GUANGSHEN RAILWAY CO LTD
Form 20-F
June 29, 2006

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 29, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

(Mark One)

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

or

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

For the fiscal year ended December 31, 2005

or

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

For the transition period from _________ to _________

or

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

COMMISSION FILE NUMBER: 1-14362

(CHINESE CHARACTERS)
(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate the number of outstanding shares of each of the Registrant's classes of capital or common stock as of December 31, 2005:

Domestic shares, par value RMB1.00 per share....................	2,904,250,000
H shares, par value RMB1.00 per share...........................	1,431,300,000

(including 2,748,400 H shares in the form of American Depositary Shares)

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

Yes ___ No X

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

Yes ___ No X

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

Yes X No ___

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

Large Accelerated Filer ___ Accelerated Filer X Non-Accelerated Filer ___

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

Item 17 ___ Item 18 X

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

Yes ___ No X

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FORWARD-LOOKING STATEMENTS

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

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

CERTAIN TERMS AND CONVENTIONS

Solely for the convenience of the reader, this annual report contains translations of amounts from Renminbi into U.S. dollars and vice versa at the rate of RMB8.1 to US$1.00, which is rounded from 8.0702, which was the noon buying rate in the New York City for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York on December 30, 2005, except where we specify that a different rate has been used. You should not construe these translations as representations that the Renminbi amounts actually represent U.S. dollar amounts or could be converted into U.S. dollars at that rate or at all. See "Item 3A. Selected Consolidated Financial Data--Exchange Rate Information" for information regarding the noon buying rates for U.S. dollar/Renminbi conversions from January 1, 2001 through June 16, 2006.

We prepare and publish our consolidated financial statements in Renminbi.

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

Unless the context otherwise requires or otherwise specified:

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

- "CEPA" means the Closer Economic Partnership Arrangement between Hong Kong and Chinese Mainland entered into on October 27, 2004.
- "GEDC" means Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company, a wholly owned subsidiary of our Parent Company.
- "GRGC" or "Parent Company" means Guangzhou Railway (Group) Company, our parent company.
- "Guangshen Railway", "Company", "we", "our" or "us" means Guangshen Railway Company Limited, a joint stock limited company incorporated in China with limited liability, and its subsidiaries on a consolidated basis.
- "Hong Kong" means the Hong Kong Special Administrative Region of the PRC.

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

- "MOR" means the Ministry of Railways.

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

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

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

- "Yangcheng Railway Enterprise Development Company", "Yangcheng Railway Company", "Yangcheng Company" or "Yangcheng" means Guangzhou Railway Group Yangcheng Railway Enterprise Development Company, a wholly owned subsidiary of our Parent Company.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

ITEM 3A. SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following selected consolidated data relating to our consolidated balance sheets as of December 31, 2004 and 2005, and our consolidated statements of income, changes in equity and cash flows for each of the years ended December 31, 2003, 2004 and 2005 are derived from and are qualified by reference to our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with "ITEM 5. Operating and Financial Review and Prospects". The following selected consolidated data relating to our consolidated balance sheets as of December 31, 2001, 2002 and 2003, and our consolidated statements of income, changes in equity and cash flows for each of the years ended December 31, 2001 and 2002 are derived from our previously published audited consolidated financial statements that are not included in this annual report.

The audited consolidated financial statements from which the selected consolidated financial data set forth below have been derived were prepared in accordance with International Financial Reporting Standards, or IFRS, and the information set forth below under "Certain US GAAP Data" have been reconciled to generally accepted accounting principles in the United States, or US GAAP as it relates to the Company, which differ in some material respects from IFRS. For a discussion of the principal differences between IFRS and US GAAP, see "Item 5G. Additional Information-Principal Differences between IFRS and US GAAP" and Note 36 to our audited consolidated financial statements included elsewhere in this annual report.

	YEAR ENDED DECEMBER 31,				
	2001	2002	2003	2004	
	RMB	RMB (IN THOUSANDS EXCEPT FOR PER SHARE	RMB	RMB	
IFRS INCOME STATEMENT DATA:					
Revenues from railroad businesses					
- Passenger...........................	1,471,895	1,903,782	1,790,204	2,259,671	2
- Freight.............................	585,616	530,776	526,382	611,807	
Subtotal..............................	2,057,511	2,434,558	2,316,586	2,871,478	3
Revenues from other businesses...........	167,064	166,266	151,596	166,671	
Total revenues...........................	2,224,575	2,600,824	2,468,182	3,038,149	3
Railroad operating expenses..............	(1,524,854)	(1,809,215)	(1,755,855)	(2,241,821)	(2
Other businesses operating expenses.......	(145,610)	(169,112)	(149,614)	(166,155)	
Other income.............................	78,660	43,495	47,341	48,193	
Profit from operations...................	632,771	665,992	610,054	678,366	
Profit attributable to shareholders of the Company..............................	533,495	557,083	511,762	567,484	
Net income from operations per share......	0.15	0.15	0.14	0.16	
Revenue from continuing operations per share................................	0.51	0.60	0.57	0.70	
Earnings per share attributable to shareholders of the Company...........					
- Basic and diluted...................	0.12	0.13	0.12	0.13	

	YEAR ENDED DECEMBER 31,				
	2001	2002	2003	2004	
	RMB	RMB (IN THOUSANDS EXCEPT FOR PER SHARE	RMB	RMB	
Dividends declared per share..............	0.10	0.10	0.10	0.105	
Earnings per ADS attributable to shareholders of the Company...........	6.15	6.42	5.90	6.54	
IFRS BALANCE SHEET DATA (AT YEAR END):					
Working capital (excluding due from and due to Parent Company)................	1,581,054	1,592,040	1,935,979	2,076,207	
Due from Parent Company..................	29,499	39,374	--	--	
Due to Parent Company....................	--	--	37,230	24,617	
Fixed assets.............................	7,031,040	6,798,280	6,952,878	6,973,279	7
Leasehold land payments..................	673,746	656,998	652,083	636,379	
Total assets.............................	10,997,216	11,257,594	11,073,953	11,409,051	12

Equity attributable to shareholders of the Company................................	10,120,623	10,244,151	10,322,358	10,420,574	10
Share capital, issued and outstanding, RMB1.00 per value,					
domestic shares - 2,904,250,000........	2,904,250	2,904,250	2,904,250	2,904,250	2
H shares - 1,431,300,000..............	1,431,300	1,431,300	1,431,300	1,431,300	1
IFRS CASH FLOW STATEMENT DATA:					
Net cash provided by operating activities.............................	886,016	1,157,177	798,449	1,236,579	1
Net cash (used in)/provided by investing activities...................	(430,425)	251,003	(375,469)	(1,000,639)	
Net cash used in financing activities.....	(420,137)	(360,643)	(433,666)	(469,044)	
Purchase of fixed assets and payment for construction-in-progress...........	551,508	553,337	339,208	310,179	1
Dividends paid to shareholders of the Company................................	419,957	356,490	433,561	455,009	
OTHER IFRS DATA:					
Railroad transportation operating income..	609,295	663,035	606,889	676,682	
Other businesses operating income/(loss)..	23,476	2,957	3,165	1,684	
CERTAIN US GAAP DATA					
Profit from operation....................	602,533	670,919	601,261	668,721	
Net income...............................	574,654	598,242	544,528	600,250	
Earnings per share-Basic and diluted......	0.13	0.14	0.13	0.14	
Earnings per ADS.........................	6.63	6.90	6.28	6.92	
Equity...................................	9,092,358	9,257,045	9,368,018	9,499,000	9
Fixed assets.............................	5,821,317	5,636,979	5,830,125	5,889,074	6

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(1) Translation of amounts from Renminbi, or RMB, into United States dollars, or US$, for the convenience of the reader has been made at US$1.00 = RMB8.1, which is rounded from 8.0702, the noon buying rate in the New York City on December 30, 2005. No representation is made that the RMB amounts could have been, or could be, converted into US dollars at that rate on December 30, 2005 or on any other date.

We derive a majority of our revenue and incur most of our expenses in Renminbi. In addition, we maintain our books and records in Renminbi and our financial statements are prepared and expressed in Renminbi. Solely for the convenience of the reader, this annual report contains translations of certain Renminbi amounts into U.S. dollars and vice versa at RMB8.1 = US$1.00, which is rounded from 8.0702, the noon buying rate in the New York City on December 30, 2005. These translations should not be construed as representations that the Renminbi amounts could have been or could be converted into U.S. dollars at such rate or at all.

The noon buying rates for Renminbi in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB7.9995 = US$1.00 on

June 16, 2006.

The following table sets forth information concerning the noon buying rate in New York City for cable transfers as certified for customs purposes by the

Federal Reserve Bank of New York for the Renminbi, expressed in Renminbi per U.S. dollar, for the periods indicated:

PERIOD	NOON BUYING RATE AVERAGE (1)	HIGH	LOW
	(RENMINBI PER U.S. DOLLAR)		
2001	8.2770	8.2786	8.2676
2002	8.2772	8.2800	8.2700
2003	8.2772	8.2800	8.2765
2004	8.2768	8.2774	8.2764
2005	8.1826	8.2765	8.0702
January 2006	8.0654	8.0702	8.0596
February 2006	8.0512	8.0616	8.0415
March 2006	8.0350	8.0505	8.0167
April 2006	8.0143	8.0248	8.0040
May 2006	8.0131	8.0300	8.0005
June 2006 (through June 16)	8.0092	8.0225	7.9985

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

DIVIDENDS

At a meeting of the directors held on March 20, 2006, the directors proposed a final dividend of RMB0.12 per ordinary share for the year ended December 31, 2005, which was approved at our annual general meeting of shareholders held on May 11, 2006. This proposed dividend has not been reflected as a dividend payable in the Financial Statement, but instead as capital and reserves attributable to equity holders of the Company.

In accordance with our Articles of Association, dividends for our domestic shares will be paid in Renminbi while dividends for our H shares will be calculated in Renminbi and paid in Hong Kong dollars. The exchange rate was based on the average of the closing exchange rates for Renminbi to Hong Kong dollars as announced by the People's Bank of China during the calendar week preceding the date on which the dividend is to be distributed, which was June 9, 2006. Dividends paid on our H shares for the year ended December 31, 2005 were converted at a rate of HK$1.00 = RMB1.03287. Therefore, the final dividend we distributed for the year ended December 31, 2005 was converted into HK$0.11618.

ITEM 3B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

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

Not applicable.

ITEM 3D. RISK FACTORS

RISKS RELATING TO OUR BUSINESS

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

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

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

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

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

Historically, our freight transportation revenue was derived mainly from the transportation of construction materials, coal, iron ore, oil, steel and chemicals, in which our railroad transportation services have an advantage over other means of transportation, such as road transportation services. With the economic and technological development and the restructuring of the industries structure in our service areas, commodities, such as advanced technological products, which tend to be compact, may choose to be shipped by road or air. We face significant competition in the transportation of such low-volume, high-value products. Changes in freight composition will affect the usage volume and pricing of our freight transportation services and may adversely affect our results of operations.

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

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

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

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

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

We were granted certain rights by the MOR and the State Council of the PRC, or the State Council, with respect to certain aspects of our railroad businesses and operations, and also received legal clarification and confirmation of our asset ownership, corporate powers and relationships with service providers and other entities in the national railway system, in connection with our restructuring. These rights include the right to own and operate our business and assets, the right to profit and the right of asset disposal. Although these rights were granted

to us indefinitely, we cannot assure you that these rights will not be affected by future changes in PRC governmental policies or regulation or that other railway operators will not be granted similar rights within our service region. If another railway operator is granted similar rights within our service region, the level of competition we face will increase significantly.

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

Guangzhou Railway (Group) Company, or GRGC, owns approximately 67% of our issued share capital. This ownership percentage enables GRGC to elect our entire board of directors without the concurrence of any of our other shareholders. Accordingly, GRGC is in a position to: (1) control our policies, management and affairs; (2) subject to applicable PRC laws and regulations and provisions of our Articles of Association, determine the timing and amount of dividend payments and adopt amendments to certain of the provisions of our Articles of Association; and (3) otherwise determine the outcome of most corporate actions and, subject to the requirements of the HKSE Listing Rules, cause us to effect corporate transactions without the approval of minority shareholders.

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

WE HAVE VERY LIMITED INSURANCE COVERAGE.

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

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

Our railroad operations and real estate ownership are subject to extensive national and local environmental laws and regulations concerning, among other things, gaseous emissions,

wastewater discharge, disposal of solid waste and noise control. Environmental liabilities may arise from claims asserted by adjacent landowners or other third parties. We may be required to incur significant expenses to remediate any violation of any violation of applicable environmental laws and regulations. As of December 31, 2005, we had not made any provision for such liabilities.

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

The United States Securities and Exchange Commission, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company in the United States to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. These requirements will first apply to our annual report on Form 20-F for the fiscal year ending December 31, 2006. In this report, our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may still be unable to attest to our management's assessment or may issue a report that concludes that our internal controls over financial reporting are not effective. In preparation for the implementation of the requirements of Section 404, we are undertaking company-wide documentation of internal controls, performing the system and process evaluation and testing required and we have hired 404 compliance experts to advise us on issues relating to the 404 compliance, including KPMG. During the course of our evaluation, documentation and attestation, we may identify certain deficiencies that could adversely affect our ability to record, process, summarize and report financial data consistent with our management's assertions in our financial statements. Although we will formulate plans for remedial measures to make necessary improvements to address any deficiency found, we cannot assure you that we will be able to remedy the identified deficiencies in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, our current company-wide comprehensive organizational reform and our proposed acquisition of railway transportation-related assets between Guangzhou and Pingshi may also have an impact on our ability to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. We are also in the process of conducting further evaluation of our internal control over financial reporting and may identify other deficiencies that we may not be able to remedy by this deadline. If we fail to achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls, on an ongoing basis, over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading prices of our ADSs or H Shares. Furthermore, we have already incurred considerable costs and spent significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act. We anticipate that we will continue to incur considerable costs and use significant resources for compliance with Section 404.

RISKS RELATING TO OUR PROPOSED ACQUISITION AND A SHARE ISSUE

On November 15, 2004, we entered into an assets purchase agreement, or the Acquisition Agreement, with Yangcheng Railway Company to acquire the railway transportation business between Guangzhou and Pingshi and related assets, or the Acquisition. In order to finance such Acquisition, we have applied to the relevant PRC authorities for approval to allot no more than 2.75 billion A shares to be listed in China, or the A Share Issue. The proposed amount of the issuance represents approximately 63.43% of our existing issued share capital and approximately 38.81% of our issued share capital as enlarged by the issuance of A shares. Upon completion of the A Share Issue, our Parent Company will own approximately 40.99% of our issued and outstanding common shares, all of which are A shares, while institutional and public shareholders will own approximately 59.01% of our issued and outstanding common shares, including A shares, H shares and ADSs. See "ITEM 5. Operating and Financial Review and Prospects--Overview--Proposed Issue of A Shares, Very Substantial Acquisition and Continuing Related Party Transactions" for additional information.

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

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

- the formal approvals of relevant authorities or bodies in relation to the A Share Issue having been obtained;

- the A Share Issue having been completed and an amount of not less than 65% of the consideration for the Acquisition having been raised;

- the approvals of relevant government bodies responsible for the supervision and management of state-owned assets in relation to Yangcheng Railway Company's proposal on disposal of its state-owned assets having been obtained; and

- the approval of the National Development and Reform Committee in relation to the price determination for passenger and freight railway transportation services between Guangzhou and Pingshi having been obtained.

Except for the second condition listed above, which can be waived by us, none of the above conditions can be waived. If the above conditions are not fulfilled by November 15, 2006, the Acquisition Agreement will lapse and no party to the Acquisition Agreement will have any liability thereunder. We cannot assure you that the relevant PRC authorities would approve our proposed A Share Issue or that we would be able to raise proceeds amounting to not less than 65% of the consideration for the Acquisition from such offering. Failure to complete the proposed Acquisition may have a material adverse effect on our business and operations.

