of associates	*11*	**10,906**	5,259
Profit before income tax		**1,758,136**	2,378,337
Income tax expense	*32*	**(441,151)**	(575,965)
Profit for the year		**1,316,985**	1,802,372

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT *(continued)*

For the year ended 31 December 2012

(All amounts in Renminbi thousands, except for earnings per share data)

	Note	**Year ended 31 December** **2012**	2011
Profit for the year		**1,316,985**	1,802,372
Other comprehensive income		**—**	—
Total comprehensive income for the year, net of tax		**1,316,985**	1,802,372
Profit attributable to:			
Equity holders of the Company		**1,318,938**	1,804,107
Non-controlling interests		**(1,953)**	(1,735)
		1,316,985	1,802,372
Total comprehensive income attributable to:			
Equity holders of the Company		**1,318,938**	1,804,107
Non-controlling interests		**(1,953)**	(1,735)
		1,316,985	1,802,372
Earnings per share for profit attributable to the equity holders of the Company during the year			
— Basic	*34*	**RMB0.19**	RMB0.25
— Diluted	*34*	**RMB0.19**	RMB0.25

The accompanying notes form an integral part of these financial statements.

	Note	**2012**	2011
Dividends	*35*	**566,683**	708,354

Li Wenxin
Director

Shen Yi
Director

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2012

(All amounts in Renminbi thousands)

	Attributable to equity holders of the Company								
	Share capital *(Note 21)*	Share premium	Statutory surplus reserve *(Note 22)*	Discretionary surplus Reserve *(Note 22)*	Other reserve *(Note 22)*	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2011	7,083,537	11,564,581	1,783,898	304,059	–	3,431,942	24,168,017	54,559	24,222,576
Total comprehensive income	–	–	–	–	–	1,804,107	1,804,107	(1,735)	1,802,372
Appropriations from retained earnings *(Note 22)*	–	–	181,138	–	–	(181,138)	–	–	–
Dividends relating to 2010	–	–	–	–	–	(637,518)	(637,518)	(22)	(637,540)
Balance at 31 December 2011	7,083,537	11,564,581	1,965,036	304,059		4,417,393	25,334,606	52,802	25,387,408
Total comprehensive income	–	–	–	–	–	1,318,938	1,318,938	(1,953)	1,316,985
Special reserve-Safety Production Fund *(Note 22)*	–	–	–	–	–	–	–	–	–
Appropriation	–	–	–	–	134,265	(134,265)	–	–	–
Utilisation	–	–	–	–	(134,265)	134,265	–	–	–
Appropriations from retained earnings *(Note 22)*	–	–	133,171	–	–	(133,171)	–	–	–
Dividends relating to 2011	–	–	–	–	–	(708,354)	(708,354)	–	(708,354)
Balance at 31 December 2012	7,083,537	11,564,581	2,098,207	304,059	–	4,894,806	25,945,190	50,849	25,996,039

Li Wenxin
Director

Shen Yi
Director

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2012
(All amounts in Renminbi thousands)

	Attributable to equity holders of the Company						
	Share capital *(Note 21)*	Share premium	Statutory surplus reserve *(Note 22)*	Discretionary surplus Reserve *(Note 22)*	Other reserve *(Note 22)*	Retained earnings	Total equity
Balance at 1 January 2011	7,083,537	11,564,462	1,783,898	304,059	—	3,408,807	24,144,763
Total comprehensive income	—	—	—	—	—	1,806,116	1,806,116
Appropriations from retained earnings *(Note 22)*	—	—	181,138	—	—	(181,138)	—
Dividends relating to 2010	—	—	—	—	—	(637,518)	(637,518)
Balance at 31 December 2011	7,083,537	11,564,462	1,965,036	304,059	—	4,396,267	25,313,361
Total comprehensive income	—	—	—	—	—	1,320,805	1,320,805
Special reserve-Safety Production Fund *(Note 22)*	—	—	—	—	—	—	—
Appropriation	—	—	—	—	134,265	(134,265)	—
Utilisation	—	—	—	—	(134,265)	134,265	—
Appropriations from retained earnings *(Note 22)*	—	—	133,171	—	—	(133,171)	—
Dividends relating to 2011	—	—	—	—	—	(708,354)	(708,354)
Balance at 31 December 2012	7,083,537	11,564,462	2,098,207	304,059	—	4,875,547	25,925,812

The accompanying notes form an integral part of these financial statements.

Li Wenxin
Director

Shen Yi
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012
(All amounts in Renminbi thousands)

	Note	Year ended 31 December 2012	2011
Cash flows from operating activities			
Cash generated from operations	*36(a)*	**2,875,017**	3,933,083
Interest paid		**(167,650)**	(167,650)
Income tax paid		**(529,694)**	(436,375)
Net cash generated from operating activities		**2,177,673**	3,329,058
Cash flows from investing activities			
Payments for acquisition of fixed assets and construction-in-progress; and prepayments for fixed assets, net of related payables		**(1,836,154)**	(943,390)
Proceeds from disposal of fixed assets; leasehold land and construction-in-progress	*36(b)*	**41,071**	557
Proceeds from disposal of subsidiary		**—**	144
Government grants received		**—**	4,100
Interest received		**116,688**	28,203
Increase in short-term deposits with maturities more than three months, net		**(488,000)**	(3,077,500)
Dividends received		**5,500**	4,263
Net cash used in investing activities		**(2,160,895)**	(3,983,623)
Cash flows from financing activities			
Dividends paid to non-controlling interest		**(10)**	(36)
Dividends paid to the Company's shareholders		**(708,354)**	(637,533)
Payments for management fee of bond payables		**(158)**	(167)
Net cash used in financing activities		**(708,522)**	(637,736)
Net decrease in cash and cash equivalents		**(691,744)**	(1,292,301)
Cash and cash equivalents at beginning of year		**1,366,757**	2,659,058
Cash and cash equivalents at end of year	*36(c)*	**675,013**	1,366,757

The accompanying notes form an integral part of these financial statements.

Li Wenxin
Director

Shen Yi
Director

Notes to the Financial Statements

For the year ended 31 December 2012

(All amounts expressed in Renminbi unless otherwise stated)

1. GENERAL INFORMATION

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

The Predecessor is controlled by and is 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 "Restructuring Agreement"), 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") in exchange for the 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 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 of Guangzhou Railway Group Yangcheng Railway Enterprise Development Company ("Yangcheng Railway Business"), 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.

The principal activities of the Group are the provision of passenger and freight transportation on railroad. 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.

1. GENERAL INFORMATION *(Continued)*

The registered address of the Company is No. 1052 Heping Road, Shenzhen, Guangdong Province, the People's Republic of China. The business license for the Company will expire in 2056.

As at 31 December 2012, the Company had in total approximately 34,600 employees, representing an increase of 1,200 as compared with that of 31 December 2011.

The financial statements were authorised for issue by the board of directors of the Company on 26 March 2013.

The English names of all companies listed in the financial statements are direct translations of their registered names in Chinese.

2. PRINCIPAL ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) *New and amended standards adopted by the Group*

IFRS 7 (Amendment) 'Disclosures — Transfers of financial assets' is effective for annual periods beginning on or after 1 July 2011. The amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. There is no impact on the Group, as it has not made any financial assets transfer.

IAS 12 (Amendment) 'Income taxes', is effective for annual periods beginning on or after 1 January 2012. It currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes — recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. There is no impact on the Group as it does not have any assets that are subject to the assessment of whether the recovery will be through use or sale.

(b) *Standards, amendments and interpretations to existing standards effective in 2012 but not relevant to the Group:*

IFRS 1 (Amendment) 'Severe hyperinflation and removal of fixed dates for first-time adopters' is effective for annual periods beginning on or after 1 July 2011. These amendments include two changes to IFRS 1, 'First-time adoption of IFRS'. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. There is no impact on the Group, as the Group is not a first time adopter of IFRS and not in severe hyperinflation environment.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) The following new standards, amendments and interpretations have been issued as of 31 December 2012 but are not yet effective for IFRS/HKFRS financial statements for the year ended 31 December 2012:

	Effective for annual periods beginning on or after
IAS 1 'Presentation of financial statements' — Amendment	1 July 2012
IFRS 1 'First time adoption', on government loans — Amendment	1 January 2013
IFRS 10 'Consolidated financial statements' — Amendment	1 January 2013
IFRS 11 'Joint arrangements' – Amendment	1 January 2013
IFRS 12 'Disclosures of interests in other entities' — Amendment	1 January 2013
IFRS 13 'Fair value measurement' — Clarification	1 January 2013
IAS 19 'Employee benefits' — Amendment	1 January 2013
IAS 28 'Investment in associates and joint ventures' — Amendment	1 January 2013
IAS 27 (revised 2011) 'Separate financial statements'	1 January 2013
IFRS 7 'Financial instruments: Disclosures — Offsetting financial assets and financial liabilities' — Amendment	1 January 2013
IFRIC-Int 20 'Stripping costs in the production phase of a surface mine'	1 January 2013
IAS 32 'Financial instruments: Presentation — Offsetting financial assets and financial liabilities' — Amendment	1 January 2014
IFRS 9 'Financial instruments' — Classification and Measurement	1 January 2015
IFRS 7 and IFRS 9 'Mandatory effective date and transition disclosures' — Amendment	1 January 2015

The Group has assessed that the adoption of IFRS 10 does not have any financial impact on the Group as all subsidiaries within the Group satisfy the requirements for control under IFRS 10 and there are no new subsidiaries identified under the new guidance.

Apart from IFRS 10, the Group is in the process of making an assessment of the impact of the above standards, amendments to standards and interpretations. The Group is not yet in a position to state what impact they would have, if any, on the Group's results of operations and financial positions.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) *Business combinations (Continued)*

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

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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

(c) *Disposal of subsidiaries*

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial statements

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

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.3 Associates *(Continued)*

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

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

2.4 Segment reporting

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.5 Foreign currency transaction *(Continued)*

(b) Transactions and balances

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

Foreign exchange gains and losses are presented in the consolidated comprehensive income statement within 'Finance costs'.

2.6 Fixed assets

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to 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 *(Note a)*	20 to 40 years
Tracks, bridges and service roads *(Note a)*	16 to 100 years
Locomotives and rolling stock	20 years
Communications and signalling systems	8 to 20 years
Other machinery and equipment	4 to 25 years

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.6 Fixed assets *(Continued)*

Note a:

The estimated useful lives of buildings, tracks, bridges and service roads exceed the initial lease periods of the respective land use right lease grants (the "Lease Term"); and the initial period of land use right operating leases (the "Operating Lease Term"), on which these assets are located (Notes 2.8 and 38(b)).

Pursuant to the relevant laws and regulations in the PRC governing the land use right lease grants, the Group has the right to renew the respective leases up to a period not less than 50 years with additional cost paid. This right can be exercised within one year before the expiry of the initial Lease Term, and can only be denied if such renewals are considered to be detrimental to the public interest. Accordingly, the directors of the Company consider that the approval process to be perfunctory. In addition, based on the provision of the land use right operating lease agreement entered into with the single largest shareholder (details contained in Note 38(b)), the Company can renew the lease at its own discretion upon expiry of the Operating Lease Term. Based on the above considerations, the directors have determined the estimated useful lives of these assets to extend beyond the initial Lease Term as well as the Operating Lease Term.

The assets' residual values and estimated useful lives are reviewed, and adjusted if appropriate, at 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 2.10).

