GUANGSHEN RAILWAY CO LTD
Form 20-F
April 25, 2019
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**As filed with the Securities and Exchange Commission on April 25, 2019**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 20-F**

**(Mark One)**

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

**or**

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

**For the fiscal year ended December 31, 2018**

**or**

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

**For the transition period from __________ to __________**

**or**

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

**Date of event requiring this shell company report**

**Commission file number: 1-14362**

**(Exact name of Registrant as specified in its charter)**

**GUANGSHEN RAILWAY COMPANY LIMITED**

**(Translation of Registrant s name into English)**

**People s Republic of China**

**(Jurisdiction of incorporation or organization)**

**No. 1052 Heping Road, Luohu District, Shenzhen, People s Republic of China 518010**

**(Address of Principal Executive Offices)**

**Mr. Guo Xiangdong**

**Telephone: (86-755) 2558-8150**

**Email: ir@gsrc.com**

**Facsimile: (86-755) 2559-1480**

**No. 1052 Heping Road, Luohu District, Shenzhen, People s Republic of China 518010**

**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

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

| Title of Each Class | 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, 2018:

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

(including 104,160,750 H shares in the form of American Depositary Shares)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated File Emerging Growth Company

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

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

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

| | | |
|---|---|---|
| U.S. GAAP | International Financial Reporting Standards as issued by the International Accounting Standards Board | Other |

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

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

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## Forward-Looking Statements

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

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

## Certain Terms and Conventions

Solely for the convenience of the reader, this annual report contains translations of amounts from RMB into U.S. dollars and vice versa at the rate of RMB6.8755 to US$1.00, the certified exchange rate for December 31, 2018 as published by the Federal Reserve Board of the United States, except where we specify that a different rate has been used. You should not construe these translations as representations that the RMB amounts actually represent U.S. dollar amounts or could be converted into U.S. dollars at that rate or at all.

We prepare and publish our consolidated financial statements in RMB.

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

Acquisition means our acquisition of the railway transportation business between Guangzhou and Pingshi and the related assets and liabilities from Yangcheng Railway Company according to the asset purchase agreement dated November 15, 2004 between Yangcheng Railway Company and us.

China or PRC means the People s Republic of China.

CEPA means the Closer Economic Partnership Arrangement between Hong Kong and Chinese Mainland entered into on October 27, 2004, as amended.

CRH means China Railway High-Speed.

CSRC means China Securities Regulatory Commission.

China Railway Corporation or CRC means the entity set up on March 14, 2013 by the First Session of the 12th National People s Congress of the PRC to perform the commercial functions formerly performed by the Ministry of Railways.

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Company , we , our , our Company , the Group , or us means Guangshen Railway Company Limited, a joint stock limited company incorporated in Shenzhen, China with limited liability, and its subsidiaries on a consolidated basis.

CRC Group means CRC together with the subsidiaries transferred from MOR.

EMU means electric multiple unit, a multiple unit train consisting of self-propelled carriages.

GRCL means Guangmeishan Railway Company Limited.

GRGC means Guangzhou Railway (Group) Company, our largest shareholder.

GSRC means Guangdong Sanmao Railway Company Limited.

HKSE means the Stock Exchange of Hong Kong Limited.

HKSE Listing Rules means the Rules Governing the Listing of Securities on the HKSE.

Hong Kong means The Hong Kong Special Administrative Region of the PRC.

Hong Kong dollars or HKD means Hong Kong dollars, the lawful currency of Hong Kong.

KCR means Kowloon Canton Railway.

Macau means the Macau Special Administrative Region of the PRC.

MOF means the Ministry of Finance of the PRC.

MOR means the Ministry of Railways, which was dissolved by the First Session of the 12th National People s Congress of the PRC.

MOT means Ministry of Transport.

MTR means MTR Corporation Limited.

NDRC means the National Development and Reform Commission of the PRC.

PBOC means the People s Bank of China.

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

Reform means the transfer of (i) administrative functions pertaining to railway development planning and policies from the MOR to the MOT, (ii) other administrative functions previously performed by the MOR to the National Railway Administration, supervised by the MOT, and (iii) commercial functions previously performed by the MOR to the CRC, in accordance with the approved plan on State Council Institutional Reform and Transformation of Government Functions and Approval On Setting Up China Railway Company by the State Council.

RMB means Renminbi Yuan, the lawful currency of the PRC.

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

SEC means the U.S. Securities and Exchange Commission.

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

US$ , USD or U.S. dollars means U.S. dollars, the lawful currency of the United States.

Yangcheng Railway Company means Guangdong Yangcheng Railway Enterprise Co., Ltd., a wholly owned subsidiary of GRGC, or its predecessor, Guangzhou Railway Group Yangcheng Railway Enterprise Development Company.

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## PART I

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

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. Selected Financial Data

The following selected consolidated data relating to our Consolidated Balance Sheets as of December 31, 2017 and 2018, and our Consolidated Comprehensive Income Statements, Consolidated Statements of Changes in Equity and Consolidated Cash Flow Statements for each of the years ended December 31, 2016, 2017 and 2018 are derived from and are qualified by reference to our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS . The Selected Consolidated Balance Sheets Data as of December 31, 2014, 2015 and 2016 and our Consolidated Income Statements, Consolidated Statements of Changes in Equity and Consolidated Cash Flow Statements for each of the years ended December 31, 2014 and 2015 are derived from our audited consolidated financial statements that are not included in this annual report.