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

We cannot assure you that the proposed Acquisition, if consummated, will benefit our business and results of operations as we expect. Upon completion of the proposed Acquisition, our railway will be extended from 147 kilometers to 481.2 kilometers. The proposed Acquisition will result in greater administrative burdens and operating costs and, to the extent financed with debt, additional interest costs. We cannot assure you that we will be able to manage or integrate the acquired business successfully. The process of combining railway transportation business between Guangzhou and Pingshi into our operations may be disruptive to our business and may cause an interruption of, or a loss of momentum in, our business as a result of the following factors, among others:

- loss of key employees or customers of the acquired business;
- possible inconsistencies in standards, controls, procedures and policies between us and acquired business and the need to implement company-wide financial, accounting, information and other systems;
- failure to maintain the quality of services that we have historically provided;
- the need to coordinate geographically diverse organizations; and
- the diversion of management's attestation from our day-to-day business as a result of the need to deal with any disruptions and difficulties and the need to add management resources to do so.

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

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

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

RISKS RELATING TO THE RAILWAY TRANSPORTATION INDUSTRY IN CHINA

EXTENSIVE GOVERNMENT REGULATION OF THE RAILWAY TRANSPORTATION INDUSTRY MAY LIMIT OUR FLEXIBILITY IN RESPONDING TO MARKET CONDITIONS, COMPETITION OR CHANGES IN OUR COST STRUCTURE.

We are subject to extensive PRC laws and regulations relating to the railway transportation industry. The MOR and other Chinese governmental authorities regulate pricing, speed, train routes, new railway construction projects, and foreign investment in the railway transportation industry. Any significant change in the relevant regulations of the PRC government is likely to have a material impact on our business and results of operations. In addition, our ability to respond to changes in our market conditions may be limited by those regulations set by the MOR and other Chinese governmental authorities.

RISKS RELATING TO THE PEOPLE'S REPUBLIC OF CHINA

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

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

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

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

Our books and records are maintained and our financial statements are prepared and presented in Renminbi, which is not a freely convertible currency. All foreign exchange transactions involving Renminbi must be transacted through banks and other institutions authorized by the People's Bank of China, or PBOC. We receive substantially all of our revenues in Renminbi. We need to convert a portion of our revenues into other currencies to meet our foreign currency obligations, such as payment of dividends on our H shares and

overseas equipment purchases. In addition, the existing foreign exchange limitations under PRC law could affect our ability to obtain foreign currencies through debt financing, or to obtain foreign currencies for capital expenditures or for distribution of dividends on our H shares.

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

The value of the Renminbi fluctuates and is subject to changes in market conditions as well as China's political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 2% appreciation of the Renminbi against the U.S. dollar. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar. We have certain US dollar-denominated assets and the appreciation of Renminbi could result in a decrease of the value of these assets. For further information on our foreign exchange risks and certain exchange rates, see "Item 3A. Selected Financial Data -- Exchange Rate Information" and "ITEM 11. Quantitative and Qualitative Disclosure About Market Risk -- Foreign Exchange Rate Risk." We cannot assure you that any future movements in the exchange rate of Renminbi against the United Sates dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

THE PRC LEGAL SYSTEM HAS INHERENT UNCERTAINTIES THAT COULD LIMIT THE LEGAL PROTECTIONS AVAILABLE TO YOU.

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

WE FACE RISKS RELATED TO HEALTH EPIDEMICS AND OTHER OUTBREAKS.

Our business could be adversely affected by the effects of avian flu, SARS or another epidemic or outbreak. China reported a number of cases of SARS in April 2004. In 2005 and 2006, there have been reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases. Any prolonged recurrence of avian flu, SARS or other adverse public health developments in China may have a material adverse effect on our business operations. These could include our ability to travel or ship products outside of China, as well as

temporary closure of our business. Such closures or travel or shipment restrictions would severely disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, SARS or any other epidemic.

ITEM 4. INFORMATION ON THE COMPANY

ITEM 4A. HISTORY AND DEVELOPMENT OF THE COMPANY

OVERVIEW

We were established as a joint stock limited company under the Company Law of the PRC on March 6, 1996. Our legal name is (CHINESE CHARACTERS), and its English translation is Guangshen Railway Company Limited. Our registered office is located at No. 1052 Heping Road, Shenzhen, Guangdong Province, The People's

Republic of China, 518010. Our telephone number is (86-755) 2558-7920 or 2558-8146 and our fax number is (86-755) 2559-1480.

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

We are a leading provider of passenger and freight transportation services on the Guangzhou-Shenzhen route. We operate the sole railroad, 147 kilometers long, between Guangzhou, the capital city of Guangdong Province, and Shenzhen, one of the original special economic zones of the PRC. The Guangzhou to Shenzhen railroad, which includes two high speed rail lines and one regular speed rail line, is an important component of the transportation infrastructure of southern China.

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

Our railroad system is currently one of the most modern railroads in the PRC. It is equipped with state-of-the-art equipment and facilities, including high-speed electric trains. Several aspects of our technical performance have reached or are approaching international standards. Ours is one of the few rail lines in the PRC that operate high-speed passenger trains with speeds up to 200 kilometers per hour.

BACKGROUND AND RESTRUCTURING

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

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

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

We were established as a joint stock limited company on March 6, 1996 following the restructuring that was carried out to reorganize the railroad assets and related businesses of Guangshen Railway Company and certain of its subsidiaries. As part of the restructuring, 2,904,250,000 state legal person shares, par value RMB1.00 per share of Guangshen Railway were issued to our Parent Company, a state-owned enterprise under the MOR of the PRC. Under PRC law, these state legal person shares are deemed to be domestic shares which may be owned by or transferred to PRC entities or persons only.

We completed our initial public offering in May 1996. In this offering, we issued a total of 1,431,300,000 class H ordinary shares, par value RMB1.00 per share, or H shares. Our H shares are listed for trading on the Stock Exchange of Hong Kong Limited and our American depositary shares, or ADSs, each representing 50 H shares, are listed for trading on the New York Stock Exchange. As of December 31, 2005, approximately 67% of our issued and outstanding common shares were owned by our Parent Company, and the remaining 33% were owned by public shareholders. The Parent Company currently owns all of our issued and outstanding domestic shares. Our public shareholders own only H shares or ADSs, which may not be purchased or owned by domestic investors in the PRC.

GEDC, a state-owned enterprise established in the restructuring undertaken in connection with our initial public offering, assumed the operations and assets of the Guangshen Railway Company that were not transferred to us in the restructuring, such as employee housing, hospitals, schools and public security, and provides related services to us on a contractual basis since the 1996 restructuring. In the second half of 2004, all of the hospitals and schools originally vested in GEDC were transferred to the local government pursuant to applicable PRC policies. As a result, GEDC no longer provides any education and hospital services to us under the contractual arrangements made upon our restructuring.

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

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

SERVICE TERRITORY

Our rail line traverses the Pearl River Delta, an area which benefited early from the PRC economic reform policies that began in late 1970s. Throughout the 1980s and early 1990s, the economy of the Pearl River Delta, fueled by foreign investments, grew rapidly. It is currently one of the most affluent and fastest growing areas in China.

As of December 31, 2005, there were 26 stations situated on our rail line, providing passenger and freight transportation services for cities, towns and ports situated between Guangzhou and Shenzhen in the Guangzhou-Shenzhen corridor and Hong Kong (which we service in conjunction with the KCR). In addition to our Hong Kong passenger through train services in conjunction with the KCR, we also allow Hong Kong-bound freight trains of KCR to use our Guangzhou-Shenzhen railroad.

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

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

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

Westbound. Our line connects with the Guangzhou-Maoming rail line operated by Sanmao Railway Company, a joint venture railroad company of our Parent Company, the MOR and the Guangdong Provincial Railway Company that runs through the western part of Guangdong Province, connecting with other rail lines that continue on into the Guangxi Zhuang Autonomous Region, which provides access to southwestern China.

Eastbound. Our rail line intersects at Dongguan with the Guangzhou-Meizhou-Shantou rail line operated by Guangmeishan Railway Company, a company jointly established by our Parent Company, the Guangdong Provincial Railway Company and other public investors. A section of this line forms, along with our Dongguan to Shenzhen segment, a part of the Beijing-Hong Kong rail line, which terminates in Kowloon, Hong Kong.

At Pinghu, our rail line connects with two local port lines: one of them, Pingnan Railway, principally services three ports located in western Shenzhen -- Shekou, Chiwan and Mawan -- and the other, Pingyan Railway, services Yantian port, an international deepwater port located in eastern Shenzhen. At the Huangpu and Xiayuan stations in Guangzhou, our line connects with Huangpu port and Xinsha port. Our rail line also connects with certain industrial districts, commercial districts and the facilities of many of our customers through spur lines, which are rail lines running off the main line that are used and typically financed by a freight customer or a group of freight customers and maintained by us for a fee. We believe that the customers connected to these spur lines and customers with goods that must be shipped through these regional ports are likely to utilize our services on a long-term basis.

ITEM 4B. BUSINESS OVERVIEW

BUSINESS OPERATIONS

Our principal businesses are railroad passenger and freight transportation, which generated 94.6% of our total revenues and 101.3% of our total operating income in 2005.

In 2005, due to continuous and rapid growth in the PRC economy, the expansion of regional economic cooperation in the Pearl River Delta and its adjacent areas, the implementation of CEPA and the implementation of the "Relaxed Individual Travel" program for PRC tourists from the mainland to Hong Kong and Macau, demand for passenger and freight transportation services in our service region continued to increase, which provided us with excellent development opportunities.

In 2005, our total revenues were RMB3,276.9 million, representing an increase of 7.9% from RMB3,038.1 million in 2004. Our revenues from railroad passenger transportation service, freight transportation service and other businesses were RMB2,511.1 million, RMB588.3 million and RMB177.5 million respectively, accounting for approximately 76.6%, 18.0% and 5.4%, respectively, of our total revenues in 2005. In 2005, our profit attributable to shareholders was RMB613.4 million, representing an increase of 8.1% from RMB567.5 million in 2004.

The table below summarizes our railroad transportation revenues and volumes of traffic in each of the five years ended December 31, 2005:

	YEAR ENDED DECEMBER 31,				
	2001	2002	2003	2004	2
PASSENGER TRANSPORTATION					
Total passenger revenues (RMB millions)........	1,471.90	1,903.78	1,790.20	2,259.67	2,5
Total passengers (millions)....................	38.84	39.78	37.86	46.01	
Revenues per passenger (RMB)(1)................	37.90	47.86	47.28	49.11	
Total passenger-kilometers (millions)..........	3,257.90	3,453.20	3,295.50	4,200.20	4,5
Revenues per passenger-kilometer (RMB)(2)......	0.45	0.55	0.54	0.54	

	YEAR ENDED DECEMBER 31,				
	2001	2002	2003	2004	2
FREIGHT TRANSPORTATION					
Total freight revenues (RMB millions)..........	585.62	530.78	526.38	611.81	5
Total freight tons (millions)..................	29.01	27.58	27.58	34.20	
Revenues per ton (RMB)(3)......................	20.19	19.25	19.08	17.89	
Total ton-kilometers (millions)................	2,082.50	1,926.00	1,978.90	2,489.50	2,2
Revenues per ton-kilometer (RMB)(4)............	0.28	0.28	0.27	0.25	

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

transportation business.

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

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

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

On November 15, 2004, we entered into an asset purchase agreement with Yangcheng Railway Company to acquire the railway transportation business between Guangzhou and Pingshi and related assets. In order to finance such acquisition, we have applied to the relevant PRC authorities for approval to allot no more than 2.75 billion A shares to be listed in China. The proposed amount of the issuance represents approximately 63.43% of our existing issued share capital and approximately 38.81% of our issued share capital as enlarged by the issuance of A shares. Under PRC law, these A shares will be deemed to be domestic shares which may be owned by or transferred to PRC entities or persons only. Upon completion of the proposed issue of 2.75 billion A shares, our Parent Company will own approximately 40.99% of our issued and outstanding common shares, all of which are A shares, while institutional and public shareholders will own approximately 59.01% of our issued and outstanding common shares, including A shares, H shares and ADSs. See "ITEM 5. Operating and Financial Review and Prospects--Overview--Proposed Issue of A Shares, Very Substantial Acquisition and Continuing Connected Transactions" for additional information.

PASSENGER TRANSPORTATION

Passenger transportation is our largest business segment, and accounted for 76.6% of our total revenues, and 81.0% of our railroad transportation revenues, in 2005. Our passenger train services can be categorized as follows:

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

- through trains between Hong Kong and Guangzhou; and

- domestic long-distance trains.

As of December 31, 2005, we operated 122 pairs of passenger trains per day (each pair of trains meaning trains making one round-trip between two points) of which:

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

- two pairs were regular-speed passenger trains operating between

Guangzhou and Shenzhen;

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

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

The table below sets out passenger revenues and volumes for our Hong Kong through trains and domestic trains in each of 2003, 2004 and 2005:

	PASSENGER REVENUES			PASSENGER VOLUME			REVENUE P
	2003	2004	2005	2003	2004	2005	2003
	(RMB MILLIONS)			(MILLIONS)			(RMB
Guangzhou-Shenzhen Trains........	913.4	1,152.5	1,219.8	16.0	20.3	21.5	57.0
Hong Kong through trains.........	322.4	436.9	457.7	2.0	2.9	3.1	160.0
Long-distance trains	554.4	670.3	833.7	19.8	22.9	24.5	28.0
Combined passenger operations....	1,790.2	2,259.7	2,511.2	37.9	46.1	49.1	47.3

Guangzhou-Shenzhen Trains. In 2005, our passenger transportation services on the trains between Guangzhou and Shenzhen contributed most to our railroad passenger transportation revenues.

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

The number of passengers traveling on our Guangzhou-Shenzhen trains increased by 5.9% from 20.3 million in 2004 to 21.5 million in 2005. The number of passengers traveling on our high-speed passenger trains between Guangzhou and Shenzhen increased by 7.1% from 19.7 million in 2004 to 21.1 million in 2005; while the number of passengers traveling on our regular-speed passenger trains between Guangzhou and Shenzhen decreased by 30.4% from 0.6 million in 2004 to 0.4 million in 2005. The revenues from our Guangzhou-Shenzhen trains increased by 5.8% from RMB1,152.5 million in 2004 to RMB1,219.8 million in 2005.

Through-Trains. We currently operate jointly with the KCR 11 pairs of high-speed through trains between Hong Kong and Guangzhou. We provide the trains and personnel for eight pairs of these train services, while KCR provide for three pairs. The through train services beyond Guangzhou to Foshan, Zhaoqing, Beijing and Shanghai are provided by Guangzhou Railway (Group) Company, Beijing Railway Administration and Shanghai Railway Administration. Revenues from these through trains on the Guangzhou-Hong Kong section are shared between KCR and us, in proportion to our track mileage for the through train services, with 81.2%

accruing to us and 18.8% to KCR. In addition, we share all related costs with KCR at the same rate for the through train services.

Most of the passengers taking our Hong Kong through trains are from Hong Kong, Macau, Taiwan and foreign countries, and many are business travelers. As a result of the prices for our Hong Kong through train services, which are higher than the prices charged for our domestic train services, these through train services produce higher per-passenger revenues than our other passenger train services.

In 2005, approximately 3.1 million passengers traveled on the Hong Kong through trains, representing an increase of 6.1% from approximately 2.9 million in 2004. Our revenue from the operation of the Hong Kong through trains for 2005 was RMB457.7 million, representing a 4.8% increase from RMB436.9 million for 2004.

Domestic Long-distance Trains. As of December 31, 2005, we operated on a daily basis 40 pairs of domestic long-distance passenger trains on our rail line to cities in Guangdong, Hunan, Hubei, Jiangxi, Anhui, Jiangsu, Liaoning, Shanxi, Fujian, Heilongjiang, Jilin, Zhejiang, Hebei, Henan, Shandong Provinces and Guangxi Autonomous Region as well as cities to the north, such as Shanghai, Beijing and Tianjin. In 2005, the number of passengers traveling on our long-distance trains were 24.5 million, representing an increase of 7.1% from 22.9 million in 2004. Revenues from our long-distance trains increased by 24.4% from RMB670.2 million in 2004 to RMB833.7 million in 2005.

High-Speed Trains. As of December 31, 2005, we operated on average a total of 67 pairs of inter-city high-speed passenger trains between Guangzhou and Shenzhen daily (including 10 standby trains). Our high-speed trains are capable of running at 160 to 200 kilometers per hour, 33% to 67% faster than our regular-speed trains, which typically run at 120 kilometers per hour.