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.7 Construction-in-progress

Construction-in-progress represents buildings, tracks, bridges and service roads, mainly includes the construction related costs for the associated facilities of the existing railway line 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.

2.8 Leasehold land payments

The Group acquired the right to use certain parcels of land for certain of its rail lines, stations and other businesses. The payment paid for such land represents pre-paid lease payments, which are amortised over the lease terms of 36.5 to 50 years using the straight-line method. Pursuant to the relevant laws and regulations in the PRC governing the land use right lease grant, the Group has the right to extend and renew the lease for a period not less than 50 years. This right can be exercised within one year before the expiry of the initial Lease Term, and can only be denied if such renewals are considered to be detrimental to the public interest. The Group considers the approval process to be perfunctory and the renewal is reasonably assured.

2.9 Goodwill

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.9 Goodwill *(Continued)*

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 recognised immediately as an expense and is not subsequently reversed.

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Other than loans and receivables and available-for-sale financial assets, the Group did not hold any financial assets carried at fair value through profit or loss during the year ended 31 December 2012 and 2011.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "long-term receivables", "trade and other receivables", "short term deposits" and "cash and cash equivalents" in the balance sheet (Notes 2.16 and 2.17).

(b) Available-for-sale financial assets

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

2.11 Financial assets *(Continued)*

2.11.2 Recognition and measurement

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

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the comprehensive income statement as 'gains and losses from investment securities'.

Dividends on available-for-sale equity instruments are recognised in the comprehensive income statement as part of other income when the Group's right to receive payments is established.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

2.11.2 Recognition and measurement (Continued)

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

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.13 Impairment of financial assets *(Continued)*

(a) Assets carried at amortised cost (Continued)

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

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

The Group first assesses whether objective evidence of impairment exists.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.13 Impairment of financial assets *(Continued)*

(a) ***Assets carried at amortised cost*** *(Continued)*

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

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

(b) ***Assets classified as available for sale***

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the consolidated comprehensive income statement. Impairment losses recognised in the consolidated comprehensive income statement on equity instruments are not reversed through the consolidated comprehensive income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.14 Long-term prepaid expenses

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

2.15 Materials and supplies

Materials and supplies are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Materials and supplies are charged as fuel costs and repair and maintenance expenses when consumed, or capitalised to fixed assets when the items are installed with the related fixed assets, whichever is appropriate. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable expenses.

2.16 Trade and other receivables

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

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

2.17 Cash and cash equivalents

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

2.18 Share capital

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.19 Trade payables

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

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

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

2.20 Borrowings

Borrowings (including bonds payable) are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost; and any difference between proceeds (net of transaction costs) and the redemption value is recognised in the comprehensive income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.22 Current and deferred income tax

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

(a) Current income tax

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(b) Deferred income tax

Inside basis differences

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. 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 is provided on temporary differences arising on investments in subsidiaries and associates, 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.

(c) Offsetting

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.23 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 housing, etc. The Group has no further payment obligations once the contributions have been paid. The contributions to the defined contribution schemes are recognised as staff costs when they are due.

(b) Termination benefits

Termination benefits are payable when selected employees who meet certain criteria accept voluntary redundancy in exchange for these benefits, with specific approval granted by management of the Group. The Group recognises retirement benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide retirement benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.24 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.25 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 the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transactions and the specifics of each arrangement.

(a) Revenue from railway business

Revenue from railway business includes revenue from passenger and freight services, revenue from railway network usage and other transportation related services. Other transportation related services include the railway transportation management service provided to other railway companies and other service provided in relation to passenger and freight transportation. Revenue from railway business is recognised when the services are rendered and revenue can be reliably measured.

(b) Revenue from other businesses

Revenue from other business principally includes services offered in railway stations, sales of food, beverages and merchandises on board the trains and in the railway stations. Revenue from other business is recognised once the related services or goods are delivered, the related risks and rewards of ownership have been transferred and revenue can be reliably measured.

(c) Rental income

Revenue from operating lease arrangements is recognised on a straight-line basis over the period of the respective leases.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.26 Interest income

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

2.27 Dividend income

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

2.28 Government grants

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

Government grants relating to costs are deferred and recognised in 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.

2.29 Operating leases

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

2.30 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factor

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

(a) Price risk

The Group is exposed to price risk because of investments held by the Group and classified as available-for-sale on the consolidated balance sheet.

To manage its price risk arising from investments in equity interests, the Group diversifies its portfolio. Diversification of the portfolio is made in accordance with the limits set by the Group.

(b) Foreign currency risk

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

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

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factor *(Continued)*

(b) ***Foreign currency risk*** *(Continued)*

The following table shows the Group's exposures to foreign currency rate fluctuation arising from foreign currency denominated monetary assets and liabilities:

Monetary assets and liabilities	Currency denomination	As at 31 December 2012 (RMB'000)	2011 (RMB'000)
Cash and cash equivalents	USD	39	261
Cash and cash equivalents	HKD	60,910	106,054
Other receivables	HKD	234	244

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

As at 31 December 2012, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, profit before tax for the year would have been RMB 3,057,000 (2011: RMB5,300,000) 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 significant.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factor *(Continued)*

(c) *Cash flow and fair value interest rate risk*

Other than deposits held in banks, the Group does not have significant interest-bearing assets. The average interest rate of deposits held in banks in the PRC throughout the year was approximately 2.86% (2011: 2.12%). 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.

The Group's interest rate risk which affects its income and operating cash flows mainly arises from bonds payable. The bonds bear interest at fixed rates, and expose the Group to fair value interest rate risk.

(d) *Credit risk*

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

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables				
Due from MOR	**159,074**	18,017	**159,074**	18,017
Due from related parties	**182,408**	475,643	**181,125**	474,861
Due from third parties	**597,896**	103,120	**595,104**	101,538
	939,378	596,780	**935,303**	594,416

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factor *(Continued)*

(d) Credit risk (Continued)

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables excluding prepayments				
Due from related parties	**2,114**	13,897	**2,083**	26,472
Due from third parties	**77,541**	66,801	**76,152**	66,801
	79,655	80,698	**78,235**	93,273

	Group and Company	
	2012	2011
	RMB'000	*RMB'000*
Long-term receivable		
Due from a third party	**30,863**	34,108

For trade and other receivables, management performs ongoing credit evaluations of its customers/debtors' financial condition and generally does not require collateral from the customers/debtors. After assessing the expected realizability and timing for collection of the outstanding balances, the Group maintains a provision for impairment of receivables and actual losses incurred have been within management's expectation.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factor *(Continued)*

(d) ***Credit risk*** *(Continued)*

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and short-term deposits				
Placed in listed banks in the PRC	**4,848,956**	5,052,672	**4,827,412**	5,030,940
Placed in unlisted banks in the PRC	**—**	35	**—**	35
	4,848,956	5,052,707	**4,827,412**	5,030,975

Cash and short term liquid investments are placed with reputable banks. There was no recent history of default of cash and cash equivalents and short-term deposits from such financial institutions.

There were no other financial assets carrying a significant exposure to credit risk.

(e) ***Liquidity risk***

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Management monitors rolling forecasts of the Group's liquidity reserves (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flows.

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.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factor *(Continued)*

(e) ***Liquidity risk*** *(Continued)*

Group	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*
At 31 December 2012			
Bonds payable (including interests) *(Note 24)*	167,650	3,660,760	—
Trade and other payables excluding statutory liabilities and advance *(Notes 26 and 27)*	1,565,391	—	—
Dividends payable	15	—	—
Payables for fixed assets and construction-in-progress	915,081	—	—
At 31 December 2011			
Bonds payable (including interests) *(Note 24)*	167,650	167,650	3,660,760
Trade and other payables excluding statutory liabilities and advance *(Notes 26 and 27)*	1,496,980	—	—
Dividends payable	25	—	—
Payables for fixed assets and construction-in-progress	814,129	—	—

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factor *(Continued)*

(e) ***Liquidity risk*** *(Continued)*

Company	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*
At 31 December 2012			
Bonds payable (including interests) *(Note 24)*	167,650	3,660,760	—
Trade and other payables excluding statutory liabilities and advance *(Notes 26 and 27)*	1,596,786	—	—
Dividends payable	15	—	—
Payables for fixed assets and construction-in-progress	914,926	—	—
At 31 December 2011			
Bonds payable (including interests) *(Note 24)*	167,650	167,650	3,660,760
Trade and other payables excluding statutory liabilities and advance *(Notes 26 and 27)*	1,538,798	—	—
Dividends payable	25	—	—
Payables for fixed assets and construction-in-progress	814,129	—	—

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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital by regularly reviewing the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bonds payable less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet plus net debt.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management *(Continued)*

The gearing ratios as at 31 December 2012 and 2011 are as follows:

	2012	2011
	RMB'000	*RMB'000*
Total bonds payable *(Notes 24)*	**3,485,473**	3,478,568
Less: Cash and cash equivalents *(Note 36(c))*	**(675,013)**	(1,366,757)
Net debt	**2,810,460**	2,111,811
Total equity	**25,996,039**	25,387,408
Total capital	**28,806,499**	27,499,219
Gearing ratio	**10%**	8%

The increase in the gearing ratio in 2012 is primarily due to the decrease in cash and cash equivalents, as more cash and cash equivalents were invested in the form of time deposits in 2012.

3.3 Fair value estimation

According to amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, it requires disclosure of fair value measurements by level of following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

As at 31 December 2011 and 2012, the Group did not have any financial instruments that were measured at fair value.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The fair value of bonds payable for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. As at 31 December 2012, the fair value of bonds payable was approximately RMB3,463,237,000 (2011: RMB3,405,771,000). The fair values are determined by discounted cash flow method using a discount rate of 5.36% (2011: 5.79%).

As at 31 December 2012 and 2011, the fair values of other financial instruments approximated their carrying values.

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.

4.1 Critical accounting estimates and assumptions

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) The estimates of the depreciable lives of fixed assets

The estimate of depreciable lives of fixed assets, especially tracks, bridges and service roads, was made by the directors with reference to the following: (1) the historical usage of the assets; (2) their expected physical wear and tear; (3) results of recent durability assessment performed; (4) technical or commercial obsolescence arising from changes or improvements in production of similar fixed assets; (5) the right of the Group to renew the land use right grants and the land use right lease on which these assets are located (Notes 2.8 and 38(b)); (6) the changes in market demand for, or legal or comparable limits imposed on, the use of such fixed assets.

The current estimated useful lives are stated in Note 2.6. If the estimated depreciable lives of tracks, bridges and service roads had been increased/decreased by 10%, the depreciation expenses of fixed assets for the year ended 31 December 2012 would have been decreased/increased by approximately RMB18,524,000 and RMB22,640,000 respectively (2011: RMB18,357,000 and RMB22,437,000).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) Estimated impairment of goodwill

The Group tests whether goodwill has suffered any impairment annually or, whenever there is an indication of impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on the higher of an asset's fair value less costs to sell and value in use. These calculations require the use of estimates (Note 9).

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

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

5. SEGMENT INFORMATION

The chief operating decision-makers have been identified as senior executives. Senior executives review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

Senior executives consider the business from a perspective of revenues and operating results generated from railroad and related business conducted by the Company ("the Company's Business"). Other segments mainly include provision of on-board catering services, warehousing services, hotel management services and sales of merchandises provided by the subsidiaries of the Group.

Senior executives 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 is measured in a manner consistent with that in the financial statements.