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

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | |
| | RMB | RMB | RMB | RMB | RMB | US$ |
| | (in thousands except for per share/ADS data) | | | | | |
| **Income Statement Data:** | | | | | | |
| Revenue from Railroad and Related Business | | | | | | |
| - Passenger transportation | 6,988,288 | 6,997,562 | 7,358,851 | 7,757,077 | 8,108,384 | 1,179,316 |
| - Freight transportation | 1,763,679 | 1,761,449 | 1,718,260 | 1,893,594 | 1,849,360 | 268,978 |
| - Railway network usage and other transportation related | 5,031,241 | 5,874,727 | 7,093,198 | 7,644,230 | 8,865,635 | 1,289,453 |

| | | | | | | |
|---|---|---|---|---|---|---|
| services | | | | | | |
| Subtotal | 13,783,208 | 14,633,738 | 16,170,309 | 17,294,901 | 18,823,379 | 2,737,747 |
| Revenue from other businesses | 1,017,573 | 1,091,571 | 1,110,195 | 1,036,521 | 1,004,639 | 146,119 |
| Total revenue | 14,800,781 | 15,725,309 | 17,280,504 | 18,331,422 | 19,828,018 | 2,883,866 |
| Railroad and Related business operating expenses | (12,729,828) | (13,150,405) | (14,561,793) | (15,850,056) | (17,610,188) | (2,561,296) |
| Other businesses operating expenses | (1,022,133) | (1,006,330) | (1,076,206) | (1,082,531) | (1,048,025) | (152,429) |

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| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | |
| | RMB | RMB | RMB | RMB | RMB | US$ |
| | (in thousands except for per share/ADS data) | | | | | |
| Other gains/(losses)-net | 7,138 | (114,627) | (108,270) | (48,477) | (108,613) | (15,797) |
| Operating profit | 1,055,958 | 1,453,947 | 1,534,235 | 1,350,358 | 1,062,253 | 154,498 |
| Profit attributable to equity holders of the Company | 662,021 | 1,070,822 | 1,158,253 | 1,015,361 | 784,059 | (114,037) |
| Operating profit per share | 0.15 | 0.21 | 0.22 | 0.19 | 0.15 | 0.02 |
| Earnings per share for profit attributable to equity holders of the Company | | | | | | |
| - Basic and diluted | 0.09 | 0.15 | 0.16 | 0.14 | 0.11 | 0.02 |
| Dividends declared per share | 0.05 | 0.08 | 0.08 | 0.08 | 0.06 | 0.01 |
| Earnings per ADS for profit attributable to equity holders of the Company | 4.67 | 7.56 | 8.18 | 7.17 | 5.53 | 0.80 |
| **Balance Sheet Data (at year end):** | | | | | | |
| Working capital | 1,011,115 | 1,338,889 | 830,610 | 892,911 | (65,568) | (9,536) |
| Fixed assets-net | 24,179,210 | 24,073,759 | 24,278,032 | 23,617,138 | 24,184,248 | 3,517,453 |
| Leasehold land payments | 668,005 | 948,526 | 1,624,859 | 1,980,278 | 1,924,496 | 279,906 |
| Total assets | 30,536,663 | 31,943,272 | 32,870,258 | 33,994,238 | 35,402,237 | 5,149,043 |
| Equity attributable to equity holders of the Company | 26,745,843 | 27,462,488 | 28,054,058 | 28,684,677 | 28,852,299 | 4,196,394 |
| Share capital, issued and outstanding (domestic shares 5,652,237; H shares 1,431,300), RMB1,00 per value domestic shares | 5,652,237 | 5,652,237 | 5,652,237 | 5,652,237 | 5,652,237 | 822,084 |
| H shares | 1,431,300 | 1,431,300 | 1,431,300 | 1,431,300 | 1,431,300 | 208,174 |
| **Cash Flow Statement Data:** | | | | | | |
| Net cash generated from operating activities | 1,945,576 | 2,259,691 | 1,641,238 | 2,634,839 | 3,261,402 | 474,351 |
| Net cash used in investing activities | 3,373,821 | (1,349,235) | (1,935,702) | (2,264,647) | (2,113,132) | (307,343) |
| Net cash used in financing activities | (4,067,018) | (354,710) | (566,683) | (569,333) | (570,032) | (82,908) |
| Payment for acquisition of fixed assets and construction-in-progress and prepayment for fixed assets; net of related payables | (999,633) | (1,292,273) | (1,973,897) | (2,273,426) | (2,683,053) | (390,234) |
| Dividends paid to the Company s shareholders | (566,685) | (354,177) | (566,683) | (569,333) | (566,683) | (82,421) |

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | |
| | RMB | RMB | RMB | RMB | RMB | US$ |
| | (in thousands except for per share/ADS data) | | | | | |
| **Other Data:** | | | | | | |
| Railroad transportation operating income | 1,053,380 | 1,483,333 | 1,608,516 | 1,444,845 | 1,510,218 | 219,652 |
| Other businesses operating income/loss | (4,560) | 85,241 | 33,989 | (46,010) | (4,537) | (660) |

(1) Translation of amounts from RMB into US$, for the convenience of the reader has been made at RMB6.8755 to US$1.00, the certified exchange rate for December 31, 2018 as published by the Federal Reserve Board of the United States. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at that rate on December 31, 2018 or on any other date.

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*Dividends*

At a meeting of the directors held on March 27, 2019, the directors proposed a final dividend of RMB0.06 per ordinary share for the year ended December 31, 2018, which is to be voted up on at our annual general meeting of shareholders scheduled on June 13, 2019.

This proposed dividend has not been reflected as a dividend payable in the financial statements as of December 31, 2018, but instead as equity attributable to equity holders of our Company.