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

MAJOR STATIONS. The following are the major train stations owned and operated by us as of December 31, 2005:

Guangzhou East Station. Our Guangzhou East Station services our train services between Guangzhou and Shenzhen and between Guangzhou and Hong Kong and provides a hub for long-distance trains to different locations within China. Our Guangzhou East Station is connected to Lines 1, 2 and 3 of the Guangzhou municipal subway. As of December 31, 2005, the Guangzhou East Station handled on a daily basis 12 pairs of Hong Kong through trains, 67 pairs of Guangzhou-Shenzhen trains, 13 pairs of long-distance passenger trains between the Guangzhou East Station and other locations in China, including Beijing, Shanghai, Jiujiang, Shantou, Hefei, Taiyuan, Nanchang, Yingtan, Harbin, Yichang, Qingdao, Xiamen, Shenyang and Xiamen, and 5 pairs of passenger trains passing through the Guangzhou East Station. In 2005, the number of passengers traveling from Guangdong East Station was 12.7 million, while the number of passengers arriving at Guangdong East Station was 11.3 million.

Dongguan Station. Our intermediate station at Dongguan is the point of connection between our line and the neighboring Dongguan-Meizhou-Shantou rail line, and is also the point where our line intersects with the Beijing-Hong Kong rail line. Dongguan Station, by connecting our rail line to the Beijing-Hong Kong line, also facilitates passenger service between Kowloon and Zhaoqing. As of December 31, 2005, this station handled on a daily basis the transfer service for eight pairs of domestic long-distance passenger trains, 28 pairs of Guangzhou-Shenzhen high-speed passenger trains and two pairs of Guangzhou-Shenzhen regular-speed trains. In 2005, the number of passengers traveling from Dongguan Station was 3.1 million, while the number of passengers arriving at Dongguan Station was 3.5 million.

Shenzhen Station. Our Shenzhen Station is located in the Shenzhen Special Economic Zone, close to the Luohu Station on the Guangzhou-Kowloon rail line and connected to Line 1 of Shenzhen's subway system. In 2002, we introduced China's first computerized ticket hall in our Shenzhen Station. As of December 31, 2005, our Shenzhen Station handled on a daily basis 66 pairs of Guangzhou-Shenzhen passenger trains (including nine backup pairs) and 21 pairs of domestic long-distance passenger trains between Shenzhen and other locations in China, including Beijing, Changsha, Shaoguan, Wuchang, Meizhou, Shantou, Maoming East, Zhengzhou, Fuzhou, Hankou, Shenyang, Huaihua, Jiujiang, Yueyang, Guilin, Ji'an, Shanghai and Taizhou. In 2005, the number of passengers traveling from Shenzhen Station was 14.1 million, while the number of passengers arriving at Shenzhen Station was 14.0 million.

FREIGHT TRANSPORTATION

Revenue from our freight transportation accounted for 18% of our total revenues and 19% of our railroad transportation revenues in 2005. Our principal market for freight is domestic long-haul freight, originating and/or terminating outside the Guangzhou-Shenzhen corridor.

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

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

- outbound freight, which is primarily northbound freight loaded at our train stations and spur lines connected to ports on our rail line or in Hong Kong; and

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

The total tonnage of freight we transported in 2005 was 31.9 million tonnes, representing a decrease of 6.7% from 34.2 million tonnes in 2004. Revenues from freight transportation business in 2005 were RMB588.3 million, representing a decrease of 3.8% from RMB611.8 million in 2004. Our outbound freight revenues increased by 22.9% in 2005, while our inbound freight revenues decreased by 4.7% in 2004.

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

Freight Composition. We transport a broad range of goods, which can generally be classified as follows: construction materials, energy products, food products, chemicals, manufactured goods, containers and other goods. The majority of our inbound freight consists of raw materials and essential production inputs for manufacturing, industrial and construction activities, while the majority of our outbound freight consists of imported mineral ores as well as coal and goods produced or processed within our service territory, for customers throughout China and abroad.

The following table shows the composition of our freight volume by percentage for the three years ended December 31, 2005 (based on tons transported).

	OUTBOUND FREIGHT			INBOUND (AND PASS-THROUGH) FREIGHT		
	2003	2004	2005	2003	2004	2005
	AS A PERCENTAGE OF TOTAL OUTBOUND FREIGHT			AS A PERCENTAGE OF TOTAL INBOUND (AND PASS-THROUGH) FREIGHT		
Construction materials	30%	23%	24.4%	37%	44%	37.8%
Energy products	43%	50%	50.6%	14%	12%	10.9%
Food products	4%	5%	3.0%	21%	20%	19.9%
Chemicals	6%	4%	3.5%	9%	10%	9.9%
Manufactured goods	4%	2%	1.5%	3%	3%	3.1%
Containers	10%	12%	11.4%	8%	8%	10.1%
Other goods	3%	4%	5.6%	8%	3%	8.3%
Total	100%	100%	100%	100%	100%	100%

Freight Yards, Container Yards and Warehouses. We own freight yards, container yards and warehouses, most of which are located at our Shenzhen North, Xiayuan, Huangpu, Zhangmutou, Dongguan, Shipai, Jishan, Pinghu South and Guangzhou East Stations. Of the freight yards that we own and operate, three handled freight exceeding 1.0 million tons in 2005. Our freight yard at Huangpu Station handled approximately 2.8 million tons, while Xiayuan Station handled approximately 7.4 million tons and Shenzhen North Station handled approximately 1.1 million tons, respectively, in 2005. In 2005, revenues from the operation of our warehouses (including loading and unloading charges) and miscellaneous items amounted to RMB141.0 million, which accounted for 24.0% of our freight revenues for the year.

OTHER BUSINESSES

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

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

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

- other businesses, principally railroad-related construction.

Revenues from our other businesses in 2005 were RMB177.5 million, representing an increase of 6.5% from RMB166.7 million in 2004.

The table below sets out the revenues for our other businesses, by categories of activity, in each of 2003, 2004 and 2005:

	REVENUES			AS A PERCENTAGE OF TOTAL REVENUES FROM OTHER BUSINESSES		
	2003	2004	2005	2003	2004	2005
	(RMB MILLIONS)					
On-board and station sales............	39.2	48.5	29.2	26%	29%	16.5%
Station services......................	41.6	45.2	39.4	28%	27%	22.1%
Tourism, advertising and others.......	70.8	73.0	108.9	46%	44%	61.4%
Total.............................	151.6	166.7	177.5	100%	100%	100%

SEASONALITY OF OUR RAILWAY TRANSPORTATION BUSINESS

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

SALES

PASSENGER TRANSPORTATION

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

On January 1, 2001, the MOR implemented a new settlement method for passenger transportation. This settlement method stipulates that all revenues from passenger train services (including revenues generated from luggage and parcel services) are considered passenger transportation revenues and belongs to the railway administration that operates that train. The railway administration in turn pays other railway administrations fees for the use of their rail lines, hauling services, in-station passenger services, water supply, electricity for electric locomotives and contact wire use fees, etc. This change in settlement method did not have a material impact on our passenger transportation revenues.

The implementation of the settlement method in 2001 changed the settlement of our revenues from all of our long-distance passenger train services, other than the Beijing-Hong Kong and Shanghai-Hong Kong trains. Since the implementation of this settlement method in 2001, the railway administrations operating the long-distance train services affected by the new settlement method pay us the following fees: (1) revenues from ticket prices that are higher than the PRC national railway standards due to our special pricing standards; and (2) other fees including those for railroad line usage, in-station passenger service, haulage service, power supply for electric locomotives, usage fees of contact wires and water supply. The settlement method implemented in 2001 did not affect the settlement of our revenues from the passenger trains between Guangzhou and Shenzhen, between Beijing and Hong Kong, between Shanghai and Hong Kong, between Zhaoqing and Hong Kong and the Hong Kong through trains.

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

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

FREIGHT TRANSPORTATION

Generally, we collect payment for our freight service directly from our customers. For inbound freight, we collect transportation fees incurred on our line from the receiving party prior to the release of the freight. For outbound freight, we collect the total transportation fees from

the dispatching party, retain the portion allocated to us and remit the remainder to the other railroad operators on a monthly basis either directly or through a national settlement procedure administered by the MOR. These collection procedures also apply to freight transported to or from Hong Kong. Substantially all payments for inbound and outbound freight are settled in cash.

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

Freight customers in the Guangzhou-Shenzhen area deal directly with us or use shipping agents. In general, freight cars must be booked as part of the national ordering process which requires the booking to be made approximately one month in advance. As a practical matter, we have been able to meet demands for outbound freight transportation services on a shorter notice.

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

COMPETITION

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

With respect to passenger transportation, we face competition from bus services, which are available between Guangzhou and Hong Kong and between Guangzhou and Shenzhen. Bus fares are lower than the fares for our high-speed passenger train services. Furthermore, buses can offer added convenience to passengers by departing from or arriving at locations outside

their central terminals, such as hotels. However, train services generally offer greater speed, safety and reliability than bus services. In addition, since the implementation of our "As-Frequent-As-Buses" Train Project in October 2001, our high-speed train services and through train services have enabled us to compete more effectively with bus operators in terms of speed and frequency. We also compete to a lesser extent with commercial air and sea hovercraft passenger transportation services operating between Guangzhou and Hong Kong.

With respect to freight transportation, we face significant competition from truck transportation in the medium- and short-distance freight transportation market as the expressway and highway networks in our service region and neighboring areas have increasingly improved. By comparison, in the long-distance freight transportation market, we offer many advantages compared to truck transportation due to the higher cost of truck transportation, susceptibility of truck transportation to traffic conditions and a scarcity of heavy duty trucks. Our freight transportation also competes with water transportation. Although water transportation is competitive in terms of price, we believe that water transportation subjects goods to greater risks of loss and damage due to the multiple handling processes required. In addition, our freight transportation is more competitive in terms of speed compared to water transportation. As air freight is very expensive and attracts a different group of customers, we consider that we do not face significant competition from air freight. A very significant portion of the long-distance freight in China is still transported by rail.

EQUIPMENT, TRACKS AND MAINTENANCE

As of December 31, 2005, we owned 12 diesel high-speed locomotives, five high-speed electric locomotives, 18 shunting locomotives, one high-speed electric passenger train, 84 semi-high-speed passenger coaches, 41 regular-speed passenger coaches and 112 long-distance express passenger train coaches. We also leased eight "Blue Arrow" high-speed electric train-sets from Guangzhou Zhongche Railway Rolling Stock Sales and Services Company Limited, or Guangzhou Zhongche.

The freight cars we use are all leased from the MOR, to which we pay uniform rental fees and depreciation fees based on the national standards set by the MOR. The amounts of such usage fees and depreciation charges we paid to the MOR in 2003, 2004 and 2005 were approximately RMB58.9 million, RMB65.5 million and RMB50.8 million, respectively.

From September 2000, we began to lease eight "Blue Arrow" high-speed electric train-sets from Guangzhou Zhongche to facilitate the development of our "As-Frequent-As-Buses" Train Project. We paid the lessor RMB104.2 million, RMB103.2 million and RMB99.6 million in 2003, 2004 and 2005, respectively, under the lease. Lease agreements for different train-sets will expire from June 2006 to December 2006. We entered into an agreement for the purchase of twenty sets of Electric Multiple Units trains (EMUs) on August 9, 2005 with Bombardier Sifang Power (Qingdao) Transportation Ltd and Bombardier Sweden Transportation Ltd. These 20 sets of EMUs will be used in the operation of the Guangzhou-Shenzhen high-speed passenger trains and Hong Kong Through Trains. Each EMU has the speed of 200 km/h and we believe that the introduction of EMUs will strengthen our capability to deliver "safety, speed, comfort and quality" in transport services and increase our efficiency and competitiveness. Given that the EMUs will not be delivered to us until the second half of 2007, we renewed the lease agreement for another year with Zhongche in June 2006.

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

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

We continued our construction of the fourth line between Guangzhou and Shenzhen in 2005 and expect to complete it by the end of 2007. The completion of the construction will allow the high-speed passenger trains and regular speed passenger and freight trains to run on separate lines, thus improving the transportation capacity of high-speed passenger trains, domestic long-distance trains and freight trains.

SUPPLIERS AND SERVICE PROVIDERS

We purchase our coaches and locomotives, as well as most other railway equipment, directly from China Northern Locomotive & Rolling Stock Industry (Group) Corporation, China Southern Locomotive & Rolling Stock Industry (Group) Corporation and China Railway Materials and Supplies Corporation, all of which are also state-owned enterprises. We may also purchase equipment from foreign vendors or other domestic suppliers. We are not materially dependent upon any overseas suppliers.

We lease a portion of the locomotives and rolling stock that are used in our transportation operations from our Parent Company and its subsidiaries, who also provide services for these locomotives and rolling stock under contracts which stipulate fees based on a cost plus profit formula. The profit portion is fixed for a 10-year term of the relevant contract at 8% of costs. Costs include all actual costs related to providing and servicing the locomotives and rolling stock. Because such costs are affected by inflation, we are subject to inflationary risks in connection with our payment obligations under these contracts. Our Parent Company and some of its subsidiaries, such as Yangcheng Railway Company and Guangmeishan Railway Company, have similar agreements with us to provide services and assistance with respect to our railroad

operations. In addition, GEDC provides public security and housing for our employees and their families under a contract and in exchange for fee payments. In the second half of 2004, all of the hospitals and schools originally vested in GEDC were transferred to the local government pursuant to applicable PRC policies. As a result, GEDC no longer provides any education and hospital services to us under the contractual arrangements made upon our restructuring. In 2005, the total amount of these payments we made to our Parent Company and its subsidiaries accounted for 3.64% of our railroad business operating costs for the year. See " Item 7B. Related Party Transactions."

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

The electricity we use, including electricity used for our lines, is supplied through various entities under the jurisdiction of the Guangdong provincial power bureau on normal commercial terms. In 2004 and 2005, we paid approximately RMB106.9 million and RMB125.5 million, respectively, in electricity charges.

Our five largest customers accounted for less than 30% of our revenue and our five largest suppliers accounted for less than 30% of our purchases in 2005.

REGULATORY OVERVIEW

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

NATIONAL RAILWAY SYSTEM

Railroads in the PRC fall largely into three categories: state-owned railroads, jointly owned railroads and local railroads. State-owned railroads are invested by the central government of the PRC and are managed directly by the MOR. The state-owned railway system comprises over 70% of all rail lines, including all trunk lines. Jointly owned railroads are jointly invested and operated by the central government of the PRC, the local government and other foreign or domestic investors. Local railroads consist of regional lines usually within provincial or municipal boundaries that have been constructed under the sponsorship of local governments

or local enterprises to serve local needs. The state-owned railway system operates as a nationwide integrated system under the supervision and management of the MOR. Although the MOR does not operate other railroads, it provides guidance, coordination, supervision and assistance with respect to industry matters to such other railroads. The MOR's responsibilities include the centralized coordination of train routing and scheduling nationwide, planning of freight shipments and freight car allocations, overseeing equipment standardization and maintenance requirements, and financial oversight and revenue clearing throughout the national railway system.

Prior to March 18, 2005, the MOR divided the national railway system into 15 regions, each overseen and operated by a separate railway administration, or group companies. Ten of these 15 administrations were further subdivided on a geographical basis into 41 railway sub-administrations, or general companies. On March 18, 2005, the MOR issued a notice under which all general companies were dissolved and three new group companies were established. As a result, the number of group companies increased to 18. Group companies are directly responsible for passenger and freight transportation as well as the coordination and supervision of operations carried out by train stations.

TRANSPORT OPERATIONS

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

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

Since March 1996, the MOR and our Parent Company have accorded us substantially greater latitude in our transportation operations. In particular, we were granted sufficient autonomy over passenger services on our own line, including autonomy over speed, frequency and train car mix. Pursuant to this authority, we have implemented a strategy of scheduling more high-speed trains, running shorter passenger trains more frequently, and adjusting the train schedules on our line to meet consumer demand. On October 21, 2004, we successfully launched our "As-Frequent-As-Buses" Train Project, which provides intercity express train services. As of December 31, 2005, the total number of intercity express trains running daily between Guangzhou and Shenzhen increased from 64 pairs in 2004 to 67 pairs including ten standby trains. We currently have 40 pairs of long-distance trains and 13 pairs of through trains.