5. SEGMENT INFORMATION *(Continued)*

The segment results for 2012 and 2011 are as follows:

	The Company's Business		All other segments		Elimination		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue	**14,697,073**	14,339,356	**394,813**	351,479	**–**	–	**15,091,886**	14,690,835
Inter-segment revenue	**–**	–	**–**	–	**–**	–	**–**	–
Total revenue	**14,697,073**	14,339,356	**394,813**	351,479	**–**	–	**15,091,886**	14,690,835
Segment result	**1,757,476**	2,377,270	**1,048**	9,974	**(388)**	(8,907)	**1,758,136**	2,378,337
Finance costs	**(186,916)**	(190,832)	**(157)**	(138)	**–**	–	**(187,073)**	(190,970)
Share of results of associates	**10,906**	5,259	**–**	–	**–**	–	**10,906**	5,259
Depreciation	**1,377,855**	1,365,364	**4,549**	4,597	**–**	–	**1,382,404**	1,369,961
Amortisation of leasehold land payments	**15,001**	15,001	**987**	987	**–**	–	**15,988**	15,988
Amortisation of long-term prepaid expenses	**7,132**	4,286	**105**	23	**–**	–	**7,237**	4,309
Recognition of employee benefits obligations	**66,650**	–	**–**	3,464	**–**	–	**66,650**	3,464
Impairment of fixed assets	**–**	4,709	**–**	–	**–**	–	**–**	4,709
Impairment of materials and supplies	**–**	21,590	**–**	–	**–**	–	**–**	21,590
Provision for impairment of receivables	**1,464**	106	**112**	–	**–**	–	**1,576**	106

5. SEGMENT INFORMATION *(Continued)*

A reconciliation of the segment results to profit of 2012 and 2011 is as follows:

	The Company's Business		All other segments		Elimination		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment result	**1,757,476**	2,377,270	**1,048**	9,974	**(388)**	(8,907)	**1,758,136**	2,378,337
Income tax expense	**(436,671)**	(571,154)	**(4,480)**	(4,811)	**–**	–	**(441,151)**	(575,965)
Profit for the year	**1,320,805**	1,806,116	**(3,432)**	5,163	**(388)**	(8,907)	**1,316,985**	1,802,372

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 Company's Business		All other segments		Elimination		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Total segment assets	**32,818,371**	32,158,429	**229,613**	233,638	**(180,802)**	(184,720)	**32,867,182**	32,207,347
Total segment assets include:								
Investment in associates	**136,826**	125,920	**–**	–	**–**	–	**136,826**	125,920
Additions to non-current assets (other than financial instruments and deferred tax assets)	**1,921,215**	1,274,896	**9,210**	2,126	**–**	–	**1,930,425**	1,277,022
Total segment liabilities	**6,892,559**	6,845,068	**99,595**	88,895	**(121,011)**	(114,024)	**6,871,143**	6,819,939

Revenues of approximately RMB12,008,821,000 (2011: RMB12,076,872,000) of the Group were settled through the Ministry of Railway of the PRC ("MOR") (Note 40). Except that, no revenues derived from a single external customer have exceeded 10% of the total revenues.

6. FIXED ASSETS

	Group					
	Buildings RMB'000	Tracks, bridges and service roads RMB'000	Locomotives and rolling stock RMB'000	Communications and signalling systems RMB'000	Other machinery and equipment RMB'000	Total RMB'000
At 1 January 2011						
Cost	4,832,566	14,593,786	6,873,927	1,522,555	4,716,620	32,539,454
Accumulated depreciation	(1,229,350)	(1,995,990)	(1,921,437)	(721,077)	(2,205,422)	(8,073,276)
Impairment	—	—	—	—	(48)	(48)
Net book amount	3,603,216	12,597,796	4,952,490	801,478	2,511,150	24,466,130
Year ended 31 December 2011						
Opening net book amount	3,603,216	12,597,796	4,952,490	801,478	2,511,150	24,466,130
Additions	38,871	—	33,804	25,799	168,866	267,340
Transfer from construction-in-progress *(Note 7)*	200,499	345,425	10,165	65,513	209,294	830,896
Reclassifications	(9,318)	1,549	—	85	7,684	—
Disposals	(1,096)	(168,927)	(19,140)	(4,105)	(9,348)	(202,616)
Impairment	—	—	(1,957)	—	(2,752)	(4,709)
Depreciation charges	(182,744)	(208,503)	(402,186)	(169,197)	(407,331)	(1,369,961)
Closing net book amount	3,649,428	12,567,340	4,573,176	719,573	2,477,563	23,987,080
At 31 December 2011						
Cost	5,059,618	14,756,797	6,874,014	1,510,971	4,994,334	33,195,734
Accumulated depreciation	(1,410,190)	(2,189,457)	(2,298,881)	(791,398)	(2,513,980)	(9,203,906)
Impairment	—	—	(1,957)	—	(2,791)	(4,748)
Net book amount	3,649,428	12,567,340	4,573,176	719,573	2,477,563	23,987,080
Year ended 31 December 2012						
Opening net book amount	3,649,428	12,567,340	4,573,176	719,573	2,477,563	23,987,080
Additions	361	—	565,143	33,157	122,082	720,743
Transfer from construction-in-progress *(Note 7)*	818,849	290,042	42,685	63,510	149,123	1,364,209
Reclassifications	(535)	1,286	—	—	(751)	—
Disposals	(497)	(120,562)	(44,904)	(63)	(1,329)	(167,355)
Impairment	—	—	1,957	—	18	1,975
Depreciation charges	(193,813)	(208,439)	(414,260)	(159,939)	(405,953)	(1,382,404)
Closing net book amount	4,273,793	12,529,667	4,723,797	656,238	2,340,753	24,524,248
At 31 December 2012						
Cost	5,876,441	14,917,817	7,374,288	1,607,556	5,217,526	34,993,628
Accumulated depreciation	(1,602,648)	(2,388,150)	(2,650,491)	(951,318)	(2,874,000)	(10,466,607)
Impairment	—	—	—	—	(2,773)	(2,773)
Net book amount	4,273,793	12,529,667	4,723,797	656,238	2,340,753	24,524,248

6. FIXED ASSETS *(Continued)*

	Company					
	Buildings *RMB'000*	Tracks, bridges and service roads *RMB'000*	Locomotives and rolling stock *RMB'000*	Communications and signalling systems *RMB'000*	Other machinery and equipment *RMB'000*	Total *RMB'000*
At 1 January 2011						
Cost	4,713,359	14,563,195	6,873,927	1,522,454	4,709,799	32,382,734
Accumulated depreciation	(1,177,878)	(1,975,950)	(1,921,437)	(720,976)	(2,204,264)	(8,000,505)
Impairment	–	–	–	–	(48)	(48)
Net book amount	3,535,481	12,587,245	4,952,490	801,478	2,505,487	24,382,181
Year ended 31 December 2011						
Opening net book amount	3,535,481	12,587,245	4,952,490	801,478	2,505,487	24,382,181
Additions	38,635	–	33,804	25,799	167,361	265,599
Transfer from construction-in-progress *(Note 7)*	200,499	345,425	10,165	65,513	208,838	830,440
Reclassifications	(9,318)	1,549	–	85	7,684	–
Disposals	(1,096)	(168,927)	(19,140)	(4,105)	(9,348)	(202,616)
Impairment	–	–	(1,957)	–	(2,752)	(4,709)
Depreciation charges	(179,490)	(208,429)	(402,186)	(169,197)	(406,063)	(1,365,365)
Closing net book amount	3,584,711	12,556,863	4,573,176	719,573	2,471,207	23,905,530
At 31 December 2011						
Cost	4,940,176	14,726,208	6,874,014	1,510,870	4,974,942	33,026,210
Accumulated depreciation	(1,355,465)	(2,169,345)	(2,298,881)	(791,297)	(2,500,944)	(9,115,932)
Impairment	–	–	(1,957)	–	(2,791)	(4,748)
Net book amount	3,584,711	12,556,863	4,573,176	719,573	2,471,207	23,905,530
Year ended 31 December 2012						
Opening net book amount	3,584,711	12,556,863	4,573,176	719,573	2,471,207	23,905,530
Additions	124	–	565,143	33,157	118,907	717,331
Transfer from construction-in-progress *(Note 7)*	818,849	290,042	42,685	63,510	145,388	1,360,474
Reclassifications	(535)	1,286	–	–	(751)	–
Disposals	(497)	(120,562)	(44,904)	(63)	(1,321)	(167,347)
Impairment	–	–	1,957		18	1,975
Depreciation charges	(190,616)	(208,368)	(414,260)	(159,939)	(404,672)	(1,377,855)
Closing net book amount	4,212,036	12,519,261	4,723,797	656,238	2,328,776	24,440,108
At 31 December 2012						
Cost	5,756,761	14,887,228	7,374,288	1,607,455	5,191,652	34,817,384
Accumulated depreciation	(1,544,725)	(2,367,967)	(2,650,491)	(951,217)	(2,860,103)	(10,374,503)
Impairment	–	–	–	–	(2,773)	(2,773)
Net book amount	4,212,036	12,519,261	4,723,797	656,238	2,328,776	24, 440,108

6. FIXED ASSETS *(Continued)*

As at 31 December 2012, the ownership certificates of certain buildings ("Building Ownership Certificates") of the Group and the Company with an aggregate carrying value of approximately RMB1,614,967,000 and RMB1,565,116,000, respectively (2011: RMB992,588,000 and RMB940,655,000) had not been obtained by the Group and the Company. 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 Building Ownership Certificates and it should not lead to any significant adverse impact on the operations of the Group or the Company.

As at 31 December 2012, fixed assets of the Group and the Company with an aggregate net book value of approximately RMB46,876,000 (2011: RMB35,482,000) had been fully depreciated but they were still in use.

7. CONSTRUCTION-IN-PROGRESS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**911,962**	752,862	**911,962**	752,844
Additions	**1,131,775**	1,014,201	**1,128,040**	1,013,763
Disposals	**—**	(24,205)	**—**	(24,205)
Transfer to fixed assets *(Note 6)*	**(1,364,209)**	(830,896)	**(1,360,474)**	(830,440)
At 31 December	**679,528**	911,962	**679,528**	911,962

Construction-in-progress as at 31 December 2012 mainly comprises the construction of new railway stations and improvement on the existing railway equipments in the PRC.

For the year ended 31 December 2012, no interest expenses (2011: Nil) were capitalised in the construction-in-progress balance.

8. LEASEHOLD LAND PAYMENTS

The Group's interests in leasehold land represent prepaid operating lease payments in the PRC and its net book value are analyzed as follows:

	Group *RMB'000*	Company *RMB'000*
At 1 January 2011		
Cost	791,213	750,710
Accumulated amortisation	(230,822)	(223,160)
Net book amount	560,391	527,550
Year ended 31 December 2011		
Opening net book amount	560,391	527,549
Amortisation charges	(15,988)	(15,001)
Closing net book amount	544,403	512,548
At 31 December 2011		
Cost	791,213	750,709
Accumulated amortisation	(246,810)	(238,161)
Net book amount	544,403	512,548
Year ended 31 December 2012		
Opening net book amount	544,403	512,548
Amortisation charges	(15,988)	(15,001)
Disposal	(119)	—
Closing net book amount	528,296	497,547
At 31 December 2012		
Cost	791,054	750,709
Accumulated amortisation	(262,758)	(253,162)
Net book amount	528,296	497,547

8. LEASEHOLD LAND PAYMENTS *(Continued)*

As at 31 December 2012, land use right certificates ("Land Certificates") of certain parcels of land of the Group and the Company with an aggregate area of 1,280,231 and 1,108,601 square meters (2011: 1,620,894 and 1,448,472), respectively had not been obtained. After consultation made with the Company's legal counsel, the directors consider that there is no legal restriction for the Group or the Company to apply for and obtain the Land Certificates and it should not lead to any significant adverse impact on the operations of the Group or the Company.