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

**B. Capitalization and Indebtedness**
Not applicable.

**C. Reasons for the Offer and Use of Proceeds**
Not applicable.

**D. Risk Factors**
**Risks Relating to Our Business**

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

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

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

Since the beginning of 2018, there has been increasing rhetoric, in some cases coupled with legislative or executive action, from several U.S. and foreign leaders regarding tariffs against foreign imports of certain materials. More specifically, there have been three rounds of U.S. tariffs on Chinese goods taking effect in July, August and September 2018 (some of which prompted retaliatory Chinese tariffs on U.S. goods). Trade talks between the U.S. and China are ongoing and their outcome is uncertain. The institution of trade tariffs both globally and between the U.S. and China specifically carries the risk of negatively impacting China s overall economic condition, which could have negative repercussions on the Company. Furthermore, imposition of tariffs could cause a decrease in freight traffic, which would directly impact our business.

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

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

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

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

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

The volume of freight and the number of passengers we transport are affected by the overall levels of business, industrial, manufacturing and tourism activities within the Pearl River Delta region, especially Guangdong and Hong Kong, which is our main service region, and elsewhere in China, which is in turn affected by many factors beyond our control, such as applicable policies and regulations of the PRC government, perceptions regarding the attractiveness of investing or operating a business within our service region, consumer confidence levels and interest rate levels. Any significant decrease in the overall levels of passenger travel or freight transportation, whether due to an economic slowdown or other reasons, such as freezing weather, floods, earthquake and other natural disasters or a recurrence of the SARS epidemic or outbreaks of avian flu, H1N1 or H7N9 influenza, dengue fever, Ebola virus or other similar health epidemics, may have a material adverse effect on our business, results of operations and financial condition. A slowdown in economic growth in China could also adversely impact our customers, prospective customers, suppliers, and partners in China, which could have a material adverse effect on our results of the operations and financial condition. There is no guarantee that economic downturns, whether actual or perceived, any further decrease in economic growth rates or an otherwise uncertain economic outlook in China will not occur or persist in the future, that they will not be protracted or that governments will respond adequately to control and reverse such conditions, any of which could materially and adversely affect our business, financial condition and results of operations.

Furthermore, following China s accession to the World Trade Organization, the policy advantages that Shenzhen currently enjoys due to its status as a special economic zone may be phased out, and its economic growth rate may not be sustained in the long run. Other coastal regions, ports and free trade zones in China may develop at a faster pace and become more competitive than Shenzhen. As a result, part of the freight currently imported or exported through ports in Hong Kong, Shenzhen or Guangzhou may be shipped through other ports in China, which may adversely affect our freight transportation business.

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

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

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

Any significant change in the relevant regulations of the PRC government as a result of these reforms or for any other reason is likely to have a material impact on our business and results of operations. In addition, our ability to respond to changes in our market conditions may be limited by those regulations set by the MOT, National Railway Administration and other Chinese governmental authorities.

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

The investment in the construction of railway-related fixed assets during the 12th Five-Year Plan (from 2011 to 2015) achieved a record of RMB3.58 trillion and the proposed investment amount in the construction of railway-related fixed assets during the 13th Five-Year Plan (from 2016 to 2020) is approximately RMB3.5 trillion. However, we cannot assure you that there will not be any significant changes with regard to the actual amount the MOR will invest in the railway industry in the future. As the railway industry is heavily reliant on capital expenditures on infrastructure construction, the reduced investment in infrastructure construction may have material adverse impact on our future development and results of operations. In addition, to ensure the safe operation of high-speed railway transportation, the MOR also set speed limits on certain high-speed railways. Corresponding with the reduced speed limits, the ticket fare of the affected high-speed railways may be reduced. Although the speed limits do not affect the railways we operate, we cannot assure you that the future policies of the PRC government authorities in relation to railway speed limits will not affect us.

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

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

***Significant increases in electricity prices could harm our business.***

Significant increases in the cost of electricity could increase the costs of our passenger and freight transportation. The electricity we use, including electricity used for our lines, is supplied through various entities under the jurisdiction of the Guangdong provincial power bureau on normal commercial terms. Any increase in the cost of electricity in Guangdong could increase our railway operating expenses. In 2016, 2017, and 2018, we paid approximately RMB599.2 million, RMB520.2 million and RMB 473.2 million, respectively, in electricity charges. Significant increases in electricity prices could have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

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

***We have very limited insurance coverage.***

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

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

Our railroad operations and real estate ownership are subject to extensive national and local environmental laws and regulations concerning, among other things, gaseous emissions, wastewater discharge, disposal of solid waste and noise control. In particular, our Guangzhou locomotive depot and Guangzhou train depot have been identified as key pollutant discharge units by the PRC government s environmental protection departments in 2018. In addition, environmental liabilities may arise from claims asserted by adjacent landowners or other third parties. As of December 31, 2018, we had not incurred any such liabilities and therefore, had not made any provision for such liabilities. We may also be required to incur significant expenses to remediate any violation of applicable environmental laws and regulations. In 2018, our environmental protection-related expenses were approximately RMB3.94 million, mainly related to the maintenance of our environmental protection equipment.

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

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

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

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

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

As described in ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS B Related Party Transactions and Note 40 to our audited consolidated financial statements included elsewhere in the annual report, due to the fact that the railway business is centrally managed by CRC within the PRC, we work in cooperation with the CRC and other railway companies controlled by the CRC for the operation of certain long-distance passenger train and freight transportation businesses within the PRC. The revenue generated from these long-distance passenger and freight transportation businesses is collected and settled by the CRC according to its settlement systems. The charges for the use of the rail lines and services provided by other railway companies are also settled by the CRC based on its systems. Although we can, to a certain extent, calculate the revenue and charges settled by the CRC based on our own data and information, the amount of settlement is ultimately settled by the CRC.

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

The United States Securities and Exchange Commission, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company in the United States to include a management report on such company s internal control over financial reporting in its annual report, which contains management s assessment of the effectiveness of the company s internal control over financial reporting. In addition, an independent registered public accounting firm must report on the effectiveness of the company s internal control over financial reporting. Although we have concluded that we maintained effective internal control over financial reporting for each of the years ended December 31, 2016, 2017 and 2018, we may not be able to conclude in future years that we have effective internal control over financial reporting, in accordance with the Sarbanes-Oxley Act of 2002. See ITEM 15. CONTROLS and PROCEDURES.