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

PRICING

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

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

ENVIRONMENTAL PROTECTION

We believe that we are in material compliance with all applicable PRC national and local environmental protection laws and regulations. We have not been fined or cited for any activities that have caused environmental damages. We have six wastewater treatment facilities used for purposes of treating wastewater generated from cleaning of special cargo freight cars, locomotives, coaches and from residential use. We pay regular fees to local authorities for the discharge of waste substances. In 2005, our environmental protection-related expenses were approximately RMB1.7 million as compared to RMB0.5 million in 2004.

INSURANCE

Pursuant to applicable PRC regulations, we are liable for the compensation to passengers for body injury arising from accidents to the limit of RMB60,000/person, including transportation business liability compensation amounting to RMB40,000/person. With respect to

loss of or damage to baggage, parcels and freight, our customers may elect to purchase insurance administered by the Ministry of Railways for up to their declared value. Passengers who do not elect to purchase insurance in respect of their baggage and/or parcels may nevertheless recover up to RMB15 for each kilogram of damaged baggage and/or parcels. Similarly, freight transport customers who elect not to purchase insurance may recover up to RMB2,000 for each ton of damaged freight if insured by weight.

We do not currently maintain any insurance coverage with third party carriers against third party liabilities. Consistent with what we believe to be the customary practice among railway operators in the PRC, we do not maintain insurance coverage for our property and facilities (other than for our automobiles), for business interruption or for environmental damage arising from accidents on our property or relating to our operations. As a result, in the event of an accident or other event causing loss, destruction or damage to our property or facilities, causing interruption to our normal operations or causing liability for environmental damage or clean-up, we will have to cover losses and damages out of our own pockets.

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

ITEM 4C. ORGANIZATIONAL STRUCTURE

The following table lists the significant subsidiaries of Guangshen Railway Company Limited as of December 31, 2005:

NAME	COUNTRY OF INCORPORATION	PERCENTAGE OF INT HELD BY GUANGSHEN R

DIRECTLY HELD BY THE COMPANY		
Guangzhou East Station Dongqun Trade and Commerce Service Company	PRC	100%
Shenzhen Fu Yuan Enterprise Development Company	PRC	100%
Shenzhen Guangshen Railway Civil Engineering Company(1)	PRC	100%
Shenzhen Guangshen Railway Travel Service Ltd.	PRC	100%
Shenzhen Jian Kai Trade Company(2)	PRC	100%
Shenzhen Jing Ming Industrial & Commercial Company Limited	PRC	100%
Shenzhen Railway Station Travel Service Company(3)	PRC	75%
Shenzhen Longgang Pinghu Qun Yi Railway Store Loading and Unloading Company	PRC	55%
Dongguan Changsheng Enterprise Company	PRC	51%
Shenzhen Railway Station Passenger Services Company Limited	PRC	100%
INDIRECTLY HELD BY THE COMPANY		
Shenzhen Nantie Construction Supervision Company	PRC	100%
Shenzhen Guangshen Railway Economic and Trade Enterprise Company	PRC	100%
Shenzhen Railway Property Management Company Limited	PRC	100%
Shenzhen Yuezheng Enterprise Company Limited	PRC	100%
Shenzhen Road Multi-modal Transportation Company Limited	PRC	60%

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(1) We entered into a share transfer agreement with Guangzhou Railway Economic and Technological Development General Company on June 13, 2006, pursuant to which, we transferred a portion of the equity interest in Shenzhen Guangshen Railway Civil Engineering Company held by us and one of our subsidiaries (Shenzhen Fu Yuan Enterprise Development Company) to Guangzhou Railway Economic and Technological Development General Company, a related party. Following the completion of such transfer, we hold 49% of the equity interest in Shenzhen Guangshen Railway Civil Engineering Company.

(2) A public announcement was made that the subsidiary had to be put under liquidation on May 20, 2005 and the formal liquidation process also commenced on that date. As at December 31, 2005, the relevant legal procedures had not been completed but the directors consider that the impact of the liquidation process did not bear any material impact on the Financial Statements as a whole.

(3) A Sino-foreign co-operative joint venture.

ITEM 4D. PROPERTY, PLANT AND EQUIPMENT

We occupy a total area of approximately 11.84 million square meters.

We own all of the buildings and facilities on our premises in Guangdong Province. We have freely transferable land use rights for terms ranging from 36.5 to 50 years, terminating between 2031 and 2045, in respect of the land upon which our buildings, facilities and rail line are located. Pursuant to relevant PRC regulations currently in effect, these land use rights are renewable at the end of their terms upon execution of relevant documentation and payment of applicable fees.

As at 31 December 2005, land use right certificates ("Land Certificates") of certain parcels of land of the Company with an aggregate area of approximately 3,450,962 square meters had not been obtained. After consultation made with the Company's legal counsel, the directors consider that there is no legal restriction for 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 Company. Accordingly, no provision for impairment was considered necessary.

In addition, as of 31 December 2005, ownership certificates of certain buildings ("Building Ownership Certificates") of the Company with an aggregate carrying value of approximately RMB1,297,947,000 had not been obtained by 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 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 Company. Accordingly, no provision for fixed assets impairment was considered necessary.

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

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

For additional information regarding our property, plant and equipment, see "Item 4B. Business Overview-Equipment and Track Maintenance" and Notes 6 and 8 to our audited consolidated financial statements included elsewhere in this annual report.

ITEM 4A. UNRESOLVED STAFF COMMENTS

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

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

This discussion and analysis should be read in conjunction with our consolidated financial statements contained elsewhere in this annual report. The revenues provided in this part are set out the deduction of business tax. Our audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards, which differ in certain material respects from United States Generally Accepted Accounting Principles. For a discussion of the differences that affect Guangshen Railway, see Note 36 to our audited consolidated financial statements.

OVERVIEW

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

For the year ended December 31, 2005, our total revenues were RMB3,276.9 million, profit attributable to shareholders was RMB613.4 million, and earnings per share were RMB0.14. Railroad business revenues accounted for 93.9%, 94.5% and 94.6% of our total revenues in 2003, 2004 and 2005, respectively.

Passenger transportation business is our most important business. In 2005, we continued to enhance the operation of the Guangzhou-Shenzhen high speed passenger trains and The Canton-Kowloon through trains, improve our transportation capacity, increase the operation of standby trains during holidays, increase the frequency of stopping at intermediary stations, initiate passenger flows connection between long-distance trains in the Guangzhou area and Guangzhou-Shenzhen trains and refurbish our passenger stations for the convenience of passengers to attract more passengers. In 2005, the total number of passengers was 49.1 million, representing an increase of 6.7% from 2004; passenger transportation revenues were RMB2,511.2 million, representing an increase of 11.1% from 2004.

We transported a total of 31.9 million tonnes of freight in 2005, representing a decrease of 6.7% from 2004. Freight transportation revenues in 2005 were RMB588.3 million, representing a decrease of 3.8% compared to 2004. The decrease was mainly due to the severe competition from other means of transportation and the centralized upward adjustments of railway freight tariffs.

Revenues from our other businesses were RMB177.5 million in 2005, representing an increase of 6.5% from 2004.

In 2005, pursuant to the amendments to the HKSE listing rules, we established a remuneration committee with a majority of the member of the committee being independent non-executive directors. Pursuant to the implementation of the new Company Law in China on January 1, 2006, we amended certain articles of our Articles of Association.

PROPOSED ISSUE OF A SHARES, VERY SUBSTANTIAL ACQUISITION AND CONTINUING RELATED PARTY TRANSACTIONS

On November 15, 2004, we entered into the Acquisition Agreement with Yangcheng Railway Company for the acquisition by us of the railway transportation business between Guangzhou and Pingshi, a city on the border between Guangdong Province and Hunan Province, currently operated by Yangcheng Railway Company and the assets and liabilities relating to such business. The consideration of the Acquisition will be approximately RMB10.3 billion. In order to finance the Acquisition, we intend to issue and allot up to 2.75 billion A shares and use the proceeds from the A Share Issue to pay the consideration of the Acquisition. We have submitted relevant application documents to relevant authorities for approval of the A Share Issue. Pursuant to the HKSE Listing Rules, the Acquisition constitutes a very substantial acquisition. As Yangcheng Railway Company is a wholly owned subsidiary of our Parent Company, the Acquisition also constitutes a related party transaction. In anticipation of the A Share Issue and the Acquisition, we entered into various agreements with each of Yangcheng Railway Company and our Parent Company in respect of certain continuing related party transactions. Such agreements will take effect upon the completion of the Acquisition and will thereafter replace all existing related party transaction agreements relating to the same categories of transactions.

We made an announcement in respect of the above matters on November 15, 2004 and also sent a circular to our shareholders on December 5, 2004. The circular contained details relating to the A Share Issue, the proposed amendments to the Articles of Association, the Acquisition and the continuing related party transactions, a letter from our independent board committee to our independent shareholders containing their recommendation, and a letter from our independent financial adviser to our independent board committee and our independent shareholders containing its advice, etc. We held our domestic shareholders' class meeting, H shares shareholders' class meeting and extraordinary general meeting on December 30, 2004 to approve related matters. Such approval was further renewed for one year at our extraordinary shareholders' meeting held on January 20, 2006.

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

1. the formal approvals of relevant authorities or bodies in relation to the A Share Issue having been obtained;

2. the A Share Issue having been completed and an amount of not less than 65% of the consideration of the Acquisition having been raised;

3. the approvals of relevant government bodies responsible for the supervision and management of state-owned assets in relation to Yangcheng Railway Company's proposal on disposal of its state-owned assets having been obtained; and

4. the approval of the National Development and Reform Committee in relation to the price determination for passenger and freight railway transportation services between Guangzhou and Pingshi having been obtained.

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

We submitted our application proposal relating to the A Share Issue to the China Securities Regulatory Commission, or CSRC, but it is difficult to estimate whether or when the A Share Issue will be completed as it is subject to the market conditions and policies of the CSRC.

ITEM 5A. RESULTS OF OPERATIONS

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

Competitive Pressure from other Means of Transportation. Sales for our passenger transportation services are also affected by the competitive pressure from other means of transportation, such as the automobile, bus, ferry and airplane services. For example, the fast growth in the number of privately owned vehicles and a higher penetration of bus services affect the number of train passengers traveling short distances; and any significant decrease in the air transportation prices affects the number of train passengers traveling long distances. Our sales of the freight transportation services are also affected by the competition from other means of transportation, such as water, truck and freight air transportation services.

PRC Policies. We enjoy certain preferential policies granted by the PRC government. For example, as a company located in the Shenzhen Special Economic Zone, we enjoy a preferential income tax rate of 15%, rather than the 33% income tax rate generally applicable to domestic companies in the PRC. In addition, we are allowed to be more flexible in making the price for both the passenger transportation and the freight transportation as compared to other domestic railroad operators. Material changes in the policies of the PRC government that affect such preferential treatments will impact our results of operations.

REVENUES

In 2005, our total revenues were RMB3,276.9 million, representing an increase of 7.9% from RMB3,038.1 million in 2004. Revenues from our passenger transportation service, our freight transportation service and our other businesses accounted for 76.6%, 18.0% and 5.4%, respectively, of our total revenues in 2005. Revenues from our passenger transportation service and our freight transportation service accounted for 81.0% and 19.0%, respectively, of our revenues from our railroad transportation businesses in 2005.

Passenger transportation service. Passenger transportation remains our most important business. As of December 31, 2005, we operated 122 pairs of passenger trains daily, representing an increase of five pairs from the number in operation as of December 31, 2004. There were 67 pairs of high-speed passenger trains between Guangzhou and Shenzhen, representing an increase of three pair compared to 2004; two pairs of regular-speed passenger trains between Guangzhou and Shenzhen; 13 pairs of Hong Kong Through Trains and 40 pairs of long-distance passenger trains, an increase of two pairs compared to 2004.

In 2005, our total number of passengers was 49.1 million, representing an increase of 6.6% from 46.0 million in 2004. Our revenue from passenger transportation was RMB2,511.2 million, representing an increase of 11.1% from RMB2,259.7 million in 2004.

The following table sets forth our revenues from passenger transportation and the number of our passengers for the three years ended December 31, 2005:

	YEAR ENDED DECEMBER 31,			CHANGE IN 20
	2003	2004	2005	2004
Revenue from passenger transportation (RMB thousands)............	1,790,204	2,259,671	2,511,156	11.1%
Total passengers (thousands)..................	37,861	46,012	49,058	6.6%
Revenue per passenger (RMB)...................	47.28	49.11	51.19	4.2%
Total passenger-kilometers (millions).........	3,295.50	4,200.2	4,539.10	8.1%
Revenue per passenger-kilometer (RMB).........	0.54	0.54	0.55	1.9%

In 2005, we made the following adjustments to the prices of our passenger transportation services: (1) during the Spring Festival, we adjusted the passenger fares of different classes of our long-distance domestic train services; and (2) during the New Year holidays, the Spring Festival holidays, the Labor Day holidays and the National Day holidays, we increased the fares of our high-speed passenger trains and regular-speed passenger trains between Guangzhou and Shenzhen by RMB5 per trip journey.

Freight transportation. The total tonnage of freight transported by us in 2005 was 31.9 million tonnes, representing a decrease of 6.7% from 34.2 million tonnes in 2004. In 2005, in order to attract more freight resources, we continued to offer price discounts for freight transportation of steel, coal, corn, beverage, container, rice and plastic as in 2004. Our revenues from freight transportation business were RMB588.3 million, representing a decrease of 3.8% from RMB611.8 million in 2004.

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- In 2005, our outbound freight tonnage was 8.46 million tonnes, representing an increase of 2.7% from 8.24 million tonnes in 2004. Our outbound freight revenues were RMB139.3 million, representing an increase of 22.9% from RMB113.4 million in 2004. The increase in outbound freight tonnages in 2005 was mainly due to (i) the continuing increase in demand for imported raw materials such as coal and ore owing to the continuous and rapid economic growth in mainland China; (ii) the centralized upward adjustments of railway freight tariffs implemented since April 2005 had exerted positive influence on the increase in outbound freight revenue; and (iii) in order to enhance competitiveness, the Company endeavored to maintain the current sources of freight and explore for new freight through providing preferential tariffs, improving service quality and strengthening relations with consignors.

- In 2005, our inbound and pass-through freight tonnages were 23.43 million tonnes, representing a decrease of 9.7% from 25.96 million tonnes in 2004. Our inbound and pass-through freight revenues were RMB308.0 million in 2005, representing a decrease of 4.7% from RMB323.1 million in 2004. The decrease in inbound and pass-through freight tonnages was mainly due to (i) the progressive improvement of road, water and air transportation networks of mainland China, bringing fiercer competition to railway freight transportation market; (ii) the centralized upward adjustments of railway freight tariffs implemented nationwide since April 2005 had led to the transfer of part of the freight sources to other means of transport.

- In 2005, our revenues from storage, loading and unloading and other miscellaneous items were RMB141.0 million, representing a decrease of 19.6% from RMB175.3 million in 2004. The decrease was mainly due to the decline in inbound and pass-through freight volume.

The following table sets forth our revenues from freight transportation and the volumes of commodities we shipped for the three years ended December 31, 2005:

	YEAR ENDED DECEMBER 31,			CHANGE IN 2005 FR
	2003	2004	2005	2004
Revenue from freight transportation (RMB thousands)...........................	526,382	611,807	588,310	(3.8%)
Total freight tons (thousands of tons)........	27,584	34,199	31,893	(6.7%)
-Revenues from outbound freight transportation	88,042	113,421	139,340	22.9%
-Revenues from inbound and pass-through transportation	267,844	323,108	307,962	(4.7%)
-Revenues from storage, loading and unloading and other miscellaneous items	170,496	175,278	141,008	(19.6%)
Revenue per ton (RMB)........................	19.08	17.89	18.45	3.1%
-Outbound freight tonnage	6,466	8,241	8,460	2.7%
-Inbound and pass-through freight tonnage	21,118	25,958	23,433	(9.7%)
Total ton-kilometers (millions)...............	1,978.9	2,489.5	2,294.8	(7.8%)
Revenue per ton-kilometer (RMB)..............	0.27	0.25	0.26	4.0%

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In 2005, we made the following adjustments to the prices of our freight transportation services: (i) in accordance with the slight increase in the national price levels for railway freight transportation, we increased the prices of our freight transportation services slightly; and (ii) we offered certain price discounts to some categories of freight to maintain existing business and attract new freight business.