The remaining lease period of leasehold land as at 31 December 2012 was as follows:

Group	**2012** ***RMB'000***	2011 *RMB'000*
Lease of between 10 to 50 years	**528,296**	544,403

Company	**2012** ***RMB'000***	2011 *RMB'000*
Lease of between 10 to 50 years	**497,547**	512,548

9. GOODWILL

Group and Company	*RMB'000*
Year ended 31 December 2011 and 2012	
Opening net book amount	281,255
Additions	—
Closing net book amount	281,255
At 31 December 2011 and 2012	
Cost	281,255
Accumulated impairment	—
Net book amount	281,255

9. GOODWILL *(Continued)*

The goodwill balance 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.

Prior to 1 January 2009, the goodwill had been allocated to a cash-generating units ("CGU") comprising the Yangcheng Railway Business. The recoverable amount of that CGU is determined based on value-in-use calculations and no impairment losses had been recognised prior to 1 January 2009.

On 1 January 2009, the Group integrated the Yangcheng Railway Business with the Group's railway business in order to improve operation efficiency. As a result, the management considers that the Yangcheng Railway Business and the Group's remaining railway business (collectively the "Combined Railway Business") represents the lowest level of cash-generating units within the Group at which goodwill is monitored for internal management purposes. In addition, the Combined Railway Business is not larger than an operating segment determined under with IFRS 8. Therefore, the Group has reallocated the goodwill to the cash generating unit ("CGU") comprising the Combined Railway Business.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial forecasts prepared by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

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

Railroad business	2012	2011
Gross margin	**26.50%**	26.50%
Growth rate	**2%**	2%
Discount rate	**11.26%**	11.21%

Management estimated the gross margin and growth rate based on past performance and its expectations for the market development. The discount rate used is pre-tax and reflect specific risks relating to the railroad business segment.

9. GOODWILL *(Continued)*

If the budgeted growth rate used in the value-in-use calculation for the CGU in railroad business had been 10% lower than management's estimates as at 31 December 2012, the Group would have no impairment recognised against goodwill.

If the estimated pre-tax discount rate applied to the discounted cash flows for the CGU in railroad business had been 1% higher than management's estimates as at 31 December 2012, the Group would have no impairment recognised against goodwill.

10. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	*RMB'000*
Unlisted shares, at cost	**80,774**	80,274

10. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(i) As at 31 December 2012, the Company had direct or indirect interests in the following subsidiaries which are incorporated/established and are operating in the PRC:

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company		Paid-in capital	Principal activities
		Directly	Indirectly		
Dongguan Changsheng Enterprise Company Limited	22 May 1992	51%	—	RMB38,000,000	Warehousing
Shenzhen Fu Yuan Enterprise Development Company Limited ("Shenzhen Fu Yuan") *(Note (a))*	1 November 1991	100%	—	RMB18,500,000	Hotel management
Shenzhen Pinghu Qun Yi Railway Store Loading and Unloading Company Limited	11 September 1993	55%	—	RMB10,000,000	Cargo loading and unloading, warehousing, freight transportation
Shenzhen Nantie Construction Supervision Company Limited	8 May 1995	67.46%	9.2%	RMB3,000,000	Supervision of construction projects
Shenzhen Railway Property Management Company Limited	13 November 2001	—	100%	RMB3,000,000	Property management
Shenzhen Guangshen Railway Travel Service Ltd.	16 August 1995	75%	25%	RMB2,400,000	Travel agency
Shenzhen Shenhuasheng Storage and Transportation Company Limited	2 January 1985	41.5%	58.5%	RMB2,000,000	Warehousing, freight transport and packaging agency services
Shenzhen Guangshen Railway Economic and Trade Enterprise Company Limited	7 March 2002	—	100%	RMB2,000,000	Catering management
Shenzhen Railway Station Passenger Services Company Limited	18 December 1986	100%	—	RMB1,500,000	Catering services and sales of merchandise
Guangshen Railway Station Dongqun Trade and Commerce Service Company Limited	23 November 1992	100%	—	RMB1,020,000	Sales of merchandises
Guangzhou Tielian Economy Development Company Limited ("Guangzhou Tielian")	27 December 1994	50.50%	—	RMB1,000,000	Warehousing and freight transport agency services
Guangzhou Railway Huangpu Service Company Limited	15 March 1985	100%	—	RMB379,000	Cargo loading and unloading, warehousing, freight transportation

All the above subsidiaries are limited liability companies.

10. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Note a:

In 2012, the Company acquired additional 2.7% interest of Shenzhen Fu Yuan from Shenzhen Guangshen Railway Travel Service Ltd, another subsidiary of the Company. After the acquisition, the interest in Shenzhen Fu Yuan held directly by the Company has increased from 97.3% to 100%.

11. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**—**	—	**210,529**	210,529
Share of net assets	**166,515**	155,609	**—**	—
Less: provision for impairment in value *(Note a)*	**(29,689)**	(29,689)	**(99,454)**	(99,454)
	136,826	125,920	**111,075**	111,075

Note a:

The impairment provision at the Group level as at 31 December 2012 represents provision for full impairment loss in investment in Zengcheng Lihua Stock Company Limited of approximately RMB29,689,000 (2011: RMB29,689,000) made in prior years ("Zengcheng Lihua Provision").

The provision balance at the Company level as at 31 December 2012 includes the Zengcheng Lihua Provision and provision for impairment loss of the Company's investment in Guangzhou Tiecheng Enterprise Company Limited ("Tiecheng") amounting to approximately RMB69,765,000 (2011: RMB69,765,000).

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**125,920**	120,661	**111,075**	111,075
Less: provision for impairment in value	**—**	—	**—**	—
Share of results after tax	**10,906**	5,259	**—**	—
End of the year	**136,826**	125,920	**111,075**	111,075

11. INVESTMENTS IN ASSOCIATES *(Continued)*

As at 31 December 2012, the Group and the Company had direct interests in the following companies which are incorporated/established and are operating in the PRC:

Name of the entity	Date of incorporation/ establishment	Percentage of equity interest attributable to the Company	Paid-in capital	Principal activities
Shenzhen Guangshen Railway Civil Engineering Company	1 March 1984	49%	RMB64,000,000	Construction of railroad properties
Zengcheng Lihua	30 July 1992	26.98%	RMB107,054,682	Real estate construction, provision of warehousing, cargo uploading and unloading services
Tiecheng	2 May 1995	49%	RMB343,050,000	Properties leasing and trading of merchandise

All the above associates are limited liability companies and they are unlisted companies.

The Group and Company's share of the results with its percentage ownership of its principal associates, and its share of the related assets and liabilities, net of applicable impairment provision are as follows:

	Assets *RMB'000*	Liabilities *RMB'000*	Revenue *RMB'000*	Profit *RMB'000*	% interest held
2011					
Tiecheng	209,058	123,220	14,262	1,713	49%
Other associates	236,145	256,137	312,093	3,546	27%~49%
	445,203	379,357	326,355	5,259	
2012					
Tiecheng	218,692	124,098	23,523	8,756	49%
Other associates	366,266	395,712	307,684	2,150	27%~49%
	584,958	519,810	331,207	10,906	

12. DEFERRED TAX ASSETS/(LIABILITIES)

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets:				
— Deferred tax assets to be recovered after more than 12 months	**108,170**	113,610	**107,673**	112,534
— Deferred tax assets to be recovered within 12 months	**29,744**	22,138	**29,373**	21,794
	137,914	135,748	**137,046**	134,328
Deferred tax liabilities:				
— Deferred tax liabilities to crystallise after more than 12 months	**(28,399)**	(27,367)	**(28,399)**	(27,367)
— Deferred tax liabilities to crystallise within 12 months	**(354)**	(302)	**(354)**	(302)
	(28,753)	(27,669)	**(28,753)**	(27,669)
Deferred tax assets (net)	**109,161**	108,079	**108,293**	106,659

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**108,079**	112,621	**106,659**	111,391
Charged to the comprehensive income statement *(Note 32)*	**1,082**	(4,542)	**1,634**	(4,732)
At 31 December	**109,161**	108,079	**108,293**	106,659

12. DEFERRED TAX ASSETS/(LIABILITIES) *(Continued)*

The movement in deferred tax assets and liabilities of the Group and the Company during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Group				
	At 1 January 2011 *RMB'000*	Charged/ (Credited) to the comprehensive income statement *RMB'000*	At 31 December 2011 *RMB'000*	Charged/ (Credited) to the comprehensive income statement *RMB'000*	At 31 December 2012 *RMB'000*
Deferred tax assets:					
Impairment provision for receivables	21,106	(668)	20,438	365	20,803
Impairment provision for fixed assets and construction-in-progress	1,964	1,075	3,039	(493)	2,546
Impairment provision for interests in associates	7,422	—	7,422	—	7,422
Impairment provision for materials and supplies	—	5,398	5,398	(887)	4,511
Difference in accounting base and tax base of the government grants	23,440	(727)	22,713	(728)	21,985
Difference in accounting base and tax base of employee benefits obligations	84,609	(10,836)	73,773	3,909	77,682
Loss on disposal of fixed assets	—	2,915	2,915	—	2,915
Other	50	—	50	—	50
	138,591	(2,843)	135,748	2,166	137,914

12. DEFERRED TAX ASSETS/(LIABILITIES) *(Continued)*

	Company				
	At 1 January 2011 *RMB'000*	Charged/ (Credited) to the comprehensive income statement *RMB'000*	At 31 December 2011 *RMB'000*	Charged/ (Credited) to the comprehensive income statement *RMB'000*	At 31 December 2012 *RMB'000*
Deferred tax assets:					
Impairment provision for receivables	21,070	(668)	20,402	365	20,767
Impairment provision for fixed assets and construction-in-progress	1,964	1,075	3,039	(493)	2,546
Impairment provision for interests in associates	7,422	—	7,422	—	7,422
Impairment provision for materials and supplies	—	5,398	5,398	(887)	4,511
Difference in accounting base and tax base of the government grants	23,440	(727)	22,713	(728)	21,985
Difference in accounting base and tax base of employee benefits obligations	83,465	(11,026)	72,439	4,461	76,900
Loss on disposal of fixed assets	—	2,915	2,915	—	2,915
	137,361	(3,033)	134,328	2,718	137,046

	Group and Company				
	At 1 January 2011 *RMB'000*	Credited/ (Charged) to the comprehensive income statement *RMB'000*	At 31 December 2011 *RMB'000*	Credited/ (Charged) to the comprehensive income statement *RMB'000*	At 31 December 2012 *RMB'000*
Deferred tax liabilities:					
Difference in accounting base and tax base in recognition of fixed assets	19,235	(4)	19,231	(58)	19,173
Others	6,735	1,703	8,438	1,142	9,580
	25,970	1,699	27,669	1,084	28,753

12. DEFERRED TAX ASSETS/(LIABILITIES) *(Continued)*

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Deferred income tax assets are recognised for tax loss carry-forwards and other temporary difference to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of tax losses and other temporary difference amounting to RMB11,475,000 (2011: RMB8,499,000) that can be carried forward against future taxable income as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Tax losses can be carried forward *(Note a)*	**7,895**	4,728	**—**	—
Deductible temporary differences	**3,580**	3,771	**—**	—
	11,475	8,499	**—**	—