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

**Risks Relating to Conducting Business in China**

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

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

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

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

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

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

The value of the RMB fluctuates and is subject to changes in market conditions as well as China s political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day s inter-bank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed floating band against a basket of certain foreign currencies. On April 14, 2012, the PRC government further allowed the floating band of RMB s trading prices against the U.S. dollar to widen from 0.5% to 1% on each business day effective from April 2012, and further widened the floating band to 2% in March 2014. In recent years, the PBOC has been developing a mechanism for formulating the midpoint rate of the RMB. On August 11, 2015, it announced the implementation of the RMB exchange rate formation mechanism reform to allow the market to play a bigger role in exchange rate determination. As a result, the PBOC guided the RMB weaker by lowering the midpoint rate to reflect the prevailing market rate, while emphasizing the use of the closing rate on the preceding day as a reference when deciding the midpoint rate. In February 2016, the PBOC disclosed a mechanism for formulating the midpoint rate of the RMB based on the closing rate on the preceding date + currency basket-based adjustment rule. This has resulted in greater volatility in the RMB exchange rate. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. We have certain U.S. dollar-denominated and HK dollar-denominated assets and the appreciation of RMB could result in a decrease of the value of these assets. For further information on our foreign exchange risks and certain exchange rates, see ITEM 3. KEY INFORMATION A. Selected Financial Data and ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Currency Risks. We cannot assure you that any future movements in the exchange rate of RMB against the United States dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

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

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

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

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

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

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

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

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

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

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

**Overview**

We were established as a joint stock limited company under the Company Law of the PRC on March 6, 1996. Our legal name is , and its English translation is Guangshen Railway Company Limited. Our registered office is located at No. 1052 Heping Road, Luohu District, Shenzhen, Guangdong Province, The People s Republic of China, 518010. Our telephone number is (86-755) 2558-8150 and our fax number is (86-755) 2559-1480.

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

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

Passenger transportation is our principal business. As of December 31, 2018, there were 252 pairs of passenger trains in our operation area according to the then train schedule, including 109 pairs of intercity high-speed passenger trains between Guangzhou and Shenzhen (including 99 pairs of inter-city trains between Guangzhou (East) to Shenzhen, and 10 pairs of Guangzhou East to the Chaozhou-Shantou cross-network EMU trains), 13 pairs of Hong Kong Through Trains (including 11 pairs of Canton-Kowloon Through Trains, 1 pair of Zhaoqing-Kowloon Through Trains and

1 pair of Beijing/Shanghai-Kowloon Through Trains) and 130 pairs of long-distance trains (including 11 pairs of Guangzhou-Foshan-Zhaoqing intercity trains, 4 pairs of Guangzhou East to Guilin North, Nanning East, Guiyang North and Xiamen cross-network EMU trains). We have adopted an As-Frequent-As-Buses operating model by dispatching one pair of our domestically manufactured electric multiple units trains, known as China Railway High-Speed trains or CRHs, every 10 minutes on average during peak hours between Guangzhou and Shenzhen. The through-trains passing Hong Kong jointly operated by us and the MTR Corporation Limited ( MTR ) are one of the most important means of transportation between Guangzhou and Hong Kong. We have organized and operated a number of long-distance trains running from and to Guangzhou and Shenzhen that linked with most of the provinces, autonomous regions and municipals across the nation.

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

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

**Background, Restructuring and Acquisition**

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

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

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

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

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

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

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

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

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

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

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

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

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On October 26, 2016, we entered into agreements to acquire certain railway operating assets of GRGC, Guangmeishan Railway Company Limited ( GRCL ) and Guangdong Sanmao Railway Company Limited ( GSRC ). GRCL and GSRC are subsidiaries of GRGC which operates passenger and freight transport service business. The purchase prices to GRGC, GRCL and GSRC were approximately RMB28.7 million, RMB453.7 million and RMB249.7 million, respectively. On October 26, 2016, we obtained control of the above-mentioned railway operation assets and began to consolidate the results of operations of GRGC, GRCL and GSRC in our consolidated comprehensive income statement from that date.

**Service Territory**

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

As of April 25, 2019, we had 48 stations situated on our rail lines, providing passenger and freight transportation services for cities, towns and ports situated along the Shenzhen-Guangzhou-Pingshi corridors and Hong Kong Through Train passenger service, which we serve in conjunction with the MTR. We also provide railway operation services to other Chinese domestic railway companies.

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

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

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

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

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

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*Capital Expenditure*

Our capital expenditure includes payments for acquisition of fixed assets and construction-in-progress, and prepayments for fixed assets, net of related payables. In 2016, 2017 and 2018, our total capital expenditure were RMB1,973.9 million, RMB2,273.4 million and RMB2,683.1 million respectively.

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

**B. Business Overview**
**Business Operations**

Our principal businesses are railroad passenger transportation, freight transportation, railway network usage and other transportation-related services, which collectively generated 94.9% of our total revenue in 2018. The remaining 5.1% of our total revenue in 2018 mainly consisted of on-board catering services, leasing, sales of materials and supplies, sale of goods and other businesses related to railway transportation.

Due to deepening structural reform in supply, the steady improvement of the domestic economy, the addition of cross-network EMU trains between Guangzhou East and Chaozhou-Shantou from 8 pairs to 10 pairs each day since September 2017, the addition of 1 pair of cross-network EMU trains from Guangzhou East station to Xiamen since July 1, 2018, better utilization of high-capacity CRH6A EMU trains, the adoption of a new operation model in 2018, and our ongoing strengthened marketing efforts in freight transportation, our passenger business continued to increase in 2018. As we seek to continue to increase our revenue, we will capitalize on the extensive railway construction, proactively adapt to the policy direction of railway system reform in the Pan Pearl River Delta, and enhance our business portfolio centered on railway passenger and freight transportation and complemented by the railway-related businesses. We will also focus on improving quality of and innovation around management, service and technology.