Other Businesses. Our other businesses mainly consist of sales of goods and food, advertising and tourism services on board and in stations. Revenues from other businesses in 2005 were RMB177.5 million, representing an increase of 6.5% from RMB166.7 million in 2004.

The table below sets forth a breakdown of our revenues from the different categories of other businesses for the three years ended December 31, 2005:

	YEAR ENDED DECEMBER 31,		
	2003	2004	2005
	(RMB THOUSANDS)		
On-board and station sales............	39,217	48,496	29,172
Station services.....................	41,610	45,206	39,430
Tourism, advertising and others.......	70,769	72,969	108,860
Total.............................	151,596	166,671	177,462

OPERATING EXPENSES

In 2005, our total operating expenses were RMB2,566.1 million, representing an increase of 6.6% from RMB2,408.0 million in 2004. The following table sets forth, as a percentage of our railroad revenues, the principal operating expenses associated with our railroad businesses for 2003, 2004 and 2005:

	YEAR ENDED DECEMBER 31,		
	2003	2004	2005
Railroad businesses revenues (RMB millions)................	2,316.6	2,871.5	3,099.5
Labor and benefits..	15%	17%	17%
Equipment leases and services.............................	19%	16%	16%
Materials and supplies....................................	10%	9%	9%
Repair costs, excluding materials and supplies.............	4%	8%	8%
Depreciation (and amortization of leasehold land payments)..	13%	12%	11%
General and administrative expenses........................	6%	7%	6%
Fee for social services...................................	3%	3%	3%
Others..	5%	4%	4%
Operating expenses ratio(1)................................	75%	78%	77%
Railroad businesses operating margin.......................	25%	22%	23%

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

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Railway Operating Expenses. Our total railway operating expenses increased by 6.0% from RMB2,241.8 million in 2004 to RMB2,375.8 million in 2005. The following sets forth a breakdown of these changes by line item:

- Business tax. Our business tax in 2005 was RMB86.6 million, representing an increase of 3.4% from RMB83.7 million in 2004. The increase was mainly due to the increase in revenues of the Company.

- Labor and benefits. In 2005, our labor and benefits expenses amounted to RMB518.6 million, representing an increase of 5.3% from RMB492.6 million in 2004. The increase was mainly due to (i) the implementation of the performance based salary policy; steady increase of operating results in 2005 resulted in the overall increase in employees' salaries and benefits; (ii) the increase in the number of trains in operation during the year, and the corresponding increase in the number of related operation staff and workload.

- Materials and supplies. Our materials and supplies expenses consist mainly of fuel, water and electricity expenses. In 2005, our materials and supplies expenses amounted to RMB283.9 million, representing an increase of 15.6% from RMB245.5 million in 2004. The increase was mainly due to: (i) the increased consumption of materials and supplies resulted from the increased number of trains in operation during the year; (ii) the increase in the consumption of materials arisen from the increased investment in flood-control and maintenance of railway line to ensure the safety thereof: (iii) the ongoing increase in the prices of oil and electricity because of short supply, which led to the increase of related costs of the Company.

- Depreciation. Our depreciation expenses of fixed assets decreased by 2.7% from RMB334.5 million in 2004 to RMB325.6 million in 2005, mainly due to the disposal of some useless assets during the year, some of which had come to the end of their service life during the year.

- Repair. Our repair expenses increased by 21.6% from RMB216.3 million in 2004 to RMB263.0 million in 2005, primarily due to (i) the increased number of locomotives and vehicles that underwent overhaul, leading to the increase in repair expenses on related equipment; (ii) the refurbishment of houses and structures to provide better service to passenger and to improve the living and working environment of the employees, which caused an increase in the repair expenses; (iii) the increase in the expenses on the repair and maintenance of facilities such as rail lines and electrical equipment to satisfy the requirement for transportation safety as a result of increased transportation volume.

- Equipment leases and services. Our expenses on equipment leases and services mainly consist of railway line usage fees, train hauling fees and train leasing fees paid to other railway administrations. In 2005, our expenses relating to equipment leases and services amounted to RMB507.6 million, representing an increase of 12.3% from RMB452.2 million in 2004. This was mainly due to (i) the operation of Shenzhen-Shaoguan long-distance trains since May 2005, which led to the increase in the corresponding railway usage fees; and (ii) the relatively large

increase in the number of temporary passenger trains in operation during the Spring Festival holidays and the Golden Week holidays in 2005, which led to the increase of related equipment leases and services fees.

- Social services. Our social services fees in 2005 were RMB78.2 million, representing a decrease of 7.6% from RMB84.6 million in 2004. The reason for the decrease was mainly as follows: the segmentation reform of principal and subordinate businesses of the railway industry implemented in 2004, as a result of which, the hospitals and schools that used to provide medical and education services to the Company were transferred to local authorities, thus the Company had to pay a certain amount of subsidies in accordance with the government policies, while in 2005, the Company was not required to pay such fees.

- General and administrative. Our general and administration expenses decreased by 1% from RMB190.3 million in 2004 to RMB188.4 million in 2005. This was mainly due to the decrease in the provision for impairment this year.

PROFIT FROM OPERATIONS

Our profit from operations increased by 11.9% from RMB678.4 million in 2004 to RMB759.3 million in 2005 due to the increase in our total revenues.

TAXATION

As we are registered and established in the Shenzhen Special Economic Zone, our railroad businesses are subject to income tax at a rate of 15%. According to relevant tax regulations, our other businesses and our subsidiaries are subject to income tax at the rate of either 15% or 33%, depending on the location of incorporation. Our income tax expense was RMB104.2 million in 2005, representing an effective tax rate of 14.5% and an increase of RMB5.8 million compared to RMB98.4 million in 2004.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Our consolidated net profit increased by 8.1% from RMB567.5 million in 2004 to RMB613.4 million in 2005.

YEAR ENDED DECEMBER 31, 2004 COMPARED WITH YEAR ENDED DECEMBER 31, 2003

REVENUES

In 2004, our total revenues were RMB3,038.1 million, representing an increase of 23.1% from RMB2,468.2 million in 2003. Revenues from our passenger transportation service, our freight transportation service and our other businesses accounted for 74.4%, 20.1% and 5.5% of our total revenues in 2004 respectively. Revenues from our passenger transportation service and our freight transportation service accounted for 78.7% and 21.3%, respectively, of our revenues from our railroad transportation businesses in 2004.

Passenger transportation service. Due to the impact from the SARS epidemic, our revenues from passenger transportation declined during the first half of 2003. We operated more

trains and increased the frequency of stopping at intermediary stations to attract more passengers following the end of the SARS epidemic. We also worked on the integrated refurbishment of our passenger stations, such as Guangzhou East Station, Shenzhen Station and Dongguan Station, to improve our public image. Furthermore, we expanded our ticket network by opening more ticket offices at Guangzhou Station and other stations along the Guangzhou-Shenzhen route. We also made slight adjustments to our fares during peak periods and took other steps to improve our service quality and enhance our market efforts. In 2004, the total number of our passengers was 46.0 million, representing an increase of 21.4% when compared to that of 2003; our passenger transportation revenues were RMB2,259.7 million, representing an increase of 26.2% from that of 2003.

Freight transportation. During 2004, we transported a total of 34.2 million tonnes of freight, representing an increase of 6.6 million tonnes when compared to that of 2003. We believe that this increase resulted from our marketing efforts in our freight transportation business and our relationships with ports, mines and other corporates, which enabled us to maintain existing large volume freight and capture new freight transportation business. Our freight transportation revenues in 2004 were RMB611.8 million, representing an increase of 16.2% when compared to that of 2003.

- Our outbound freight revenues increased by 28.8% from RMB88.04 million in 2003 to RMB113.4 million in 2004. The increase in outbound freight tonnages in 2004 was mainly due to (i) the economic growth in mainland China which increased the demand for energy and raw materials, such as coal, ore and petroleum imports, etc, and in turn led to greater demand for freight transportation services; (ii) the severe crackdown on oversize and overloaded trucks on highways by the PRC government in 2004, and the implementation of the Road Traffic Safety Law, which led to an increase in the costs of road transportation; as a result, part of the freight previously transported by road shifted to railway transportation; (iii) the operation of additional container trains from Dongguan to Kowloon and the "5 fixed" (fixed locations, fixed line, fixed time, fixed price and fixed schedule) freight trains, from Pinghu South to Chengdu East and other locations led to a significant increase in the number of containers transported by us; and (iv) the end of the SARS epidemic, which adversely affected the freight transportation business in 2003.

- Our inbound and pass-through freight revenues increased by 20.6% from RMB267.8 million in 2003 to RMB323.1 million in 2004. This increase was mainly due to (i) the rapid economic growth in the PRC, including the Pearl River Delta region, which created great demand for raw materials, such as steel and cement; (ii) the recovery of the Hong Kong economy, and the increased volume of Chinese exports, which led to a large increase in the demand for freight transportation; and (iii) the Chinese government's crackdown on oversize and overloaded trucks on highways, which led to a shift of part of truck freight to railway transportation.

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

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

OPERATING EXPENSES

In 2004, our total operating expenses were RMB2,408.0 million, representing an increase of 26.4% from RMB1,905.5 million in 2003.

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

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

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

- Materials and supplies. Our materials and supplies expenses consist mainly of fuel, water and electricity expenses. In 2004, our material and supplies expenses amounted to RMB245.5 million, representing an increase of 13.2% from RMB217.0 million in 2003. The increase was mainly due to: (i) increases in the prices of oil and electricity, which increased the costs of the fuels and electricity used by our locomotives and vehicles; and (ii) increased consumption of materials and supplies due to the operation of additional high-speed passenger trains between Guangzhou and Shenzhen, the Hong Kong through trains and additional passenger trains during the Spring Festival.

- Depreciation. In 2004, depreciation expenses relating to our fixed assets were RMB334.5 million, representing an increase of 15.3% from RMB290.0 million in 2003. This increase was mainly due to an increase in our fixed assets.

- Repair. In 2004, our repair expenses were RMB216.3 million, representing an increase of 141.3% from RMB89.6 million in 2003. This increase was primarily due to (i) the replacement of worn-out high-speed rails; (ii) an increase in the number of trains and vehicles that needed overhaul; and (iii) the further refurbishment of our Guangzhou East Station, our Shenzhen Station and a number of passenger stations along our line.

- Equipment leases and services. Our expenses on equipment leases and services mainly consist of railway line usage fees, train hauling fees and train leasing fees paid to other railway administrations. In 2004, our expenses on equipment leases and services were RMB452.2 million, representing an increase of 3.3% from RMB437.7 million in 2003. This increase was mainly due to the operation of additional high-speed passenger trains and Hong Kong through trains, and the operation of additional long-distance passenger trains during peak travel seasons, such as the Spring Festival holidays and Golden Week holidays, which resulted in an increase in railway line usage fees and train hauling fees. Leasing fees paid by us to the MOR for transportation trucks also increased due to the increase in the volume of freight we transported.

- Social services. These fees relate to services provided to our employees, including health care and education and to services relating to passenger safety and security. In 2004, our fees for social services were RMB84.6 million, representing an increase of 35.3% from RMB62.6 million in 2003. The increase was mainly due to the subsidies amounting to RMB12.2 million which was paid to GEDC pursuant to relevant PRC government policies when the hospitals and schools owned and operated by GEDC were transferred to local government in the second half of 2004. As a result, GEDC no longer provides any education and hospital services to us under the contractual arrangements made upon our restructuring.

- General and administrative. Our general and administration expenses were RMB190.3 million in 2004, representing an increase of 41.3% from RMB134.7 million in 2003. This was mainly due to: (i) the payment of medical insurance fees for all of our employees, and a one-time payment of medical insurance premium for our retired employees, in accordance with certain government policies implemented to reform the medical insurance system in the PRC; and (ii) an increase in our provision for bad debt associated with our deposit held by Zeng Cheng City Li Cheng Credit Cooperative, or Li Cheng, which was overdue and not recovered.

- Other expenses. Our other expenses in 2004 were RMB126.3 million, representing an increase of 11.4% from RMB113.4 million in 2003. This was mainly due to an increase in communication services fees and various surcharges for production.

PROFIT FROM OPERATIONS

Our profit from operations increased by 11.2% from RMB610.1 million in 2003 to RMB678.4 million in 2004 due to the increase in our total revenues.

TAXATION

Our income tax expense was RMB98.4 million in 2004, representing an effective tax rate of 14.8% (compared to 15.4% in 2003) and an increase of RMB5.0 million compared to RMB93.4 in 2003.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our audited consolidated financial statements have been prepared in accordance with IFRS. Our principal accounting policies are set out in Note 2 to our audited consolidated financial statements. IFRS requires that we adopt the accounting policies and estimation techniques that are most appropriate in the circumstances for the purpose of giving a true and fair view of our results and financial condition. We based our estimates and judgments on historical experience and on various other assumptions we deem reasonable under relevant circumstances. However, different policies, estimation techniques and assumptions in critical areas could lead to materially different results, in particular, with respect to fixed assets, receivables, provision and impairments discussed in the following paragraphs.

FIXED ASSETS

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

Estimation of the useful lives of assets that are long-lived as well as their salvage value requires significant management judgments. Depreciation is calculated using the straight-line method to write off the cost or revalued amount, after taking into account the estimated residual value of not more than 4% of cost, of each asset over its estimated useful life.

Our management reassessed the estimated useful lives and depreciation rates of fixed assets periodically. The assessment was based on the experience and maintenance program established by our management and engineering personnel, current operations and potential

changes in technology, personnel, estimated salvage value of the assets, and industry regulations. The estimated useful lives of our fixed assets are as follows:

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

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

RECEIVABLES

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

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

IMPAIRMENT

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

CONTINGENCY

An accrual for a loss contingency is established if information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred

or an asset has been impaired. Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise. The estimates of whether an accrual is necessary have been developed in consultation with outside counsel, based upon an analysis of potential results.

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

We had constructed and purchased new residential properties for our employees in the past to improve their living conditions. Under a housing benefit scheme implemented by the PRC government, we sold these residential properties to our employees at a price approved by the PRC government. For the purpose of preparing our consolidated financial statements for the year ended December 31, 2005, we estimated that our losses from the sales of completed staff quarters and the sales of premises under construction for which future services could be reasonably estimated was approximately RMB226.4 million. Such losses were amortized on a straight line basis over the estimated remaining average service period of our employees (15 years) from the time of such sales. During the year ended December 31, 2005, the amortization charged as deferred labour costs to our consolidated income statement was RMB15.1 million and the accumulated amortization amounted to RMB90.5 million.

As of December 31, 2005, unamortized deferred losses, which were recorded as deferred staff costs on our balance sheet, were RMB135.8 million.

ITEM 5B. LIQUIDITY AND CAPITAL RESOURCES

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

We generated approximately RMB1,380.1 million of net cash flow from operating activities in 2005. Substantially all of our revenues were received in cash, with accounts receivable arising primarily from long-distance passenger train services provided and pass-through freight transactions originating from other railway companies whose lines connect to our railroad. Similarly, some accounts payable arise from payments for railroad transportation services that we collect on behalf of other railroad companies and should pay to these companies. Accounts receivable and payable were generally settled either quarterly or monthly between us and the other railroad companies. Most of our revenues generated from other businesses were received in cash. We also have accounts payable associated with the purchase of materials and supplies in our other businesses.

In 2005, other than operating expenses, our cash outflow mainly related to the following:

- capital expenditures of approximately RMB1,588.4 million as described below, representing an increase of 412.1% from RMB310.2 million in 2004; and

- payment of dividends of approximately RMB476.9 million.

Our capital expenditures for 2005 consisted primarily of the following projects:

1. building the fourth railway line between Guangzhou and Shenzhen and the ancillary facilities;

2. purchasing additional locomotives;

3. upgrading and expanding Guangzhou East Station;

4. building the computerized ticketing system for our "As-Frequent-As-Buses" Train Project between Guangzhou and Shenzhen;

5. second phase comprehensive upgrading of Shenzhen Station; and

6. upgrading station rooms at Shilong Station.