Note a:

The tax loss carry-forwards in which no deferred income tax assets were recognised amounting to RMB31,581,000 (2011: RMB18,911,000) will expire in the following years:

	Group	
	2012	2011
	RMB'000	*RMB'000*
2014	**2,022**	3,521
2015	**3,169**	4,071
2016	**10,985**	11,319
2017	**15,405**	—
	31,581	18,911

13. LONG-TERM PREPAID EXPENSES

The movement of long-term prepaid expenses is set forth as follows:

	Group *RMB'000*	Company *RMB'000*
At 1 January		
Cost	**—**	—
Accumulated amortisation	**—**	—
Net book amount	**—**	—
Year ended 31 December		
Opening net book amount	**—**	—
Additions	**45,557**	44,772
Transfer	**1,800**	1,789
Amortisation	**(7,237)**	(7,132)
Closing net book amount	**40,120**	39,429
At 31 December		
Cost	**48,397**	47,563
Accumulated amortisation	**(8,277)**	(8,134)
Net book amount	**40,120**	39,429

14. FINANCIAL INSTRUMENTS BY CATEGORY

Group	Loans and receivables *RMB'000*	Available-for-sale *RMB'000*	Total *RMB'000*
Assets as per consolidated balance sheet			
As at 31 December 2012:			
Available-for-sale investments *(Note 15)*	—	53,826	53,826
Long-term receivable *(Note 16)*	30,863	—	30,863
Trade and other receivables excluding prepayments *(Notes 18 and 19)*	1,124,127	—	1,124,127
Short-term deposits *(Note 20)*	4,174,000	—	4,174,000
Cash and cash equivalents *(Note 20)*	675,013	—	675,013
Total	6,004,003	53,826	6,057,829
As at 31 December 2011:			
Available-for-sale investments *(Note 15)*	—	53,826	53,826
Long-term receivable *(Note 16)*	34,108	—	34,108
Trade and other receivables excluding prepayments *(Notes 18 and 19)*	733,419	—	733,419
Short-term deposits *(Note 20)*	3,686,000	—	3,686,000
Cash and cash equivalents *(Note 20)*	1,366,757	—	1,366,757
Total	5,820,284	53,826	5,874,110

14. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Group	Other financial liabilities *RMB'000*
Liabilities as per consolidated balance sheet	
As at 31 December 2012:	
Bonds payable *(Note 24)*	3,485,473
Trade and other payables excluding statutory liabilities and advances *(Notes 26 and 27)*	1,565,391
Dividends payable	15
Payables for fixed assets and construction-in-progress	915,081
Total	5,965,960
As at 31 December 2011:	
Bonds payable (*Note 24)*	3,478,568
Trade and other payables excluding statutory liabilities and advances *(Notes 26 and 27)*	1,496,980
Dividends payable	25
Payables for fixed assets and construction-in-progress	814,129
Total	5,789,702

14. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Company	Loans and receivables *RMB'000*	Available-for-sale *RMB'000*	Total *RMB'000*
Assets as per balance sheet			
As at 31 December 2012:			
Available-for-sale investments *(Note 15)*	—	52,108	52,108
Long-term receivable *(Note 16)*	30,863	—	30,863
Trade and other receivables excluding prepayments *(Notes 18 and 19)*	1,168,851	—	1,168,851
Short-term deposits *(Notes 20)*	4,168,000	—	4,168,000
Cash and cash equivalents *(Notes 20)*	659,459	—	659,459
Total	6,027,173	52,108	6,079,281
As at 31 December 2011:			
Available-for-sale investments *(Note 15)*	—	52,108	52,108
Long-term receivable *(Note 16)*	34,108	—	34,108
Trade and other receivables excluding prepayments *(Notes 18 and 19)*	765,064	—	765,064
Short-term deposits *(Notes 20)*	3,680,000	—	3,680,000
Cash and cash equivalents *(Notes 20)*	1,350,992	—	1,350,992
Total	5,830,164	52,108	5,882,272

14. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Company	Other financial liabilities *RMB'000*
Liabilities as per balance sheet	
As at 31 December 2012:	
Bonds payable *(Note 24)*	3,485,473
Trade and other payables excluding statutory liabilities and advances *(Notes 26 and 27)*	1,596,786
Dividends payable	15
Payables for fixed assets and construction-in-progress	914,926
Total	5,997,200
As at 31 December 2011:	
Bonds payable *(Note 24)*	3,478,568
Trade and other payables excluding statutory liabilities and advances *(Notes 26 and 27)*	1,538,798
Dividends payable	25
Payables for fixed assets and construction-in-progress	814,129
Total	5,831,520

15. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning and the end of the year	**53,826**	53,826	**52,108**	52,108

The equity interests held by the Group and Company in most of these investments are all less than 10%. The directors of the Company are of the opinion that no quoted market price in an active market was available for these investments and their fair values could not be reliably measured by alternative valuation methods. In accordance with the provisions under IFRS, the above non-current available-for-sale investments are carried at cost subject to review for impairment loss. As at 31 December 2012, no impairment provision was considered necessary by the directors.

16. LONG-TERM RECEIVABLE

	Group and Company	
	2012	2011
	RMB'000	*RMB'000*
Opening net book amount	**34,108**	35,122
Unwinding of interest accrued *(Note 30)*	**4,755**	6,986
Repayment received	**(8,000)**	(8,000)
Closing net book amount	**30,863**	34,108

The long-term receivable balance represents freight service fees receivable from a third party customer which was acquired from Yangcheng Railway Business. On the acquisition date of Yangcheng Railway Business, it was remeasured at its then fair value, which was assessed by the discounted cash flow method by making reference to the repayment schedule agreed by both parties.

The balance is subsequently carried at amortised cost using an average effective interest rate of 6.54%.

17. MATERIALS AND SUPPLIES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**227,772**	167,556	**224,169**	165,226
Reusable rail-line track materials	**103,991**	74,148	**103,991**	74,148
Accessories	**101,771**	84,540	**101,771**	84,540
Retailing consumables	**3,763**	4,492	**—**	—
	437,297	330,736	**429,931**	323,914

The costs of materials and supplies consumed by the Group during the year were recognised as "operating expenses" in the amount of approximately RMB1,850,297,000 (2011: RMB1,922,332,000).

For the year ended 31 December 2012, the balance of the provision for write-down of materials and supplies to net realisable values was approximately RMB18,044,000 (2011: RMB21,590,000).

18. TRADE RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**1,005,932**	619,243	**1,000,754**	616,040
Including: receivables from related parties	**226,938**	487,679	**224,952**	486,309
Less: Provision for impairment of receivables	**(5,907)**	(5,244)	**(5,657)**	(4,994)
	1,000,025	613,999	**995,097**	611,046

As at 31 December 2012, the Group and Company's trade receivables were all denominated in RMB (2011: RMB).

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 a one-year credit period being not overdue. The aging analysis of the outstanding trade receivables is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**939,378**	596,780	**935,303**	594,416
Over 1 year but within 2 years	**48,881**	7,245	**48,616**	6,656
Over 2 years but within 3 years	**6,653**	1,607	**6,065**	1,607
Over 3 years	**11,020**	13,611	**10,770**	13,361
	1,005,932	619,243	**1,000,754**	616,040

18. TRADE RECEIVABLES *(Continued)*

As at 31 December 2012, the Group and the Company's trade receivables of approximately RMB60,646,000 (2011: RMB17,219,000) and RMB59,793,000 (2011: RMB16,630,000), respectively were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The aging analysis of these trade receivables is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Over 1 year but within 2 years	**48,881**	7,245	**48,616**	6,656
Over 2 year but within 3 years	**6,653**	1,607	**6,065**	1,607
Over 3 years	**5,112**	8,367	**5,112**	8,367
	60,646	17,219	**59,793**	16,630

As at 31 December 2012, the Group and the Company's trade receivables of approximately RMB5,907,000 (2011: RMB5,244,000) and RMB5,657,000 (2011: RMB4,994,000), respectively had been impaired and provided for. The amount of the provision made by the Group and the Company was approximately RMB5,907,000 and RMB5,657,000 respectively as at 31 December 2012 (2011: RMB5,244,000 and RMB4,994,000). The impaired receivable balances were mainly related to the provision of freight transportation services. The related customers were in unexpected difficult financial conditions. The aging analysis of these receivables is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Over 5 years	**5,907**	5,244	**5,657**	4,994

18. TRADE RECEIVABLES *(Continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**5,244**	7,251	**4,994**	7,001
Provision for impairment loss	**663**	110	**663**	110
Receivables written off during the year as uncollectible	**—**	(2,117)	**—**	(2,117)
At 31 December	**5,907**	5,244	**5,657**	4,994

The creation and release of provision for impaired receivables have been included in operating expenses in the comprehensive income statement. Amounts charged to the allowance account are generally written off against the gross accounts receivable balances when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value mentioned above. The Group does not hold any collateral as security.

19. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due from third parties	**110,523**	84,977	**108,937**	83,183
Due from subsidiaries	**—**	—	**51,075**	35,580
Due from related parties	**36,865**	59,459	**36,834**	59,420
	147,388	144,436	**196,846**	178,183

19. PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables	**192,229**	186,634	**240,963**	220,426
Less: Provision for impairment loss *(Note a)*	**(68,127)**	(67,214)	**(67,209)**	(66,408)
Other receivables, net *(Note b)*	**124,102**	119,420	**173,754**	154,018
Prepayments *(Note c)*	**23,286**	25,016	**23,092**	24,165
	147,388	144,436	**196,846**	178,183

(a) Included in the amount was a provision of approximately RMB31,365,000 set up by the Company in prior years, against the principal balance of a deposit placed with a deposit-taking agency, Zeng Cheng City Li Cheng Credit Cooperative ("Li Cheng"). The Company was unable to recover the deposit from Li Cheng upon maturity and the Company has initiated several legal proceedings against Li Cheng in order to enforce recovery but without success.

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

(c) Prepayments mainly represent amounts paid in advance to the suppliers for utilities and other operating expenses of the Group and the Company.

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**67,214**	67,218	**66,408**	66,412
Provision for impairment loss	**914**	—	**802**	—
Reversal of impairment loss provision	**(1)**	(4)	**(1)**	(4)
At 31 December	**68,127**	67,214	**67,209**	66,408

19. PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**147,154**	144,192	**196,612**	177,939
HKD	**234**	244	**234**	244
	147,388	144,436	**196,846**	178,183

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

20. CASH AND CASH EQUIVALENTS AND SHORT-TERM DEPOSITS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash on hand	**57**	50	**47**	17
Cash at bank	**674,956**	1,366,707	**659,412**	1,350,975
Term deposits with initial term of over three months *(Note a)*	**4,174,000**	3,686,000	**4,168,000**	3,680,000
	4,849,013	5,052,757	**4,827,459**	5,030,992

Note a: The original effective interest rate of time deposits was 3.21% (2011: 3.1%).

20. CASH AND CASH EQUIVALENTS AND SHORT-TERM DEPOSITS *(Continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**39**	261	**39**	261
HKD	**60,910**	106,054	**60,910**	106,054
RMB	**4,788,064**	4,946,442	**4,766,510**	4,924,677
	4,849,013	5,052,757	**4,827,459**	5,030,992

21. SHARE CAPITAL

As at 31 December 2012, the total authorised number of ordinary shares is 7,083,537,000 shares (2011: 7,083,537,000 shares) with a par value of RMB1.00 per share (2011: RMB1.00 per share). These shares are divided into A shares and H shares. They rank pari passu against each other. (2011: Apart from certain A shares held by state-own legal person and legal persons which have sale restrictions (see details below).)