In 2018, we achieved a passenger delivery volume of 89.3 million persons, representing a year-to-year increase of 4.95%; a tonnage of outbound freight of 15.7 million tons, representing a year-to-year decrease of 0.98%; generating operating revenues of RMB19,828 million, representing a year-to-year increase of 8.16%; consolidated profits attributable to equity holders of RMB784 million, representing a year-to-year decrease of 22.78%; and basic earnings per share of RMB0.11.

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

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| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| **Passenger Transportation** | | | | | |
| Total passenger transportation revenue (RMB millions) | 6,988.29 | 6,997.56 | 7,358.85 | 7,757.08 | 8,108.38 |
| Total passengers (millions) | 90.11 | 85.37 | 84.90 | 85.13 | 89.35 |
| Total passenger-kilometers (millions) | 27,953.94 | 25,989.28 | 25,479.15 | 25,528.73 | 25,497.28 |
| Revenue per passenger-kilometer (RMB)(1) | 0.25 | 0.27 | 0.29 | 0.34 | 0.32 |
| **Freight Transportation** | | | | | |
| Total freight transportation revenue (RMB millions) | 1,763.68 | 1,761.45 | 1,718.26 | 1,893.59 | 1,849.36 |
| - Revenues from freight charges (RMB millions)(2) | 1510.70 | 1587.42 | 1577.00 | 1,741.97 | 1609.69 |
| - Other revenues from freight transportation (RMB millions) | 252.98 | 174.03 | 141.26 | 151.62 | 239.67 |
| Outbound freight volume tons (millions) | 18.32 | 16.88 | 15.36 | 15.86 | 15.71 |
| Revenue per ton (RMB)(3) | 82.46 | 93.51 | 102.67 | 109.83 | 102.46 |
| Full-distance volume of outbound freight traffic, or ton-kilometers (millions) (4) | 11,435.00 | 10,874.30 | 10,302.05 | 10,700.48 | 10,705.36 |
| Revenue per ton-kilometer (RMB)(5) | 0.15 | 0.16 | 0.17 | 0.18 | 0.17 |
| **Railway Network Usage and other transportation related services** (RMB millions) | 5,031.24 | 5,874.73 | 7,093.20 | 7,644.23 | 8,865.64 |

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

(2) Freight transportation on the PRC national railway system is subject to government-mandated pricing. Since January 1, 2018, the pricing model of freight transportation on the national railway system was changed from section fares system to freight consignment system. As a result, our freight revenue is mainly the income for the whole-route freight transportation fees for the outbound freight delivered by us. We also have to pay service fees to other railway companies providing the freight transportation service along the route.

(3) Revenue per ton is calculated by dividing revenues from freight charges by total tonnage of outbound freight. Management believes that revenue per ton is a useful measure for assessing the revenue levels of our freight transportation business.

(4) Full-distance volume of outbound freight traffic represents the full-distance volume of our outbound freight traffic, whereas the volume of freight traffic as presented in previous years refers to the volume of freight traffic (including the outbound, arrival and pass-through freight) transported on the distance managed by us under the section fares system.

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

***Passenger Transportation***

Passenger transportation is our largest business stream, accounting for 40.9% of our total revenue and 43.08% of our railroad and related business revenue in 2018. Our passenger train services can be categorized as follows:

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

As of December 31, 2018, there were a total of 252 pairs of passenger trains in our operation area according to the then train schedule (each pair of trains meaning trains making one round-trip between two points), representing a increase of 1 pair from 251 pairs as of December 31, 2017, of which:

- 109 pairs of intercity high-speed passenger trains between Guangzhou and Shenzhen (including 99 pairs of inter-city trains between Guangzhou East to Shenzhen, and 10 pairs of Guangzhou East to the Chaozhou-Shantou cross-network EMU trains);
- 13 pairs of Hong Kong Through Trains (including 11 pairs of Canton-Kowloon Through Trains, 1 pair of Zhaoqing-Kowloon Through Trains and 1 pair of Beijing/Shanghai-Kowloon Through Trains); and
- 130 pairs of long-distance trains, representing a decrease of 1 pair from 131 pairs as of December 31, 2017. Long-distance trains included long-distance passenger trains operated by us between the following departure and terminal stations:

| Departure/ Terminal Station | Terminal/Departure Station |
|---|---|
| Guangzhou | Beijing West, Shanghai South, Wuchang, Yantai, Taizhou, Wenzhou, Zhangjiajie, Xinyi, Jingdezhen North, Luoyang, Dazhou |
| Guangzhou East | Beijing West, Xiamen, Shantou, Meizhou, Dabu |
| Shenzhen | Beijing West, Shanghai South, Urumqi, Qingdao, Meizhou, Zhangjiajie, Suzhou |
| Shenzhen East | Chengdu, Chengdu East |
| Dongguan East | Chengdu, Hefei, Lanzhou West |
| Shantou | Chongqing North, Shenzhen West, Wuchang |
| Huizhou | Wuchang, Dazhou |
| Sanya | Beijing West |

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

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

| | Total passenger transportation revenue | | | Total passengers | | | Revenue per passenger | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| | (RMB millions) | | | (millions) | | | (RMB) | | |
| Guangzhou-Shenzhen Trains | 2,413.0 | 2,566.4 | 2,877.4 | 36.2 | 36.9 | 40.3 | 66.7 | 69.6 | 71.4 |
| Hong Kong Through Trains | 528.3 | 523.4 | 497.6 | 3.5 | 3.6 | 3.6 | 150.9 | 145.4 | 138.2 |
| Long-distance Trains(1) | 4,019.3 | 4,206.2 | 4,158.1 | 45.2 | 44.6 | 45.5 | N/A(1) | N/A | N/A |
| Other Revenues from Passenger Transportation | 398.4 | 461.1 | 575.4 | | | | | | |
| Combined passenger operations | 7,358.9 | 7,757.1 | 8,108.4 | 84.9 | 85.1 | 89.3 | N/A(1) | N/A | N/A |

(1) Our revenue of long-distance passenger trains includes both the revenue from the passengers arriving at our railway stations and the revenue from the passengers departing from our railway stations. However, the number of our long-distance passengers only includes the passengers departing from our railway stations. As a result, we believe that the per passenger revenue cannot fairly reflect the financial status of our passenger transportation business.