Funds not required for immediate use are kept in short and medium-term investments and bank deposits. We had short term deposits of approximately RMB766.1 million and cash equivalents of RMB1,112.1 million as of December 31, 2005.

As of December 31, 2005, the Company had an overdue time deposit in the amount of approximately RMB31.4 million placed with Zengcheng Licheng Urban Credit Cooperative. The Company had initiated legal proceedings and obtained a judgment in its favour regarding the unpaid time deposit. However, as the judgment debtor was undergoing restructuring, the court ordered a stay of execution of the judgment obtained by the Company. The said overdue time deposit accounts for approximately 0.3% of the net assets and 1.27% of the total current assets of the Company and has no material impact on the capital usage and operations of the Company. The Company had presented the gross outstanding balance in other receivables and full provision had been made for impairment in prior years, based on a best estimate of the collectibility made by the directors according to the current circumstances and expectations.

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

As of December 31, 2005, we did not have any bank loans or guarantees outstanding or any trust deposits placed with any financial institutions in the PRC.

CASH FLOW

Our cash and cash equivalents in 2005 increased by approximately RMB67.5 million over 2004. The table below sets forth certain items in our consolidated cash flow statements for 2004 and 2005, and the percentage change in these items from 2004 to 2005.

	YEAR ENDED DECEMBER 31,		CHANGE
	2004	2005	FROM 2004
	(RMB THOUSANDS)		
Net cash generated from operating activities	1,236,579	1,380,147	11.6%
Net cash from/(used in) investing activities	(1,000,639)	(820,915)	(18.0%)
Net cash (used in) financing activities	(469,044)	(491,733)	4.8%
Net increase/(decrease) of cash and cash equivalents	(233,104)	67,499	129.0%

Our principal source of capital was revenues generated from operating activities. In 2005, the net cash inflow from our operations was RMB1,380.1 million, representing an increase of RMB143.5 million from RMB1,236.6 million in 2004. The increase in net cash inflow from our operating activities was mainly due to the increase in revenues from our passenger and freight transportation businesses.

Our working capital was mainly used for capital expenditures, operating expenses and payment of taxes and dividends and temporary cash investments. In 2005, our expenses for the purchase of fixed assets and payments for construction-in-progress were RMB1,588.4 million. In addition, we paid RMB90.7 million for income taxes and approximately RMB476.9 million for dividends.

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

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

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

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

ITEM 5D. TREND INFORMATION

The Pearl River Delta has been one of China's fastest growing economic regions. We believe that various factors, including the increasing economic cooperation within the Pearl River Delta region and its adjacent areas, the "Relaxed Individual Travel" program, the perfection of the Shenzhen Subway system and the opening of Disneyland in Hong Kong in 2005, will continue to increase passenger travel and freight transportation within our service

region. We expect the PRC government's current economic, import and export, foreign investment and infrastructure policies to generate additional demand for transportation services in our service areas. These policies and measures may have both positive and negative effects on our business development. They are expected to promote economic growth and create new demand for our transportation services. At the same time, however, with the improvement of highway and waterway transportation facilities, we anticipate additional competition. In addition, the economic measures PRC government implemented to manage the growth of the PRC economy may have an impact on our business and results of operations in 2006. Due to the SARS epidemic, we experienced a significant decrease in passenger traffic in the first half of 2003. A similar outbreak of SARS or other epidemic in the future is likely to have a material adverse effect on our results of operations and financial condition.

We believe that while the PRC government is in the progress of lessening restrictions on foreign investment following China's entry into the WTO, the opening up of domestic railway transportation will be gradual and we expect competition from foreign and domestic railway to be limited in the short term. However, China's entry into the WTO may increase other Chinese coastal cities' significance in trading. As a result, part of the freight currently transferred through ports in Hong Kong and Shenzhen may be diverted to other ports in the PRC, which will adversely affect our railway freight business. In addition, as the PRC government lifts control over foreign investments, including allowing foreign participation in railway construction, our railway monopoly position in our service region may be challenged by foreign strategic investment. We believe that we are prepared for the challenges as well as the opportunities that have arisen or will arise with China's accession to the WTO.

ITEM 5E. OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 5F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations, capital commitments and operating lease commitments as of December 31, 2005 for the periods indicated.

CONTRACTUAL OBLIGATIONS PAYMENTS DUE BY PERIOD

	PAYMENT DUE BY PERIOD (RMB IN THOUSANDS)		
CONTRACTUAL OBLIGATIONS	TOTAL	2006	2007 AND THEREAFTER
Long-Term Debt Obligations	--	--	--
Capital Expenditure Obligation	3,331,311	3,331,311	--
Capital (Finance) Lease Obligations	--	--	--
Operating Lease Obligations	75,375	75,375	
Other Long-Term Liabilities Reflected on the Company's Balance Sheet under IFRS	--	--	--
Total	3,406,686	3,406,686	

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Based on the current progresses of our new projects, we estimate that our capital expenditures for 2006 will amount to approximately RMB3.3 billion, which consists primarily of the following projects:

1. building the fourth railway line between Guangzhou and Shenzhen Line and the ancillary facilities;

2. purchasing additional locomotives;

3. building ancillary facilities for the computerized ticketing system for our "As-Frequent-As-Buses" Train Project between Guangzhou and Shenzhen;

4. building western station rooms at Shenzhen Station and the ancillary transportation facilities;

5. upgrading and expanding Guangzhou East Station; and

6. building a Technical Support and Maintenance Depot for Passenger Vehicles at Shenzhen North Station.

In addition, as mentioned in "ITEM 5. Operating and Financial Review and Prospects -- Overview -- Proposed Issue of A Shares, Very Substantial Acquisition and Continuing Related Party Transactions", we entered into the Acquisition Agreement with Yangcheng Railway Company for the acquisition of the railway transportation business between Guangzhou and Pingshi, currently operated by Yangcheng Railway Company and the assets and liabilities relating to such business. The consideration of the Acquisition will be approximately RMB10.3 billion.

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

ITEM 5G. ADDITIONAL INFORMATION

PRINCIPAL DIFFERENCES BETWEEN IFRS AND US GAAP

Our audited consolidated financial statements conform to IFRS, which differ in certain respects from those prepared under US GAAP. Differences between IFRS and US GAAP as it related to the Company, which have a significant effect on our consolidated net profit and consolidated net assets is set out below:

REVALUATION OF FIXED ASSETS

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

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Under IFRS, revaluation of fixed assets is permitted and depreciation is based on the revalued amount. Additional depreciation arising from the revaluation surplus was approximately RMB38.5 million for the year ended December 31, 2005, the same amount as in 2004.

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

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

	YEAR ENDED DECEMBER 31,			
	2003	2004	2005	

	RMB IN THOUSANDS	RMB IN THOUSANDS	RMB IN THOUSANDS	U T
CONSOLIDATED PROFIT ATTRIBUTABLE TO SHAREHOLDERS UNDER IFRS	511,762	567,484	613,368	
Reversal of cumulative and current year depreciation charges arising from the revaluation surplus on fixed assets	38,548	38,548	36,397	
Reversal of loss on disposed of track assets attributable to the revaluation surplus recognized	--	--	3,123	
Adjustment to deferred tax asset relating to reversal of temporary differences	(5,782)	(5,782)	(5,928)	
Adjustment to deferred acquisition and shares issuance costs	--	--	(15,601)	
CONSOLIDATED PROFIT ATTRIBUTABLE TO SHAREHOLDERS UNDER US GAAP	544,528	600,250	631,359	
EARNINGS PER SHARE UNDER US GAAP	RMB0.13	RMB0.14	RMB0.15	U
EARNINGS PER EQUIVALENT ADS UNDER US GAAP	RMB6.28	RMB6.92	RMB7.28	U

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

	YEAR ENDED DECEM	
	2004	2005
	RMB IN THOUSANDS	RMB IN THOUSANDS
CONSOLIDATED NET ASSETS UNDER IFRS	10,472,186	10,732,816
Minority interest	(51,612)	(48,757
EQUITY FOR SHAREHOLDERS UNDER IFRS	10,420,574	10,684,059
Impact of US GAAP adjustments:		
Reversal of the revaluation surplus on fixed assets upon group reorganization	(1,492,185)	(1,492,185

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Reversal of cumulative and current year depreciation charges arising from the revaluation surplus on fixed assets	407,980	444,377
Reversal of loss on disposed of track assets attributable to the revaluation surplus recognized	--	3,123
Deferred tax assets arising from original temporary differences on accounting and tax bases of fixed assets	223,828	223,828
Adjustment to deferred tax asset relating to reversal of temporary differences	(61,197)	(67,125
Adjustment to deferred acquisition and shares issuance costs	--	11,406

EQUITY FOR SHAREHOLDERS UNDER US GAAP	9,499,000	9,807,483
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In addition, reclassifications have been made for presentation of certain selected financial data in conformity with US GAAP requirements for the following items:

i. Profit from operations

	2003	2004	2005	2005
	RMB IN THOUSANDS	RMB IN THOUSANDS	RMB IN THOUSANDS	US$(1) IN THOUSANDS
PROFIT FROM OPERATIONS UNDER IFRS	610,054	678,366	759,305	93,741
Add: Aggregate applicable GAAP adjustments to covert to US GAAP (as stated above)	38,548	38,548	39,520	4,879
Less: Other income, net	(47,341)	(48,193)	(48,505)	(5,988)
PROFIT FROM OPERATIONS UNDER US GAAP	601,261	668,721	750,320	92,632

ii. Finance costs

	2003	2004	2005	2005
	RMB IN THOUSANDS	RMB IN THOUSANDS	RMB IN THOUSANDS	US$(1) IN THOUSANDS
FINANCE COSTS UNDER IFRS	2,468	1,136	22,738	2,807
Less: interest income included in other income, net under IFRS	(29,755)	(42,384)	(53,409)	(6,594)
FINANCE INCOME, NET UNDER US GAAP	(27,287)	(41,248)	(30,671)	(3,787)

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(1) Translated solely for the convenience of the reader into U.S. dollars at US$1.00 to RMB 8.1, which is rounded from 8.0702, the noon buying rate in the New York City on December 30, 2005.

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

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2005, the FASB issued FAS 154, Accounting Changes and Error Corrections, a Replacement of APB Opinion No. 20 and FASB Statement No. 3. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. It carries forward without change the previous guidance for reporting the correction of an error and a change in accounting estimate. FAS154 is effective for accounting changes and corrections of errors made in fiscal years beginning after 15 December 2005. We does not believe adoption of FAS 154 will have a material effect on its financial position, cash flows or results of operations.

In December 2005, the FASB deliberated issues relating to the limited-scope, first phase of its project to reconsider the accounting for postretirement benefits, including pensions. The FASB decided that the objectives and scope of this phase include, among other items, recognizing the overfunded or underfunded status of defined benefit postretirement plans as an asset or a liability in the statement of financial position. The FASB expects to issue an Exposure Draft for the initial phase in the first quarter of 2006. In the second multi-year phase of the project, the FASB expects to comprehensively consider a variety of issues related to the accounting for postretirement benefits, including expense recognition, obligation measurement, and whether postretirement benefit trusts should be consolidated by the plan sponsor. We will review the proposed standards when they are available to determine the impact they may have on our consolidated financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

ITEM 6A. DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

All of our directors were duly elected at meetings of our shareholders. Except Mr. Yang Yiping and Mr. Cao Jianguo, who were elected at our extraordinary general meeting held on June 27, 2006, all of the other current directors were elected at our general shareholders' meeting held on May 12, 2005. The business address of each of our directors is No. 1052 Heping Road, Shenzhen, People's Republic of China 518010.

The table below sets forth the information relating to our directors as of June 27, 2006:

NAME	AGE	POSITION	DATE FIRST ELECTED OR APPOINTED
Wu Junguang	57	Chairman of the Board of Directors	2003
Yang Yiping	56	Director and General Manager	2006
Cao Jianguo	47	Director	2006
Wu Houhui	57	Director	1999
Wen Weiming	44	Director	2003
Yang Jinzhong	54	Director	2005
Chang Loong Cheong	60	Independent Director	1996
Deborah Kong	46	Independent Director	1996
Wilton Chau Chi Wai	44	Independent Director	2004

Wu Junguang, age 57, joined the Company in June 2003 and is the Chairman of the Board. Mr. Wu graduated from South China Normal University. Since 1964, he has served in various managerial positions in various railway departments. He had served as stationmaster of the Guangzhou Station, general manager of Yangcheng Railway Company and in other positions. He is currently chairman of the board of directors and general manager of the Parent Company.

Yang Yiping, age 56, joined the Company in April 2006. Mr. Yang graduated with a research degree in economics and management. He joined the railway department of the PRC in December 1970. He has more than 30 years of experience in the operation and management of railway transportation companies. Mr. Yang has served in various senior managerial positions in Guangzhou Railway (Group) Company, the controlling shareholder of the Company, and its subsidiaries.

Cao Jianguo, age 47, joined the Company in June 2006 and is a director of the Company. Mr. Cao is a college graduate majoring in railway transportation. Mr. Cao has been working for many years in the operation and organization of railway transportation. He once held various managerial positions such as the deputy general manager of Changsha Railway Company and chief of the transportation department of the Parent Company. Mr. Cao is currently the deputy general manager of the Company.

Wu Houhui, age 57, joined the Company in March 1999 and is a Director of the Company. He graduated from Dalian Railway College and is a senior economist. Mr. Wu served in various managerial positions in the Parent Company from 1984 to 2003. He is currently chief economist of the Parent Company.

Wen Weiming, age 44, joined the Company in June 2003 and is a Director of the Company. Mr. Wen graduated from the Workers University of Guangzhou Railway Bureau and the Party School of the CPC and is a senior accountant. He has many years of experience in the financial field. He had served as the director of the finance sub-section of Yangcheng Railway Company and the director of the finance department of the Parent Company. Mr. Wen is currently deputy chief accountant of the Parent Company.

Yang Jinzhong, age 54, joined the Company in August 2000 and is a Director and the Chairman of the Trade Union of the Company. Mr. Yang graduated from the Harbin Institute of Electrical Technology and is an engineer. He has more than 30 years of experience in the railway industry. He had served in various managerial positions in Wuhan Railway Sub-administration. From August 2000 to April 2005, Mr. Yang served as the stationmaster of the Shenzhen North Railway Station, the manager of the transportation department of the Company and the stationmaster of the Shenzhen Railway Station.

Chang Loong Cheong, age 60, joined the Company in March 1996 and is an independent non-executive Director of the Company. Mr. Chang holds a management certificate from the Hong Kong Management Association. He is also a director of Shanghai Xinhua Iron & Steel Company Limited and Orient International (Shanghai) Limited. Mr. Chang was a manager of Cathay Hotel in Lagos, Nigeria, a member of the senior management of Island Navigation Corporation International Limited in West Africa and Orient Overseas Container Line Limited, and was general manager and a director of Noble Ascent Company Limited.

Deborah Kong, age 46, joined the Company in March 1996 and is an independent non-executive Director of the Company. Ms. Kong is currently an executive director of Centennial

Resources Company Limited. Ms. Kong obtained a Bachelor of Arts degree from Sydney University and a Master Diploma in Finance from Macquarie University in Australia. She is a member of the People's Political Consultative Standing Committee of Shandong Province in the PRC.

Wilton Chau Chi Wai, age 44, joined the Company in June 2004 and is an independent non-executive Director of the Company. Mr. Chau obtained a bachelor's degree in applied mathematics from the University of Hong Kong, a Bachelor of Laws degree from the University of Wolverhampton and a Master of Business Administration degree from the University of Wales. Mr. Chau is a fellow member of the Association of Chartered Certified Accountants, a member of Singapore Institute of Arbitrators and a council member of Hong Kong Biotechnology Association. Since 1987, Mr. Chau has served in senior positions in various financial institutes overseeing investment and development in railway, road and airport infrastructure projects. Mr. Chau is currently chairman of Qleap Venture Limited.