Group and Company	**As at 31 December 2011** ***RMB'000***	**Movement** ***RMB'000***	As at 31 December 2012 *RMB'000*
Authorised, issued and fully paid:			
A shares subject to sale restrictions			
— shares held by the National Council for Social Security Fund of the PRC	**274,799**	**(274,799)**	—
Listed shares			
— H shares	**1,431,300**	**—**	1,431,300
— A shares	**5,377,438**	**274,799**	5,652,237
	6,808,738	**274,799**	7,083,537
Total	**7,083,537**	**—**	7,083,537

21. SHARE CAPITAL *(Continued)*

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

22. RESERVES

According to the provisions of the articles of association of the Company, the Company shall first set aside 10% of its profit after tax attributable to shareholders as indicated in the Company's statutory financial statements for the statutory surplus reserve (except where the reserve has reached 50% of the Company's registered share capital) in each year. The Company may also make appropriations from its profit attributable to shareholders to a discretionary surplus reserve, provided that it is approved by a resolution passed in a shareholders' general meeting. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends without the prior approval obtained from the shareholders in a shareholders' general meeting under specific circumstances.

When the statutory surplus reserve is not sufficient to make good for any losses of the Company in previous years, the current year profit attributable to shareholders shall be used to make good the losses before any allocations are set aside for the statutory surplus reserve.

The statutory surplus reserve, the discretionary surplus reserve and the share premium account could be converted into share capital of the Company provided it is approved by a resolution passed in a shareholders' general meeting with the provision that the ending balance of the statutory surplus reserve does not fall below 25% of the registered share capital amount. The Company may either allot newly created shares to the shareholders at the same proportion of the existing number of shares held by these shareholders, or it may increase the par value of each share.

For the year ended 31 December 2012 and 2011, the directors proposed the following appropriations to reserves of the Company:

	2012 ***Percentage***	**2012** ***RMB'000***	2011 *Percentage*	2011 *RMB'000*
Statutory surplus reserve	**10%**	**133,171**	10%	181,138

22. RESERVES *(Continued)*

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 associate adopted under PRC GAAP and IFRS.

For the year 2012, the movement of 'Special reserve-Safety Production Fund' of the Group and Company are as below:

	At 1 January 2012 ***RMB'000***	**Approp-riation** ***RMB'000***	**Utilization** ***RMB'000***	At 31 December 2012 *RMB'000*
Other reserve				
— Special reserve – Safety Production Fund	—	134,265	(134,265)	—

The Company is engaged in passenger and freight transportation business. In accordance with the regulation issued by Ministry of Finance and State Administration of Work Safety, the Company is required to establish a special reserve ("Safety Production Fund") calculated based on the passenger and freight transportation revenue of the previous year using the following percentages:

(a) 1% for regular freight business;

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

The Safety Production Fund is mainly used for the renovation and maintenance of security equipment and facilities. For the purpose of the consolidated financial statements under IFRS, such reserve is established through an appropriation from retained earnings based on the aforementioned method. When the Safety Production Fund is actually utilised, the actual expenses incurred are charged to comprehensive income statement. Meanwhile, the Safety Production Fund reserve is released back to retained earnings.

23. DEFERRED INCOME RELATED TO GOVERNMENT GRANTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**96,022**	95,093	**96,022**	95,093
Additions	**—**	4,100	**—**	4,100
Amortisation *(Note 30)*	**(3,158)**	(3,171)	**(3,158)**	(3,171)
End of the year	**92,864**	96,022	**92,864**	96,022

24. BONDS PAYABLE

Group and Company	**At 1 January 2012** ***RMB'000***	**Addition** ***RMB'000***	**Amorti-sation** ***RMB'000***	**At 31 December 2012** ***RMB'000***
09 Guangshen Tie MTN1	3,478,568	—	6,905	3,485,473

The Company issued 3,500,000,000 bonds of medium terms at a nominal value of RMB3,500,000,000 on 17 December 2009. The bonds will be matured in five years from the issue date at their nominal value of RMB3,500,000,000 and bear a coupon interest rate with 4.79% per annum.

On the issue date, the bonds were recognised based on the residual amounts of the principal after deduction of issuance costs of approximately RMB34,524,000. The bonds are subsequently carried at amortised cost using an average effective interest rate of 5.018% per annum.

The Group's bonds payable were repayable as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Between 1 and 2 years	**3,485,473**	—	**3,485,473**	—
Between 2 and 5 years	**—**	3,478,568	**—**	3,478,568

24. BONDS PAYABLE *(Continued)*

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Wholly repayable within 5 years	**3,485,473**	3,478,568	**3,485,473**	3,478,568

25. EMPLOYEE BENEFITS OBLIGATIONS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Employee benefits obligations	**229,966**	237,613	**225,804**	230,117
Less: current portion included in accruals and other payables *(Note 27)*	**(116,065)**	(69,337)	**(114,581)**	(67,080)
	113,901	168,276	**111,223**	163,037

Note a:

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

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 market yields at the balance sheet date on high quality investments in the PRC).

25. EMPLOYEE BENEFITS OBLIGATIONS *(Continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**237,613**	269,180	**230,117**	262,301
Additions *(Note 29)*	**66,650**	3,464	**66,650**	—
Unwinding of interest *(Note 31)*	**9,415**	12,066	**9,415**	12,066
Payments	**(83,712)**	(47,097)	**(80,378)**	(44,250)
At 31 December	**229,966**	237,613	**225,804**	230,117

26. TRADE PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Payables to third parties	**825,527**	864,413	**813,724**	854,899
Payables to related parties	**306,097**	200,328	**304,820**	199,554
	1,131,624	1,064,741	**1,118,544**	1,054,453

The aging analysis of trade payables was as follows:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**1,050,233**	979,116	**1,037,420**	969,106
Over 1 year but within 2 years	**50,645**	83,080	**50,551**	83,038
Over 2 years but within 3 years	**29,168**	1,093	**29,148**	1,009
Over 3 years	**1,578**	1,452	**1,425**	1,300
	1,131,624	1,064,741	**1,118,544**	1,054,453

27. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due to third parties	**865,865**	851,099	**835,026**	817,555
Due to subsidiaries	**—**	—	**69,184**	77,230
Due to related parties	**37,049**	30,348	**37,025**	30,092
	902,914	881,447	**941,235**	924,877

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other taxes payable	**166,992**	166,930	**164,335**	164,165
Other deposits received	**130,566**	126,549	**118,086**	115,067
Deposits received for construction projects	**117,577**	124,258	**117,577**	124,258
Employee benefits obligations *(Note 25)*	**116,065**	69,337	**114,581**	67,080
Salary and welfare payables	**102,601**	104,612	**101,125**	102,390
Advances received from customers	**83,489**	108,329	**82,952**	106,897
Deposits received from ticketing agencies	**29,426**	30,006	**29,426**	30,006
Housing maintenance fund	**15,987**	16,089	**15,987**	16,089
Other payables	**140,211**	135,337	**197,166**	198,925
	902,914	881,447	**941,235**	924,877

28. AUDITORS' REMUNERATION

Auditors' remuneration in respect of audit and non-audit services provided by the auditiors for the year ended 31 December 2012 were RMB7,700,000 and RMB250,000, respectively.

29. LABOUR AND BENEFITS

	2012 **RMB'000**	2011 *RMB'000*
Wages and salaries	**2,786,721**	2,399,028
Provision for medical and other employee benefits	**507,962**	447,283
Contributions to a defined contribution pension scheme *(a)*	**429,721**	373,200
Contributions to the housing scheme *(b)*	**183,884**	160,571
Amortisation of deferred employee costs	**—**	4,309
Employee benefits obligations *(Note 25)*	**66,650**	3,464
	3,974,938	3,387,855

(a) Pension scheme

All the full-time employees of the Group are entitled to join a statutory pension scheme. The employees would receive pension payments equal to their basic salaries payable upon their retirement up to their death. Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff are to be made monthly to a government agency based on 26% of the standard salary set by the provincial government, of which 18% is borne by the Company or its subsidiaries and the remainder 8% is borne by the employees. The government agency is responsible for the pension liabilities due to the employees upon their retirement. The Group accounts for these contributions on an accrual basis and charges the related contributions to expense in the year to which the contributions relate.

(b) Housing scheme

In accordance with the PRC housing reform regulations, the Group is required to make contributions to a state-sponsored housing fund at 9% or 13% of the salaries of the employees. At the same time, the employees are also required to make a contribution at 9% or 13% 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 or constructive obligation for housing benefits of these employees beyond the above contributions made.

29. LABOUR AND BENEFITS *(Continued)*

(c) Directors' and senior executives' emoluments

The remuneration of each Director of the Company for the year ended 31 December 2012 is set out below:

	2012					
Name of Director	Fee *RMB'000*	Salary *RMB'000*	Bonus *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Other benefits *RMB'000*	Total *RMB'000*
Directors						
Xu, Xiaoming *(ii)*	–	–	–	–	–	–
Li, Wenxin	–	–	–	–	–	–
Shen, Yi *(iii)*	–	108	353	27	38	526
Sun, Jing *(i)*	–	–	–	–	–	–
Li, Liang	–	–	–	–	–	–
Yu, Zhiming	–	–	–	–	–	–
Luo, Qing	–	99	265	26	36	426
Lo, Mun Lam	137	–	–	–	–	137
Liu, Xueheng	137	–	–	–	–	137
Liu, Feiming	112	–	–	–	–	112
Supervisors						
Xu, Ling	–	–	–	–	–	–
Chen, Shaohong	–	–	–	–	–	–
Shen, Jiancong	–	–	–	–	–	–
Li, Zhiming	–	–	–	–	–	–
Xu, Huiliang	–	97	132	26	37	292
Chen, Jianping *(ii)*	–	35	141	18	19	213
Senior Executives						
Mu, Anyun	–	100	263	26	37	426
Tang, Xiangdong	–	98	264	25	36	423
Guo, Xiangdong	–	99	264	25	36	424

(i) Appointed in 2012
(ii) Resigned from the positions in 2012
(iii) The emolument of chief executive, Shen Yi, is disclosed as director in the above.

29. LABOUR AND BENEFITS *(Continued)*

(c) Directors' and senior executives' emoluments *(Continued)*

	2011					
Name of Director	Fee *RMB'000*	Salary *RMB'000*	Bonus *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Other benefits *RMB'000*	Total *RMB'000*
Directors						
Xu, Xiaoming	—	—	—	—	—	—
Shen, Yi *(iii)*	18	44	512	25	35	634
Li, Wenxin *(i)*	—	—	—	—	—	—
Li, Liang	—	—	—	—	—	—
Yu, Zhiming	—	—	—	—	—	—
Guo, Zhuxue *(ii)*	—	—	—	—	—	—
Luo, Qing	12	41	450	23	33	559
Lo, Mun Lam *(i)*	69	—	—	—	—	69
Liu, Xueheng *(i)*	69	—	—	—	—	69
Liu, Feiming *(i)*	56	—	—	—	—	56
Dai, Qilin *(ii)*	56	—	—	—	—	56
Lv, Yuhui *(ii)*	56	—	—	—	—	56
Wilton Chau *(ii)*	71	—	—	—	—	71
Supervisors						
Xu, Ling	—	—	—	—	—	—
Chen, Shaohong	—	—	—	—	—	—
Shen, Jiancong	—	—	—	—	—	—
Li, Zhiming	—	—	—	—	—	—
Wang, Jianping *(ii)*	—	—	—	—	—	—
Xu, Huiliang	10	40	250	24	36	360
Chen, Jianping *(i)*	5	40	284	22	24	375
Liu, Xilin *(ii)*	5	14	135	8	8	170
Senior Executives						
Mu, Anyun	10	42	449	24	34	559
Tang, Xiangdong	10	40	452	22	34	558
Guo, Xiangdong	10	41	442	23	33	549

(i) Appointed in 2011
(ii) Resigned from the positions in 2011
(iii) The emolument of chief executive, Shen Yi, is disclosed as director in the above.