*Guangzhou-Shenzhen Trains*. In 2018, our passenger transportation services on the trains between Guangzhou and Shenzhen accounted for 35.5% of our railroad passenger transportation revenue. As of December 31, 2018, we operated 109 pairs of intercity CRH passenger trains between Guangzhou and Shenzhen. Such CRH passenger trains are capable of running at a top speed of 200 kilometers per hour. The number of passengers traveling on our Guangzhou-Shenzhen trains increased by 9.1% from 36.9 million in 2017 to 40.3 million in 2018. The revenue from our Guangzhou-Shenzhen trains increased by 4.5% from RMB2,566.4 million in 2017 to RMB2,877.4 million in 2018. The increase in revenue of Guangzhou-Shenzhen trains was primarily due to (i) the increased number of EMU trains between Guangzhou East to Chaozhou-Shantou from 8 pairs to 10 pairs each day since September 21, 2017; (ii) the utilization of the high-capacity CRH6A EMU trains for some of the Guangzhou East to Shenzhen inter-city trains since the Spring Festival of 2018, coupled with the adoption of 3+4 (Tuesday, Wednesday and Thursday for the regular schedule and the other four days of the week for the busy schedule) operation model for inter-city trains between Guangzhou East to Shenzhen since April 10, 2018, resulting in the increase in the capacity and the number of pairs of the trains; and (iii) the addition of 1 pair of cross-network EMU trains from Guangzhou East station to Xiamen since July 1, 2018.

*Hong Kong Through Trains*. In 2018, our passenger transportation services on Hong Kong through trains accounted for 6.1% of our railroad passenger transportation revenue. We currently operate, jointly with the MTR, 13 pairs of Hong Kong Through Trains (including 11 pairs of Canton-Kowloon Through Trains, 1 pair of Zhaoqing-Kowloon Through Trains and 1 pair of Beijing West/Shanghai-Kowloon Through Trains). The MTR is responsible for the operation of 3 pairs of Canton-Kowloon Through Trains while we are responsible for the remaining 10 pairs of Hong Kong Through Trains (except for the Shanghai-Kowloon Through Train which is operated by Shanghai Railway Bureau). In addition, we also provide railway network usage services to MTR for the Hong Kong Through Trains it operates in the section between Shenzhen Station and Guangzhou East Station.

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

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

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In 2018, the volume of passengers who traveled on the Hong Kong Through Trains increased by 0.76% from 3.57 million in 2017 to 3.60 million in 2018. The revenue from Hong Kong Through Trains decreased by 4.93% from RMB523.4 million in 2017 to RMB497.6 million in 2018. This increase in passenger volume was mainly due to the recovery of Hong Kong tourism, including more visitors from the mainland. This decrease in revenue was mainly due to the falling exchange rate from RMB to Hong Kong dollars.

*Domestic Long-distance Trains*. In 2018, our passenger transportation services on domestic long-distance trains accounted for % of our railroad passenger transportation revenue. As of December 31, 2018, we operated on a daily basis 130 pairs of long-distance trains on our rail lines to cities in Guangdong, Hunan, Hubei, Jiangxi, Anhui, Jiangsu, Liaoning, Shaanxi, Gansu, Fujian, Heilongjiang, Jilin, Zhejiang, Hebei, Henan, Sichuan, Yunnan, Hainan, Shanxi and Shandong provinces, Chongqing, Shanghai, Beijing and Tianjin municipalities and Guangxi Autonomous Region, Xinjiang Autonomous Region and Tibet Autonomous Region. In 2018, the number of passengers traveled on our long-distance trains was 45.5 million, representing an increase of 1.88% from 44.6 million in 2017. Our revenue from long-distance trains in 2018 was RMB4,158.1 million, compared to RMB4,206.2 million in 2017. The increase of the passenger volume of long-distance trains was primarily due to the increase of the passenger volume of EMUs. The decrease in revenue of long-distance trains was primarily due to the diversion effect from the optimizing of high-speed railway network.

*Major Stations*. The following are the major train stations owned and operated by us as of December 31, 2018:

| **Station** | **Location** | **Connected Railways** | **Passenger Transportation Business** | **Total Passengers for 2018 (millions)** |
|---|---|---|---|---|
| Guangzhou Station | Yuexiu District, Guangzhou | Beijing-Guangzhou Railway, Guangzhou-Maoming Railway, Guangzhou-Shenzhen Railway, Guangzhou-Foshan-Zhaoqing Intercity Railway, Line 2 and Line 5 of Guangzhou s subway system | Long-distance trains, inter-city trains between Guangzhou and Shenzhen | 25.21 |
| Guangzhou East Station | Tianhe District, Guangzhou | Beijing-Guangzhou Railway, Guangzhou-Shenzhen Railway, Xiamen-Shenzhen Railway, Line 1 and Line 3 of Guangzhou s subway system | Long-distance trains, inter-city trains between Guangzhou and Shenzhen, Hong Kong Through Trains | 22.74 |
| Shenzhen Station | Luohu District, Shenzhen | Guangzhou-Shenzhen Railway, Hong Kong railway, Luobao Line of Shenzhen s subway system | Long-distance trains, inter-city trains between Guangzhou and Shenzhen | 23.54 |
| Shaoguan East Station | Shaoguan | Beijing-Guangzhou Railway | Long-distance trains | 2.96 |

***Freight Transportation***

Revenue from our freight transportation accounted for 9.3% of our total revenue and 9.8% of our railroad and related business revenue in 2018. Our principal market for freight is domestic medium and long-haul freight, originating and/or terminating outside the Shenzhen-Guangzhou-Pingshi corridor. We are well equipped with various freight facilities and can efficiently transport full load cargo, single load cargo and containers. We have established business cooperation with ports, logistics bases and specialized building materials markets in our service region.