SUPERVISORS

The table below sets forth the information relating to our supervisors as of June 27, 2006:

NAME	AGE	POSITION	DATE FIRST ELECTED OR APPOINTED
Yao Muming	52	Supervisor	1999
Chen Ruixing	44	Supervisor	2006
Li Jin	48	Supervisor	2006
Li Zhiming	45	Supervisor	2005
Chen Yunzhong	53	Supervisor	2001
Wang Jianping	42	Supervisor	2005
Lu Ximei	50	Supervisor	2005

Yao Muming, age 52, joined the Company in April 1997 and is the Chairman of the Supervisory Committee of the Company. Mr. Yao graduated from South China Normal University and was deputy director of the Guangzhou and Zhuhai Animal and Plant Quarantine Bureau. From 1997 to 2003, he was a member of the senior management of the Company. Since July 2003, Mr. Yao has been a member of the senior management of the Parent Company.

Chen Ruixing, age 44, joined the Company in June 2006 and is a supervisor of the Company. Mr. Chen is a college graduate. Mr. Chen has extensive experience in the development and management of human resources for railway transportation. He once served as the vice section chief of Guangzhou passenger transportation section, and the chief of the cadre management department, the chief of the employment and salary branch department, the chief of the cadre management branch department of Yangcheng Railway Company. Mr. Chen is currently the chief of the human resources department of the Parent Company.

Li Jin, age 48, joined the Company in June 2006 and is a Supervisor of the Company. Ms. Li is an accountant. Ms. Li started her career in the railway business in September 1975 and has extensive experience in the financial accounting management and planning and investment management of railway transportation enterprises. She once held various managerial positions such as the general economist of Guangzhou passenger transportation section, and the chief of the financial branch department and the chief of the planning and statistics branch department of Yangcheng Railway Company. Ms. Li was appointed as the chief of the planning department of the Parent Company in January 2005.

Li Zhiming, age 44, joined the Company in May 2005 and is a Supervisor of the Company. Mr. Li graduated from the Party School of CPC, majoring in economics and management and is an accountant. Since 1981, Mr. Li had served in various managerial positions in Hengyang Railway Sub-administration and Changsha Railway Company. Since 2005, Mr. Li has been the chief of the audit department of the Parent Company.

Chen Yunzhong, age 53, joined the Company in May 2000 and is a Supervisor of the Company. Mr. Chen graduated from Guangzhou Railway Driver's School, Guangdong Jinan University and the Party School of the CPC. He was a member of the senior management of Hainan Railway Company. Mr. Chen is currently a member of the senior management of the Company.

Wang Jianping, age 42, joined the Company in July 2003 and is a Supervisor of the Company. Mr. Wang graduated from the Party School of CPC, majoring in Economics and Management. In 1983, Mr. Wang joined the railway departments and had served in various managerial positions in Guangzhou Railway Administration and the Parent Company since then. Before joining the Company, Mr. Wang was in the senior management of Guangzhou Railway Foreign Trade and Economic Development Company. Currently Mr. Wang is a member of the senior management of the Company.

Lu Ximei, age 50, joined the Company in May 1985 and is a Supervisor of the Company. Ms. Lu graduated from Changsha Railway Institute, majoring in railway transportation management. In 1972, Ms. Lu joined the railway departments and had served in various managerial positions in the Guangzhou Railway Sub-administration and Yangcheng Railway Company (April 1996 to January 1999). From May 1986 to April 1996, Ms. Lu participated in the passenger transportation operations of the Company. Since re-joining the Company in January 1999, she has been a director of the Canton-Kowloon passenger transportation department of the Company.

SENIOR MANAGEMENT

The table below sets forth information relating to our senior management as of June 27, 2006:

NAME	AGE	POSITION	DATE FIRST ELECTED OR APPOINTED
Yang Yiping	56	General Manager	2006
Wu Weimin	48	Deputy General Manager	2004
Han Dong	44	Deputy General Manager	2004
Luo Jiancheng	33	General Manager Assistant	2006
Yao Xiaocong	52	Chief Accountant	1997
Guo Xiangdong	40	Company Secretary	2004

Wu Weimin, age 48, joined the Company in January 2004 and is a Deputy General Manager of the Company. Mr. Wu graduated from the Guangdong Radio & TV University and is an engineer. Since 1984, he had served in various managerial positions in the material and equipment department, the planning and statistic department and the labour and wage department of Yangcheng Railway Company. He also served as an engineer of the material and equipment section and director of the planning and statistic sub-department of Yangcheng Railway Company. Mr. Wu was the director of the labour and wage sub-department and director of the social insurance centre of Yangcheng Railway Company before joining the Company.

Han Dong, age 44, joined the Company in May 2000 and is a Deputy General Manager of the Company. Mr. Han graduated from the Party School of the CPC, majoring in Economics and Management and is an engineer. Since 1985, Mr. Han had served in various managerial positions in the material and equipment department and the planning and statistic department, passenger and freight transportation marketing department of the railway department. Mr. Han was also a director of the passenger and freight management department and the equipment and property department of the Company.

Luo Jiancheng, age 33, joined the Company in January 2006 and is the General Manager Assistant. Mr. Luo graduated from Changsha Railway Institute, majoring in transportation management. From 1996 he had served in various managerial positions in the technical and transportation departments of Yangcheng Railway Company, the Parent Company and Sanmao Railway Company Ltd. Before joining the Company, Mr. Luo served as deputy director of the transportation department of the Parent Company.

Yao Xiaocong, age 52, is Chief Accountant of the Company. Mr. Yao graduated from the Party School of the CPC, majoring in economics and management. Since 1975, Mr. Yao has served in the financial accounting department in the railway departments and has more than 30 years of experience in financial accounting. Mr. Yao was a member of the senior management of the Company from June 1997 to January 2004. Mr. Yao was the Director of the accounting department of the Parent Company before joining the Company as the Chief Accountant in August 2004.

Guo Xiangdong, age 40, is Company Secretary and the Director of Secretariat of the Board. Mr. Guo graduated from Central China Normal University with a Bachelor of Laws degree and is an economist. He joined the Company in 1991 and had served as Deputy Section Chief, Deputy Director and Director of Secretariat of the Board. Mr. Guo has been Company Secretary of the Company since January 2004.

Mr. Wu Houhui is a director of Guangmeishan Railway Company, Sanmao Railway Company, Sanmao Railway Enterprise Development Company and Shichang Railway Company. Mr. Wen Weiming is a director of Guangmeishan Railway Company and Xinguangji Company and supervisor of Guangdong Railway Youth Travel Service Co., Ltd., Yuehai Railway Company and Guangzhou Tie Cheng Industrial Company. The lines operated by Guangmeishan Railway Company, Sanmao Railway Company and Shichang Railway Company are local railroads. Sanmao Railway Enterprise Development Company is a subsidiary of our Parent Company. Guangzhou Tiecheng Industrial Company is our joint venture partner. We are currently involved in certain litigation proceedings relating to this joint venture. See "Item 8A.7

Legal Proceedings" for additional information. We have business relationships relating to railroad transportation with Guangmeishan Railway Company and Sanmao Railway Company.

ITEM 6B. BOARD COMPENSATION

DIRECTORS AND SENIOR MANAGEMENT

Total remuneration of our directors, supervisors and senior officers during 2005 included wages and bonuses. Directors or supervisors who are also officers and employees of Guangshen Railway receive certain other benefits in kind from our Parent Company, GEDC or us, such as subsidized or free health care services, housing and transportation, as customarily provided by companies in the PRC to their employees.

The aggregate amount of cash remuneration paid by Guangshen Railway in 2005 to all individuals who are our directors, supervisors and senior officers was approximately RMB2.6 million, of which approximately RMB2.1 million was paid to directors and supervisors and approximately HK$0.4 million was paid to the three independent non-executive directors.

The aggregate amount of cash remuneration we paid during the year ended December 31, 2005 for pension and retirement benefits to all individuals who are currently our directors, supervisors and senior officers was approximately RMB0.2 million.

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

As of December 31, 2005, there was no record of interests or short positions (including the interests or short positions which were taken or deemed to have under the provisions of the Hong Kong Securities and Futures Ordinance) held by our directors or supervisors in our shares, debentures or other securities, or securities of any of our associated corporation (within the meaning of the Hong Kong Securities and Futures Ordinance) in the register required to be kept under section 352 of the Hong Kong Securities and Futures Ordinance. We had not received notification of any interests or short positions from any of our directors or supervisors required to be made to us and the Hong Kong Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the HKSE Listing Rules. We have not granted any of our directors or supervisors, or any of their respective spouses or children under the age of 18, any right to subscribe for any of our shares or debentures.

SERVICE CONTRACTS OF OUR DIRECTORS AND SUPERVISORS

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

CONTRACTS ENTERED INTO BY OUR DIRECTORS AND SUPERVISORS

None of our directors or supervisors had any direct or indirect material interests in any contract of significance subsisting during the year ended on December 31, 2005 or at December 31, 2005 to which we or any of our subsidiaries was a party.

REMUNERATION OF OUR DIRECTORS AND SUPERVISORS

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

ITEM 6C. BOARD PRACTICES

BOARD OF DIRECTORS

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

SUPERVISORY COMMITTEE

We have a supervisory committee consisting of five to seven supervisors. Supervisors serve a term of three years. Upon the expiration of their terms of office, they may be re-appointed to serve consecutive terms. The supervisory committee is presided over by a chairman who may be elected or removed with the consent of a majority or more of the members of the supervisory committee. The term of office of the chairman is three years, renewable upon re-election. Except for Mr. Chen Ruixing and Ms. Li Jin, who were elected at the extraordinary general meeting of shareholders on June 27, 2006, all of the other members of our supervisory committee were appointed at the general shareholders' meeting held on May 12, 2005 and consists of five representatives of the shareholders who may be elected or removed by our shareholders and two representatives of our employees who may be elected or removed by our employees. Members of our supervisory committee may also observe meetings of the board of directors. The current members of our supervisory committee are: Yao Muming, Chen Ruixing, Li Jin, Li Zhiming, Chen Yunzhong, Wang Jianping and Lu Ximei. The term of this supervisory committee will expire in 2008. Our supervisory committee held 3 meetings during the year ended December 31, 2005, at which resolutions concerning identified key issues were passed and notified to our board of directors. Our supervisors attended all meetings of our board of directors and other important meetings concerning our operation during the year ended December 31, 2005. Our supervisory committee had carefully reviewed the report of our directors, the financial report and proposed profit distribution presented by our board of directors at the annual general meeting of shareholders held on May 11, 2006.

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

- to examine the Company's financial situation;

- to supervise the performance of duties of the directors, general manager, deputy general managers and other senior management; to propose the dismissal of directors, general manager, deputy general managers and other senior management who have violated any law, administrative regulations, the Articles of Association or resolutions of the shareholders' general meetings;

- to demand a director, general manager, deputy general manager or any other senior management to rectify such breach when the acts of such persons are harmful to the Company's interest;

- to propose the convening of shareholders' general meetings, and to convene and chair the shareholders' general meetings if the board of directors fails to perform this duty as stipulated in the Articles of Association;

- to propose motions to shareholders' general meetings;

- to initiate legal proceedings against any director, general manager, deputy general manager and other senior management in accordance with Article 152 of the Company Law.

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

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

AUDIT COMMITTEE

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

- reviewing the reports prepared by the board of directors, the annual and interim reports on our results of operations, the annual financial report and public announcements of our results of operations;

- reviewing our financial reports and the reports prepared by our independent auditor and its supporting documents, including the review of our internal controls and disclosure controls and procedures, and to discuss with the auditor our annual audit plan and solutions to problems in the previous year;

- reviewing and approving the selection of and remuneration paid to our independent auditor; and

- reviewing audit matters specifically identified by the board of directors, and determining whether such projects are in compliance with industrial practices and market rules, and performing statutory duties and safeguarding our interests and the interests of our shareholders.

REMUNERATION COMMITTEE

We have a Remuneration Committee consisting of two executive Directors and three independent non-executive Directors, namely, Mr. Wu Junguang (Chairman), Mr. Yang Yiping, Mr. Wilton Chau Chi Wai, Mr. Chang Loong Cheong and Ms. Deborah Kong. The Remuneration Committee will meet at times as and when required to consider remuneration-related matters 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 the context of the Company's business strategy, reasonable remuneration to attract and retain high calibre executives. The Remuneration Committee obtains benchmark information from internal and external sources in relation to market pay conditions, packages offered in the industry and the overall performance of the Company when determining the Directors' and the Supervisors' emoluments.

ITEM 6D. EMPLOYEES

As of December 31, 2003, 2004 and 2005, we had approximately 9,029, 8,964 and 8,882 employees, respectively. The following chart sets forth the number of our employees by function as of December 31, 2005:

FUNCTION	EMPLOYEES
Passenger transportation personnel (1)........	1,454
Coordination personnel (2)....................	958
Freight transportation personnel (3)..........	419
Mechanical personnel (4)......................	454
Power and water supply personnel (5)..........	490
Vehicle personnel (6).........................	747
Maintenance personnel (7).....................	978
Power service personnel (8)...................	338
Transportation supporting personnel (9).......	447
Diversified businesses and other supporting personnel (10)............................	973
Technical and administrative personnel (11)...	1,382
Other personnel (12)..........................	242
Total...	8,882

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(1) Passenger transportation personnel means those people that provide station boarding and train services.

(2) Coordination personnel means those people responsible for train coordination.

(3) Freight transportation personnel means those people responsible for organization of freight transportation.

(4) Mechanical personnel means those people responsible for train operation and overhaul.

(5) Power and water supply personnel means those people responsible for contact network operation and overhaul as well as power and water consumption maintenance.

(6) Vehicle personnel means those people responsible for vehicle operation and overhaul.

(7) Maintenance personnel means those people responsible for station track and railroad switch maintenance.

(8) Power service personnel means those people responsible for signal equipment maintenance.

(9) Transportation supporting personnel means the supporting personnel of trains, machinery, works, power and vehicle organizations.

(10) Diversified businesses and other supporting personnel means all personnel involved in diversified businesses.

(11) Technical and administrative personnel means all managerial personnel other than the personnel of diversified businesses.

(12) Other personnel means all personnel who have been sick, studying or early-retired as a result of human resources restructuring.

All of our employees are located in Guangzhou, Shenzhen and the area adjacent to our Guangzhou-Shenzhen line. The number of our employees decreased by 82 in 2005, which we consider is a normal change occurred in the ordinary course of our business.

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

We have implemented a salary policy which links our employees' salaries with results of operations, labor efficiency and individual performance. Employees' salaries distribution is subject to macro-control and is based on their performance records and reviews. We paid approximately RMB518.6 million in salaries and benefits for our railroad businesses in 2005.

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

	AS A PERCENTAGE OF THE AGGREGATE SALARIES OF OUR EMPLOYEES IN 2005	
	EMPLOYEES RESIDING IN GUANGZHOU AREA OR ALONG THE	EMPLOYEES RESIDING

EMPLOYEE BENEFITS	GUANGZHOU-SHENZHEN LINE	IN SHENZHEN
Housing Fund........................	7%	13%
Retirement Insurance................	18%	18%
Supplemental Retirement Insurance...	5%	5%
Basic Medical Insurance.............	8%	6%
Supplemental Medical Insurance......	1%	0.5%
Child-bearing Medical Insurance.....	0.4%	0.5%
Other Welfare Contributions.........	6%	8%

Details of our statutory welfare fund and retirement benefits are set out in Notes 20 and 24 to the financial statement.

ITEM 6E. SHARE OWNERSHIP

As of June 16, 2006, none of our directors, supervisors or senior management own any interest in any shares or options to purchase our shares.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

ITEM 7A. MAJOR SHAREHOLDERS

We are a joint stock company organized under the laws of the PRC in March 1996. The Parent Company, a state-owned enterprise under the administration of the MOR owns 66.99% of our outstanding common shares. The Parent Company is the sole shareholder of all of our domestic shares in the form of state legal person shares and is entitled to exercise all rights as our controlling shareholder according to the relevant laws, rules and regulations. The Parent Company has substantial influence over our operations, not only in its capacity as controlling shareholder, but also because of its role as an administrative agent of the MOR that controls and coordinates railway operations in Guangdong Province, Hunan Province and Hainan Province. As an instrumentality of the MOR, our Parent Company performs direct regulatory oversight functions with respect to us, including determining and enforcing technical standards and implementing special transportation directives.

The following table sets forth information regarding ownership of our issued and outstanding capital stock as of December 31, 2005. Note that it includes all persons who are known by us to own, either as beneficial owners or holders of record, five percent or more of our capital stock.