29. LABOUR AND BENEFITS *(Continued)*

(c) Directors' and senior executives' emoluments *(Continued)*

During the year ended 31 December 2012, no director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office; no directors and senior management waived or has agreed to waive any emoluments (2011: Nil).

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two directors (2011: two), and three senior executives (2011: three), whose emoluments have already been reflected in the analysis presented above.

The emolument range of each individual is in the band of Nil to HK$1,000,000 (equivalent to RMB810,850) (2011: same).

30. OTHER INCOME/(EXPENSE) AND OTHER GAINS/(LOSSES) — NET

	2012 ***RMB'000***	2011 *RMB'000*
Loss on disposal of fixed assets, leasehold land and construction-in-progress	**(90,024)**	(129,153)
Interest income from banks	**152,803**	95,612
Dividend income on available-for-sale investments	**5,254**	4,263
Amortisation of government grants *(Note 23)*	**3,158**	3,171
Unwinding of interest accrued on long-term receivable *(Note 16)*	**4,755**	6,986
Write-off of long outstanding payables	**3,134**	66
Others	**(7,265)**	(6,731)
	71,815	(25,786)

31. FINANCE COSTS

	2012 **RMB'000**	2011 *RMB'000*
Interest expenses	**167,650**	167,650
Unwinding of interest for employee benefit obligations *(Note 25)*	**9,415**	12,066
Amortisation of bonds payable *(Note 24)*	**6,905**	6,574
Bank charges	**3,609**	1,901
Net foreign exchange (gains)/losses	**(506)**	2,779
	187,073	190,970

32. INCOME TAX EXPENSE

Before 2008, enterprises established in the Shenzhen Special Economic Zone of the PRC were subject to income tax at a reduced preferential rate of 15% as compared with the standard income tax rate for PRC companies of 33%. The Company and the subsidiaries located in Shenzhen were subject to income tax rate of 15%, while those subsidiaries located outside Shenzhen were subject to income tax rate of 33%.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which became effective on 1 January 2008. Under the new CIT Law, the enterprise income tax rate was changed from 33% to 25% from 1 January 2008 onwards. While the enterprise income tax rate applicable to the Company and the subsidiaries located in Shenzhen would increase gradually to 25% within 5 years from 2008 to 2012. In 2012 and 2011, the applicable income tax rate was 25% and 24% respectively.

An analysis of the current year taxation charges is as follows:

	2012 **RMB'000**	2011 *RMB'000*
Current income tax	**442,233**	571,423
Deferred income tax *(Note 12)*	**(1,082)**	4,542
	441,151	575,965

32. INCOME TAX EXPENSE *(Continued)*

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

	2012 **RMB'000**	2011 RMB'000
Profit before tax	**1,758,136**	2,378,337
Tax calculated at the statutory rate of 25% (2011: 24%)	**439,534**	570,801
Effect of tax rates differentials	**28**	42
Effect of income not subject to tax	**(4,040)**	(2,285)
Effect of expenses not deductible for tax purposes	**2,462**	5,237
Tax losses for which no deferred tax asset was recognised	**3,851**	2,717
Utilisation of previously unrecognised tax losses	**(684)**	(547)
Income tax expense	**441,151**	575,965

The effective tax rate was 25.1% (2011: 24.2%). The increase was mainly caused by the increase in statutory tax rate as explained above.

33. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year was approximately RMB 1,320,805,000 (2011: RMB1,806,116,000).

34. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to equity holders of approximately RMB1,318,938,000 (2011: RMB1,804,107,000), divided by the weighted average number of ordinary shares outstanding during the year of 7,083,537,000 shares (2011: 7,083,537,000 shares). There were no dilutive potential ordinary shares during both years.

35. DIVIDENDS

The dividends paid to the ordinary shareholders of the Company in 2012 and 2011 were RMB708,354,000 (RMB0.1 per share) and RMB637,518,000 (RMB0.09 per share) respectively.

	2012	2011
	RMB'000	*RMB'000*
Final, proposed, of RMB0.08 (2011: RMB0.10) per ordinary share	**566,683**	708,354

At a meeting of the directors held on 26 March 2013, the directors proposed a final dividend of RMB0.08 per ordinary share for the year ended 31 December 2012, which is subject to the approval by the shareholders in general meeting. This proposed dividend has not been reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2012.

The aggregate amounts of the dividends paid and proposed during the year ended 31 December 2012 and 2011 have been disclosed in the consolidated comprehensive income statement in accordance with the Hong Kong Companies Ordinance.

36. CASH FLOW GENERATED FROM OPERATIONS

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

	2012 *RMB'000*	2011 *RMB'000*
Profit before income tax:	**1,758,136**	2,378,337
Adjustments for:		
Depreciation of fixed assets *(Note 6)*	**1,382,404**	1,369,961
Impairment of fixed assets	**—**	4,709
Impairment of materials and supplies	**—**	21,590
Amortisation of leasehold land payments *(Note 8)*	**15,988**	15,988
Loss on disposal of fixed assets, leasehold land and construction-in-progress *(Note 30)*	**90,024**	129,153
Amortisation of lone-term prepaid expenses	**7,237**	4,309
Recognition of employee benefits obligations *(Note 25)*	**66,650**	3,464
Unwinding of interest for employee benefit obligations *(Note 25)*	**9,415**	12,066
Share of results of associates *(Note 11)*	**(10,906)**	(5,259)
Dividend income on available-for-sale investments *(Note 30)*	**(5,254)**	(4,263)
Provision for impairment of receivables	**1,576**	106
Write-back of long outstanding of payables *(Note 30)*	**(3,134)**	(66)
Amortisation of bonds payable *(Note 24)*	**6,905**	6,574
Amortisation of government grants *(Note 23)*	**(3,158)**	(3,171)
Interest expenses	**167,650**	167,650
Interest income	**(129,688)**	(67,955)
Operating profit before working capital changes	**3,353,845**	4,033,193
Increase in trade receivables	**(386,690)**	(9,599)
Increase in materials and supplies	**(72,158)**	(28,976)
Decrease/(Increase) in prepayments and other receivables	**4,135**	(24)
Decrease in long-term receivable	**8,000**	8,000
Increase/(Decrease) in trade payables	**66,883**	(113,660)
Decrease in employee benefits obligations	**(54,375)**	(44,785)
(Decrease)/Increase in accrued expenses and other payables	**(44,623)**	88,934
Cash generated from operations	**2,875,017**	3,933,083

36. CASH FLOW GENERATED FROM OPERATIONS *(Continued)*

(b) In the cash flow statement, proceeds from disposal of fixed assets, leasehold land and construction-in-progress comprise:

	2012 **RMB'000**	2011 *RMB'000*
Net book amount *(Note 6, 7 and 8)*	**165,499**	226,821
Receivable arising from disposal of fixed assets, leasehold land and construction-in-progress	**—**	(28,913)
Transfer to inventories	**(34,404)**	(68,198)
Loss on disposal of fixed assets, leasehold land and construction-in-progress	**(90,024)**	(129,153)
Proceeds from disposal of fixed assets, leasehold land and construction-in-progress	**41,071**	557

(c) Analysis of the balance of cash and cash equivalents

	2012 **RMB'000**	2011 *RMB'000*
Cash at bank and in hand	**427,513**	1,076,757
Short-term deposits with original maturities of no more than three months	**247,500**	290,000
	675,013	1,366,757

37. CONTINGENCY

There were no significant contingent liabilities as at the date of approval of these financial statements.

38. COMMITMENTS

(a) Capital commitments

As at 31 December 2012, the Group had the following capital commitments which are authorized but not contracted for, and contracted but not provided for:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Authorised but not contracted for	**1,690,080**	1,717,800	1,690,080	1,717,800
Contracted but not provided for	**176,038**	283,880	176,038	283,880

A substantial amount of these commitments is related to the reform of stations or facilities relating to the existing railway line of the Company. The related financing would be from self generated operating cash flow.

(b) Operating lease commitments

In connection with the acquisition of Yangcheng Railway Business, the Company signed an agreement on 15 November 2004 with Guangzhou Railway Group for leasing the land use rights associated with the land on which the acquired assets of Yangcheng Railway Business are located. The agreement became effective upon the completion of the acquisition on 1 January 2007 and the remaining lease term is 20 years, renewable at the discretion of the Company. According to the terms of the agreement, the rental for such lease would be agreed by both parties every year with a maximum amount not exceeding RMB74,000,000 per year. During the year ended 31 December 2012, the related lease rental paid and payable was RMB54,800,000 (2011: RMB53,600,000).

39. 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 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:

Name of related parties	**Relationship with the Company**
Single largest shareholder and its subsidiaries	
Guangzhou Railway Group	Single largest shareholder
Guangzhou Railway Group YangCheng Railway Enterprise Development Company	Subsidiary of the single largest shareholder
Guangmeishan Railway Company Limited	Subsidiary of the single largest shareholder
Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company ("GEDC")	Subsidiary of the single largest shareholder
Guangzhou Railway Material Supply Company	Subsidiary of the single largest shareholder
Guangzhou Railway Engineer Construction Enterprise Development Company	Subsidiary of the single largest shareholder
Yangcheng Construction Company of YangCheng Railway Enterprise Development Company	Subsidiary of the single largest shareholder
Guangzhou Railway Real Estate Construction Company	Subsidiary of the single largest shareholder
Yuehai Railway Company Limited	Subsidiary of the single largest shareholder
Shichang Railway Company Limited	Subsidiary of the single largest shareholder
Guangzhou Railway Station Service Centre	Subsidiary of the single largest shareholder

39. RELATED PARTY TRANSACTIONS *(Continued)*

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

Name of related parties	Relationship with the Company
Changsha Railway Construction Company Limited	Subsidiary of the single largest shareholder
Guangdong Sanmao Railway Company Limited	Subsidiary of the single largest shareholder
Guangzhou Qingda Transportation Company Limited	Subsidiary of the single largest shareholder
Guangzhou Yuetie Operational Development Company	Subsidiary of the single largest shareholder
Guangzhou Railway Rolling Stock Works	Subsidiary of the single largest shareholder
Foreign Economic & Trade Development Corporation of Guangzhou Railway group	Subsidiary of the single largest shareholder
Shenzhen Guangshen Railway Living Service Centre	Subsidiary of the single largest shareholder
Guangzhou Yangcheng Living Service Centre	Subsidiary of the single largest shareholder
Pajiangkou Stone Pit	Subsidiary of the single largest shareholder
Guangdong Tieqing International Travel Agency Company Limited	Subsidiary of the single largest shareholder
Guangdong Sanmao Enterprise Development Company Limited	Subsidiary of the single largest shareholder
Guangshengang Passenger Special Line Company Limited *(i)*	Subsidiary of the single largest shareholder
Guangdong Guangzhu Intercity Rail Transportation Company Limited *(ii)*	Subsidiary of the single largest shareholder
Huaihua Railway Engineer Construction Company	Subsidiary of the single largest shareholder
Lechang Anjie Railway Sleeper Company Limited	Subsidiary of the single largest shareholder
Associates of the Group	
Zengcheng Lihua Stock Company Limited	Associate of the Group
Guangzhou Tiecheng Enterprise Company Limited	Associate of the Group
Shenzhen Guangshen Railway Civil Engineering Company	Associate of the Group
Other related party	
Guangzhu Railway Company Limited *(iii)*	Entity supervised by the chairman of the Company

39. RELATED PARTY TRANSACTIONS *(Continued)*

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

(i) In March 2012, the Guangzhou Railway Group disposed of its investment in Guangshengang Passenger Special Line Company Limited. As a result, Guangshengang Passenger Special Line Company Limited was no longer considered as a related party of the Group since the day Guangzhou Railway Group lost control of Guangshengang Passenger Special Line Company Limited. However, the transactions with Guangshengang Passenger Special Line Company Limited during the period from January 1, 2012 to the date loss of control were still disclosed as related party transactions.