The majority of the freight we transport is high-volume, medium to long-distance freight received from and/or transferred to other rail lines. A portion of the freight we transport both originates and terminates in the Shenzhen-Guangzhou-Pingshi corridor. Since January 1, 2018, the charging model of the national railway freight transportation in China has changed to a freight consignment system from the previous section fares system. As a result, we reclassified our freight business into two categories as follows:

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

- Other revenues from freight transportation, which mainly represents the revenue from freight services for transportation between the stations and receiving locations designated by our customers.

Revenue from freight transportation business in 2018 was RMB1,849.4 million, a decrease of 2.34% from RMB1,893.6 million in 2017. Since January 1, 2018, the pricing model of freight transportation on the national railway system was changed from a segment charging system to a carrier system. As a result, we have collected the whole-route freight transportation fees for the outbound freight delivered by us, and have paid the service fees to other railway companies providing the freight transportation service. The decrease in freight transportation revenues was mainly due to the decrease in total amount of freight transportation revenues under the combined effect of the reform in rail carrier system. Our outbound freight volume was 15.7 million tons in 2018, a decrease of 0.98% from 15.9 million tons in 2017. The decrease in outbound freight volume was mainly due to the combined effect of industrial restructuring within the Pearl River Delta and the more fierce competition from highways and ocean transportation, as a result of which the freight delivery volume of steel and petroleum decreased.

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

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

***Railway Network Usage and other Transportation-Related Services Business***

Revenue from our railway network usage and other transportation-related services accounted for 44.7% of our total revenue and 47.1% of our railroad and related business revenue in 2018. In 2018, our revenue from railway network usage and other transportation-related services was RMB8,865.6 million, representing an increase of 16.0% from RMB7,644.2 million in 2017. As required by the CRC, a consignment settlement system was implemented for railway freight transportation with effect from January 1, 2018. Accordingly, the full freight transportation fee will be received by the carriers, which in turn pay service fees to other railway corporations for the provision of transportation services. Such change in the freight transportation settlement system resulted in an increase in revenues from railway network usage of freight transportation. The increase in revenue from other transportation services was primarily due to the increase in workload for railway operations and passenger services provided by us during the reporting period driving the growth of related revenue.

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

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| | (RMB millions) | | |
| Railway Network Usage | 3,178.5 | 3,306.5 | 3,855.3 |
| Passenger transportation network usage services | 2,940.5 | 3,044.1 | 2,880.1 |
| Freight transportation network usage services | 238.0 | 262.4 | 975.2 |
| Other Transportation-Related Services(1) | 3,914.7 | 4,337.7 | 5,010.4 |
| Railway operation services | 2,614.3 | 2,850.0 | 3,293.2 |
| Other Services(2) | 1,300.4 | 1,487.7 | 1,717.2 |
| Total | **7,093.2** | **7,644.2** | **8,865.7** |

(1) Other transportation-related services include provision of railway operation services and other services.
(2) Other services include lease of locomotive and passenger trains, fueling of locomotive and passenger trains, parcel transportation and other transportation.

***Other Businesses***

Revenue from our other businesses accounted for 5.1% of our total revenue in 2018. Our other businesses mainly consist of on-board catering services, leasing, sales of materials and supplies, sale of goods and other businesses related to railway transportation.

Revenue from our other businesses was RMB1,005 million in 2018, compared to RMB1,037 million in 2017.

**Seasonality of Our Railway Transportation Business**

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

**Sales**

***Passenger Transportation***

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

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

Our stations along the Guangzhou-Shenzhen line have adopted a real-name ticketing system, allowing passengers to use their identification cards to purchase tickets and board trains. Customers who provide their second generation China identification cards or Hong Kong and Macau identification cards may purchase tickets aboard trains without customer service representatives. Customers can also purchase tickets for our Guangzhou-Shenzhen inter-city trains online. As of December 31, 2018, we had a total of 243 automatic ticket selling machines, 187 automatic ticket inspection machines and 239 internet ticket printing machines along the Guangzhou-Shenzhen line.

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

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

***Freight Transportation***

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

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

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

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

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

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

**Competition**

We provide passenger and freight transportation services on the Shenzhen-Guangzhou-Pingshi Railway. We expect competition to increase in the future as the marketization reform of the railway industry (including the reformation of the investment and financing system, the transportation management system and the pricing system) gradually deepens. We compete for long-distance traveling passengers against other railway service providers operating within our service territory. The Guangzhou-Shenzhen section of the Guangzhou-Shenzhen-Hong Kong passenger line commenced operation in December 2011, the Beijing-Guangzhou passenger line commenced operation in December 2012, the Xiamen-Shenzhen passenger line commenced operation in December 2013 the Nanning-Guangzhou and Guiyang-Guangzhou passenger lines commenced operation in December 2014, and the Shenzhen-West Kowloon section of the Guangzhou-Shenzhen-Hong Kong passenger line commenced operation in September 2018. In addition, in areas where our railroad connects with lines of other railway companies, such as in the Guangzhou area where our railroad connects with the Guangzhou-Maoming Line, and in the Dongguan area where our railroad connects with the Guangzhou-Meizhou-Shantou Line, we face competition from the railway companies operating in these areas. We believe that the entry barrier to the industry will decrease, investors in the industry will become more diversified and the State s high-speed railway network in the Medium and Long-term Railway Network Planning (2016-2030) with Eight East-West Lines and Eight South-North Lines of high-speed railway network and numerous inter-city railways will complete construction and commence operation, leading to increased competition within the industry itself.