TITLE OF CLASS	IDENTITY OF PERSON OR GROUP	AMOUNT OWNED (THOUSAND SHARES)	PERCENT OF CAPITAL
Common Shares (Domestic Shares)	The Parent Company	2,904,250	66.99%

The following table sets forth all persons who are known by us to own, as holders of record, five percent or more of our issued and outstanding H shares as of December 31, 2005.

TITLE OF CLASS	IDENTITY OF PERSON OR GROUP	AMOUNT OWNED (THOUSAND SHARES)	PERCENT OF TOTAL CAPITAL	PE CLA
Common Shares (H Shares)	Sumitomo Life Insurance Company (1)	113,964	2.63%	
Common Shares (H Shares)	Sumitomo Mitsui Asset Management Company, Limited	128,406	2.96%	
Common Shares (H Shares)	Mondrian Investment Partners Ltd	117,856	2.72%	

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(1) As at December 31, 2005, Sumitomo Life Insurance Company was deemed to be interested in 113,964 H Shares (representing 7.96% of the total H Shares of the Company or 2.63% of the total share capital of the Company) held by Sumitomo Mitsui Asset Management Company, Limited, a controlled corporation of Sumitomo Life Insurance Company.

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

As an owner of at least 30% of our issued and outstanding shares, our Parent Company is deemed a controlling shareholder (defined in Item 10 below), and therefore may not exercise our voting rights with respect to various matters in a manner prejudicial to the interests of our other shareholders. See "Item 10B. Memorandum and Articles of Association--Restrictions on Controlling Shareholders". In accordance with our Articles of Association, each share of our capital stock has one vote and the shares of the same class have the same rights. Other than the restrictions noted in the first sentence of this paragraph, the voting rights of our major holders of domestic shares are identical to those of any other holders of our domestic shares, and the voting rights of our major holders of H shares are identical to those of our other holders of H shares. Holders of domestic shares and H shares are deemed to be shareholders of different classes for some matters, which may affect their respective interests. Holders of H shares and domestic shares are entitled to the same voting rights.

ITEM 7B. RELATED PARTY TRANSACTIONS

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

The Company is controlled by the Parent Company, which is a subsidiary of MOR and is ultimately controlled by the PRC government. The PRC government also controls a significant portion of the productive assets and entities in the PRC. In accordance with the requirements of IAS 24, Related Party Disclosures, all other state controlled enterprises and their subsidiaries, other than the Parent Company, MOR and fellow subsidiaries and associates, are also defined as related parties of the Company ("Other State-owned Companies").

For the purpose of related party transactions disclosure, the Company has identified, to the extent practicable, those corporate customers and suppliers which are state-owned enterprises based on their immediate ownership structure. It should be noted, however, that substantially all of the Company's business activities are conducted in the PRC and the influence of the PRC government in the Chinese economy is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Company and are not reflected in the disclosures below. In addition, a portion of the Company's services provided are of a retail nature to end users, which include transactions with the employees of state-owned enterprises on corporate business, their key management personnel and close family members. These transactions are carried out on normal commercial terms that are consistently applied to all customers. Due to the vast volume and the pervasiveness of these transactions, the Company is unable to determine the aggregate amount of these transactions for disclosure. Therefore, the revenue from provision of services disclosed below does not include retail transactions with these related parties. However, the Company believes that meaningful information relating to related party disclosures has been adequately disclosed.

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The Company had the following material related parties:

Name of related parties	Relationship with the Compan
HOLDING COMPANY AND FELLOW SUBSIDIARIES	
Guangzhou Railway (Group) Company	Parent Company
Ministry of Railways ("MOR") of the PRC	The ultimate Parent Company
Guangzhou Railway Group Yang Cheng Railway Enterprise Development Company ("Yangcheng")	Subsidiary of the Parent Com
Guangmeishan Railway Company Limited ("Guangmeishan")	Subsidiary of the Parent Com
Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company (the Predecessor as defined in Note 1, "GEDC")	Subsidiary of the Parent Com
Guangzhou Railway Material Supply Company	Subsidiary of the Parent Com
Guangzhou Railway Engineer Construction Enterprise Development Company ("Engineer Construction Enterprise")	Subsidiary of the Parent Com
Guangzhou Guangtie Huake Technology Service Company ("Guangtie Huake")	Subsidiary of the Parent Com
MOR's Railroad Deposit-taking Centre	Subsidiary of the Parent Com
ASSOCIATES OF THE COMPANY	
Guangzhou Tiecheng Enterprise Company Limited	Associate of the Company
Zengcheng Lihua Stock Company Limited	Associate of the Company
Guangzhou Tielian Economy Development Company Limited	Associate of the Company
Guangzhou Huangpu Yuehua Freight Transportation Company Limited	Associate of the Company
OTHER STATE-OWNED COMPANIES	
Shenyang Train Class Company	
Puzhen Train Company	
Changchun Tracks and Equipment Company	
Sifang Passenger Trains Repair Stock Company	
Qixuyan Locomotive and Carriages Company	
Dalian Locomotives and Carriages Company	

Chengdu Materials Company
Liuzhou Wood Company
Hengyang Mechanism Company
Construction Technique Company of China
Nanfang Railway Repair Center
The Fourth Railway Reconnaissance Design House
Railway construction bureaus (including Third bureau, Seventh bureau, Eleventh bureau, Thirteenth bureau and others)
The Fourth Construction Bureau of China

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

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

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

In the second half of 2004, all of the hospitals and schools originally vested in GEDC were transferred to the local government pursuant to applicable PRC policies. As a result, GEDC no longer provides any education and hospital services to us under the contractual arrangements made upon our restructuring.

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

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

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

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

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

- prices for railroad transportation-related services are determined in accordance with the actual costs incurred in providing these services plus a profit margin of 8% of aggregate chargeable costs (fuel expenses, asset depreciation and water utility fees are not counted as chargeable costs for purposes of this calculation), which amount, Guangshen Railway believes, is consistent with that which would be charged in an arm's-length transaction;
- the rental amounts for the high-speed passenger coaches leased to Guangshen Railway by our Parent Company equal approximately 6% of our Parent Company's purchase price for the coaches, approximating our Parent Company's depreciation expenses for the coaches; Guangshen Railway also bears all costs of maintenance and overhaul of these coaches;
- the prices for social and related services provided by Yangcheng

Railway (i.e., educational) and GEDC (i.e., security, medical, educational and housing) are determined based on the actual cost of providing these services;

- the prices for social and related services provided by our Parent Company are determined on the following basis:

  - medical services : in accordance with the relevant local standards, subject to a 20% discount (except in respect of medicine and registration fees);

  - educational services : in accordance with the standards set by our Parent Company;

  - child care services : in accordance with the actual cost incurred for providing such services;

  - newspaper supply services : at an agreed cost of approximately RMB25 per year per copy of newspaper supplied, which cost may change based on cost changes to our Parent Company;

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

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

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

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

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

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

The master agreements entered into by the Company with the Parent Company, its subsidiaries and controlled companies in relation to the continuing connected transactions when the Company was listed on the HKSE in 1996 and the waiver from strict compliance with the Listing Rules requirements in relation to those connected transactions has expired in March 2006.

In connected with the Acquisition, the Company, in November 2004, entered into, inter alia, two conditional comprehensive services agreements in relation to certain continuing connected transactions. Such agreements will only become unconditional upon completion of the Acquisition. As it is anticipated that the Acquisition will not be completed before March 2006, the Company, on January 13, 2006, entered into: (a) the Provisional Parent Comprehensive Services Agreement with the Parent Company to govern certain continuing connected transactions between the Parent Company and its associates during the period between March 2006 and completion of the Acquisition; and (b) the GEDC Comprehensive Services Agreement with GEDC. These agreements have been entered into on a continuing and regular basis, in the ordinary and usual course of business of the Company and its subsidiaries, and on arm's length basis between the relevant parties.

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The GEDC Comprehensive Services Agreement and the Provisional Parent Comprehensive Services Agreement replace and supersede all the existing agreements or arrangements which have been entered into between the Company and the Parent Company, its subsidiaries and controlled entities, including Yangcheng Railway, to the extent that they covered the same services including the master agreements entered into by the Company when the Company was listed on the HKSE in 1996.

Each of the Provisional Parent Comprehensive Services Agreement and the GEDC Comprehensive Services Agreement became effective from March 3, 2006 after being approved by our shareholders' general meeting. The Provisional Parent Comprehensive Services Agreement will cease to have any effect upon completion of the Acquisition, at which time the Parent Comprehensive Services Agreement and the Yang Cheng Comprehensive Services Agreement entered into in November 2004 will become effective.

In addition, on December 15, 2005, we entered into the Management Agreements with GR Project Centre to monitor and supervise the proposed construction of the fourth railway lines between Guangzhou and Xintang and between Xintang and Pinghu, respectively. GR Project Centre is the railway project construction management unit of the Parent Company which is responsible for the co-ordination and management of railway construction projects. It has obtained the relevant qualification on railway construction management required by the MOR. Pursuant to the Management Agreements, GR Project Centre will, among others, be engaged in the organization and implementation of tenders for construction projects and tenders for project supervision and equipment, projects management, organization of or participation in the examination of completed projects, preparation of the final accounts, and carrying out procedures for the handover of assets in accordance with financial management requirements.

The chart below sets forth the material transactions the Company undertook with related parties in 2003, 2004 and 2005:

RECURRING TRANSACTIONS:

	2003	2004	200
	RMB'000	RMB'000	RMB'0

TRANSACTIONS WITH MOR AND ITS RELATED ENTITIES

I. INCOME			
Provision of train transportation and related services to other railway companies controlled by MOR (1)	(152,751)	(183,399)	(304,
Revenue received, processed and allocated by MOR ((1) and (6))			
- long distance passenger transportation	(395,070)	(486,825)	(575,
- cargo forwarding railway usage fees	(96,018)	(128,962)	(123,
Interest income received/receivable from MOR Deposit-taking Centre	(3,516)	(6,111)	(5,
II. CHARGES AND PAYMENTS			
Services charges allocated from MOR for train transportation and related services offered by other railway companies controlled by MOR ((1) and (6))	201,870	209,503	290,
Operating lease rentals paid/payable to MOR (1)	58,904	65,485	50,
Lease of locomotives and related services provided from Yangcheng (1)	40,882	48,179	8,
Social services (employee housing, health care, educational and public security services and other ancillary services) provided by the GEDC under a service agreement (2)	68,079	94,246	78,
Purchase of materials and supplies from Guangzhou Railway Material Supply Company (3)	50,687	65,998	73,
Interest expenses paid/payable to the Parent Company, net (4)	2,037	553	
	========	========	=====

NON-RECURRING TRANSACTIONS:

I. TRANSACTIONS WITH MOR AND ITS RELATED ENTITIES			
Disposal of an available-for-sale investment		--	(121,
Provision of repair and maintenance services by subsidiaries held by the Parent company (1)	--	58,908	73,
Provision of construction management services by the Parent Company in connection with the construction of fixed assets of the Company (5)	--	5,300	6,
Provision of supplies and materials by subsidiaries of Parent Company (3)	--	--	5,
	--		
II. TRANSACTIONS WITH OTHER STATE-OWNED COMPANIES			
Provision of construction project and related service (3)	194,148	106,638	1,148,
Provision of repair and maintenance services (3)	7,741	55,125	75,
Provision of supplies and materials (3)	6,465	5,604	5,
Purchase of fixed assets (3)	--	--	55,
	=======	=======	======

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

(2) The service charges are levied based on contracted prices determined based on cost plus a profit margin.

(3) The prices are based on mutual negotiation between the contract parties with reference to guidance provided by MOR.

(4) Interest was calculated and levied based on the average balances due from/to Parent Company on a quarterly basis at the prevailing lending interest rates of bank loans borrowed from banks in the PRC.

(5) Pursuant to the provisions of a construction management agreement and several supplementary agreements (collectively, the "Management Agreements") entered into with the Parent Company in 2004 and 2005, the Parent Company has undertaken to provide project management services to the Company for monitoring the construction services provided/to be provided by certain contractors and sub-contractors, which are mostly other State-owned Companies, employed for the construction of certain railway and railway stations of the Company, including the Fourth Rail-Line. The management service fees are determined based on the pricing scheme set by MOR.

(6) Due to the fact that the railway business is centrally managed by the MOR within the PRC, the Company works in cooperation with MOR and other railway companies owned and controlled by MOR in order to operate certain long distance passenger train transportation and cargo forwarding services within the PRC. The related revenues are collected by other railway companies and centrally collected and processed by MOR. Certain portion of the revenues so collected are allocated to the Company for the use of its rail-lines or for services rendered by the Company in connection with the provision of these services. On the other hand, the Company is also allocated by MOR certain charges for the use of the rail lines and services provided by other railway companies. Such allocations are determined by MOR based on its standard charges applied on a nationwide basis.

As of December 31, 2005, we had the following material balances with our related parties:

	2004	2005
	RMB'000	RMB'000
Cash and cash equivalents maintained in MOR Deposit-taking Centre	862,508	628,746
Short-term time deposits in MOR Deposit-taking Centre	168,000	168,000
Due from/(to) the Parent Company (6)	(24,617)	15,636
- Trade balance (8)	(24,617)	(43,518)
- Non-trade balance (7)	--	59,154
Due from Other State-owned Companies included in prepayments for fixed assets	--	55,803
Due from an associate		
- Non-trade balance, before provision for doubtful debts	12,821	12,423
Due from related parties - subsidiaries of Parent Company and MOR	56,064	64,670
- Trade balance (8)	36,531	25,257
- Non-trade balance (9)	19,533	39,413
Due to related parties	(194,699)	(1,174,101)
1) Due to subsidiaries of Parent Company and MOR	(83,492)	(276,520)
- Trade balance (8)	(83,492)	(276,520)
2) Due to Other State-owned Companies	(111,207)	(897,581)
- Trade balance (8)	(19,136)	(50,564)
- Non-trade balance (9)	(92,071)	(847,017)

(7) As of December 31, 2005, the non-trade receivable balance maintained with the Parent Company was due to the unsettled consideration receivable from the Parent Company for the disposal of the Company's equity investment made in China Railcom mentioned in Note 11 to our audited consolidated financial statements.

(8) The trade balances due from/to the Parent Company, subsidiaries of the Parent Company and MOR and other State-owned Companies 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 (4).

(9) The non-trade balances due to related parties mainly represented payables arising from unsettled fees for construction projects undertaken for the Company, purchase of fixed assets and provision of other services according to various service agreements entered into between the Company and the parties.

As of December 31, 2005, all the balances maintained with related parties are unsecured, non-interest bearing and are repayable on demand, except for those short-term deposits balances maintained with the MOR Deposit-taking Center disclosed above. These balances resulted from transactions between our related parties and us in the ordinary course of business. Almost all of the balances with our Parent Company are all non-trading in nature. The balances with our related parties, which are trading in nature, are all due within one year.

Our related party transactions have been carried out on usual terms according to the conditions and waiver granted by The Stock Exchange of Hong Kong Limited and the contracts entered into between our related parties and us. Except for the transactions as discussed in this

section, no other related party transactions were entered into in 2005. Our independent non-executive directors confirmed that, these transactions (which are "connected transactions" as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) entered into by us in 2005 were entered into in the ordinary and usual course of our business on normal commercial terms or on terms that were fair and reasonable so far as our shareholders were concerned, or in accordance with the terms of an agreement governing such transactions or, where there was no such agreement, on terms no less favorable than those offered to (or from) independent third parties.

ITEM 7C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

ITEM 8A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

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

See pages F-1 to F-51 following ITEM 19.

ITEM 8A.7 LEGAL PROCEEDINGS

As of December 31, 2005, the Company's investment interest in an associated company, Guangzhou Tiecheng Enterprise Company Limited ("Tiecheng"), amounted to approximately RMB140 million (at cost). In 1996, Tiecheng and a Hong Kong incorporated company jointly established Guangzhou Guantian Real Estate Company Limited ("Guangzhou Guantian"), a sino-foreign cooperative joint venture, to develop certain properties near a railway station operated by the Company.

On October 27, 2000, Guangzhou Guantian together with Guangzhou Guanhua Real Estate Company Limited ("Guangzhou Guanhua") and Guangzhou Guanyi Real Estate Company Limited ("Guangzhou Guanyi") agreed to act as joint guarantors of certain debts of Guangzhou Guancheng Real Estate Company Limited ("