(ii) In November 2012, the Guangzhou Railway Group disposed of its investment in Guangdong Guangzhu Intercity Rail Transportation Company Limited. As a result, Guangdong Guangzhu Intercity Rail Transportation Company Limited was no longer considered as a related party of the Group since the day Guangzhou Railway Group lost control of Guangdong Guangzhu Intercity Rail Transportation Company Limited. However, the transactions with Guangdong Guangzhu Intercity Rail Transportation Company Limited during the period from January 1, 2012 to the date loss of control were still disclosed as related party transactions.

(iii) On 31 January 2012, the former chairman of the Company, Xu Xiaoming, resigned from his position. Since that date, Xu Xiaoming also no longer served as the chairman of the Guangzhu Railway Company Limited. Therefore, Guangzhu Railway Company Limited was no longer considered as a related party of the Group since January 31, 2012.

39. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Save as disclosed in other notes to the Financial Statements, during the year, the Group had the following material transactions undertaken with related parties:

	2012 **RMB'000**	2011 RMB'000
Provide Services		
Revenue collected by MOR for services provided to Guangzhou Railway Group and its subsidiaries *(i)* *(Note 40)*	**1,238,431**	1,155,391
Provision of train transportation services to Guangzhou Railway Group and its subsidiaries *(ii)*	**352,973**	407,220
Revenue from railway operation service provided to Guangzhou Railway Group's subsidiaries *(iv)*	**278,669**	273,460
Receive Services		
Provision of train transportation services by Guangzhou Railway Group and its subsidiaries *(ii)*	**653,787**	637,099
Social services (employee housing and public security services and other ancillary services) provided by GEDC and Yangcheng Railway *(iv)*	**93,090**	115,190
Provision of repair and maintenance services by Guangzhou Railway Group and its subsidiaries *(iii)*	**240,761**	260,118
Provision of construction services by Guangzhou Railway Group and its subsidiaries *(vii)*	**287,903**	224,892
Cost settled by MOR for services provided by Guangzhou Railway Group and its subsidiaries *(i)* *(Note 40)*	**1,578,108**	1,488,224
Purchase		
Purchase of materials and supplies from Guangzhou Railway Group and its subsidiaries *(vi)*	**766,309**	709,014
Sales		
Sales of materials and supplies to Guangzhou Railway Group and its subsidiaries *(v)*	**11,218**	23,696
Others		
Operating lease rental paid to Guangzhou Railway Group for the leasing of land use rights *(Note 38(b))*	**54,800**	53,600
Compensation of loss on construction-in-progress from Guangzhu Railway Company Limited	**—**	17,039

39. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Save as disclosed in other notes to the Financial Statements, during the year, the Group had the following material transactions undertaken with related parties: *(Continued)*

(i) Such revenues/charges are determined by the MOR based on its standard charges applied on a nationwide basis.

(ii) The service charges are determined based on a pricing scheme set by the MOR or based on negotiation between the contracting parties with reference to full cost principle.

(iii) The service charges are determined based on negotiation between the contracting parties with reference to full cost principle.

(iv) The service charges are levied based on contract prices determined based on cost plus a profit margin and explicitly agreed between both contract parties.

(v) The prices are determined based on mutual negotiation between the contracting parties with reference to full cost principle.

(vi) The prices are determined based on mutual negotiation between the contracting parties with reference to procurement cost plus a management fee.

(vii) Determined by the budget under the national railway engineering quota.

(d) Key management compensation

Key management includes directors (executive and non-executive), general manager and vice general managers, assistant of general manager, chief financial officer and the company Secretary. The compensation paid or payable to key management for employee services is shown in Note 29(c) in the sections of Directors and Senior Executives.

39. RELATED PARTY TRANSACTIONS *(Continued)*

(e) As at 31 December 2012, the Group and the Company had the following material balances maintained with related parties: *(Continued)*

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due from Guangzhou Railway Group	**194,679**	309,159	**193,067**	307,895
— Trade receivables *(i)*	**189,307**	296,449	**187,695**	295,207
— Prepayments and other receivables	**5,372**	12,710	**5,372**	12,688
Due to Guangzhou Railway Group	**22,914**	37,374	**22,895**	37,356
— Trade payables *(i)*	**21,679**	36,105	**21,679**	36,105
— Other payables	**1,235**	1,269	**1,216**	1,251
Due from subsidiaries of Guangzhou Railway Group	**67,321**	219,188	**66,916**	219,043
— Trade receivables	**37,631**	191,230	**37,257**	191,102
Less: impairment provision	**(19)**	(19)	**(19)**	(19)
— Prepayments and other receivables	**29,709**	27,977	**29,678**	27,960
Due to subsidiaries of Guangzhou Railway Group	**314,856**	187,499	**313,574**	186,487
— Trade payables *(ii)*	**282,266**	164,221	**280,989**	163,447
— Other payables *(iii)*	**32,590**	23,278	**32,585**	23,040
Due from associates	**1,784**	1,733	**1,784**	1,733
— Prepayments and other receivables	**14,096**	14,045	**14,096**	14,045
Less: impairment provision *(v)*	**(12,312)**	(12,312)	**(12,312)**	(12,312)
Due to associates	**5,376**	5,803	**5,376**	5,803
— Trade payables	**2,152**	2	**2,152**	2
— Other payables *(iv)*	**3,224**	5,801	**3,224**	5,801
Due from subsidiaries	**—**	—	**51,075**	35,580
— Prepayments and other receivables	**—**	—	**51,075**	35,580
Due to subsidiaries	**—**	—	**69,184**	77,230
— Other payables	**—**	—	**69,184**	77,230
Due from Guangzhu Railway Company Limited	**—**	17,039	**—**	17,039
— Prepayments and other receivables	**—**	17,039	**—**	17,039

39. RELATED PARTY TRANSACTIONS *(Continued)*

(e) As at 31 December 2012, the Group and the Company had the following material balances maintained with related parties *(Continued)***:**

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayment for fixed assets and construction-in-progress	**32,417**	—	**32,417**	—
— Guangzhou Railway Group and its subsidiaries	**1,092**	—	**1,092**	—
— Associates	**31,325**	—	**31,325**	—
Payables for fixed assets and construction-in-progress	**224,968**	145,416	**224,968**	145,416
— Guangzhou Railway Group and its subsidiaries	**45,883**	123,107	**45,883**	123,107
— Associates	**179,085**	22,309	**179,085**	22,309

(i) The trade balances due from/to Guangzhou Railway Group, subsidiaries of Guangzhou Railway Group mainly represented service fees and charges payable and receivable balances arising from the provision of passenger transportation and cargo forwarding businesses jointly with these related parties within the PRC as described in Note 39(c)(i).

(ii) The trade balances due to subsidiaries of Guangzhou Railway Group mainly represented payables arising from unsettled fees for purchase of materials and provision of other services according to various service agreements entered into between the Group and the related parties (see Note 39(c) above).

(iii) The other payables due to subsidiaries of Guangzhou Railway Group mainly represented the performance deposits received for construction projects and deposits received from ticketing agencies.

(iv) The other payables due to associates mainly represented the performance deposits received for construction projects operated by associates.

(v) Impairment loss provision set up against a receivable balance due from Zengcheng Lihua, which was brought forward from prior years.

As at 31 December 2012, all the balances maintained with related parties were unsecured, non-interest bearing and were repayable on demand.

40. TRANSACTIONS WITH MOR

MOR is the controlling entity of the Company's single largest shareholder (i.e. Guangzhou Railway Group). In addition, it is the government authority which governs and monitors the railway business centrally within the PRC. The Company works in cooperation with the MOR and other railway companies owned and controlled by the MOR for the operation of certain long distance passenger train and freight transportation businesses within the PRC. The revenues generated from these long-distance passenger and freight transportation businesses are collected and settled by the MOR according to its settlement systems. The charges for the use of the rail lines and services provided by other railway companies are also instructed by the MOR and settled by the MOR based on its systems.

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 MOR will be dismantled. Administrative functions pertaining to railway development planning and policies will be covered by the Ministry of Transport. The proposed State Railway Administration, to be supervised by the Ministry of Transport, will run the other administrative functions of the MOR. The proposed China Railway Corporation will carry out the commercial function of the MOR.

(a) Save as disclosed in other notes to the Financial Statements, during the year, the Group had the following material transactions undertaken with MOR:

	2012	2011
	RMB'000	*RMB'000*
Recurring Transactions:		
Income		
Revenue collected from the MOR		
— Passenger transportation	**7,522,886**	7,769,115
— Freight transportation	**764,359**	831,860
— Railway network usage and services	**3,474,241**	3,254,511
— Repairing services for cargo trucks	**247,335**	221,386
	12,008,821	12,076,872
Charges and Payments		
Services charges allocated from the MOR for equipment lease and services	**3,003,520**	2,721,039
Operating lease rentals paid/payable to the MOR	**201,151**	200,693
	3,204,671	2,921,732

The service charges are determined based on a pricing scheme set by the MOR or by reference to current market prices with guidance provided by the MOR.

40. TRANSACTIONS WITH MOR *(Continued)*

(b) As at 31 December 2012, the Group and the Company had the following material balances maintained with MOR:

	Group and Company	
	2012	2011
	RMB'000	*RMB'000*
Due from MOR		
— Trade receivables	**159,074**	18,017
Due to MOR		
— Trade payables	**—**	193,856

41. SUBSEQUENT EVENTS

Save as already disclosed in the notes to the financial statements, the Group had no other significant subsequent event.

Chapter 11

Documents Available for Inspection

Documents available for inspection include:

(1) Accounting statements signed and stamped by the legal representative, person in charge of accounting affairs and responsible person of accounting firm;

(2) Original of the audit report and financial statements prepared under PRC GAAP signed and stamped by PricewaterhouseCoopers Zhong Tian CPAs Limited Co. and CPA; original of the audit report and financial statements prepared under IFRS signed by PricewaterhouseCooper;

(3) All the original of files or announcements disclosed in Securities Times, China Securities Journal, Shanghai Securities News and Securities Daily during the reporting period;

(4) Annual reports prepared for the Hong Kong securities market and annual reports in 20-F form for the US market.

The documents are placed at Secretariat to the Board.

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