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

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

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### Equipment, Tracks and Maintenance

As of December 31, 2018, we operated 185 diesel locomotives, 67 electric locomotives, 32 EMUs and 2,295 passenger coaches for our operations.

The freight cars we use are all leased from the CRC, to which we pay uniform rental fees based on the national standards set by the CRC. The amounts of such usage fees we paid to the CRC in 2016, 2017 and 2018 were approximately RMB261.9 million, RMB254.2 million and RMB240.3 million, respectively.

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

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

We believe that our existing tracks and equipment meet the needs of our current business and operations. Most of the rails and ties on our main lines have been installed within the last decade and are maintained and upgraded on an ongoing basis as required. In 2016, 2017 and 2018, we replaced approximately 41 kilometers, 76 kilometers and 80 kilometers of railway lines, respectively.

### Major Suppliers and Service Providers

GRGC, our single largest shareholder, and its subsidiaries are major suppliers of our materials and supplies. In 2018, we purchased approximately RMB555.05 million in materials and supplies from GRGC and its subsidiaries, which represented 4.03% of our total purchase of materials and supplies. See ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS B. Related Party Transactions.

The companies or bureaus owned or controlled by the CRC, including the GRGC, our single largest shareholder, are our major customers. In 2018, we collected approximately RMB3,966.99 million from GRGC and its subsidiaries, which represented 20.0% of our operating revenues.

The electricity we use, including electricity used for our lines, is supplied through various entities under the jurisdiction of the Guangdong provincial power bureau on normal commercial terms. In 2016, 2017 and 2018, we paid approximately RMB599.2 million, RMB520.2 million and RMB473.2 million, respectively, for electricity charges.

### Regulatory Overview

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

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

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### *National Railway System*

Railroads in the PRC fall largely into three categories: state-owned railroads, jointly owned railroads and local railroads. The PRC central government holds the equity interests in state-owned railroads. According to a 2018 statistical bulletin published by the CRC, the state-owned railway system comprises over 90% of all rail lines in 2018, including all trunk lines. Prior to the dissolution of the MOR, the state-owned railway system was operated as a nationwide integrated system under the supervision and management of the MOR. Jointly owned railroads are jointly invested and operated by the central government of the PRC, the local government and other foreign or domestic investors. Local railroads consist of regional lines usually within provincial or municipal boundaries that have been constructed under the sponsorship of local governments or local enterprises to serve local needs. Although the MOR did not operate other railroads, it provided guidance, coordination, supervision and assistance with respect to industry matters to such other railroads. The MOR s responsibilities include the centralized coordination of train routing and scheduling nationwide, planning of freight shipments and freight car allocations, overseeing equipment standardization and maintenance requirements, and financial oversight and revenue clearing throughout the national railway system. After the dissolution of the MOR, the administrative functions formerly performed by the MOR were assigned to the MOT and the National Railway Administration, while the commercial functions formerly performed by the MOR were assigned to the CRC.

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

### *Transport Operations*

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

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

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

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### *Pricing*

Prior to the dissolution of the MOR, the MOR was generally responsible for preparing a proposal for the baseline pricing standards for the nationwide railway system with respect to freight and passenger transportation. Such proposed pricing standards would take effect after being approved by and/or filed with relevant PRC government authorities. Currently, the CRC is responsible for the preparing and filing of such proposal for the baseline pricing standards.

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

### *Environmental Protection*

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

We believe that we are in material compliance with all applicable PRC national and local environmental protection laws and regulations. We have not been fined or cited for any activities that have caused environmental damages. We have 14 wastewater treatment facilities used for purposes of treating wastewater generated from cleaning of special cargo freight cars, locomotives, coaches and from residential use of our employees. Since the implementation of the Environmental Protection Tax Law in January 1, 2018, we pay regular taxes to local authorities for the discharge of waste substances. In 2018, our environmental protection-related expenses were approximately RMB3.9 million, mainly related to the maintenance of our environmental protection equipment.

### *Insurance*

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

KEY INFORMATION D. Risk Factors Risks Relating to Our Business We have very limited insurance coverage.

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

## C. Organizational Structure

The following table lists our significant subsidiaries as of December 31, 2018:

| Name | Country of Incorporation | Percentage of Interest held by our Company |
|---|---|---|
| Dongguan Changsheng Enterprise Company Limited | PRC | 51% |
| Shenzhen Fu Yuan Enterprise Development Company Limited | PRC | 100% |
| Shenzhen Pinghu Qun Yi Railway Store Loading and Unloading Company Limited | PRC | 100% |
| Shenzhen Guangshen Railway Economic and Trade Enterprise Company Limited | PRC | 100% |
| Shenzhen Railway Station Passenger Services Company Limited | PRC | 100% |
| Guangshen Railway Station Dongqun Trade and Commerce Service Company Limited | PRC | 100% |
| Guangzhou Railway Huangpu Service Company Limited | PRC | 100% |
| Zengcheng Lihua Stock Company Limited (1) | PRC | 44.72% |

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

In 2018, three subsidiaries of the Group were liquidated. No amount was charged to consolidated comprehensive income statement as the Group recovered the liquidated asset in the same amount as the Group s share of these companies net assets.

As of December 31, 2018, the non-wholly owned subsidiaries individually and in the aggregate were not significant to us. Therefore, the non-wholly owned subsidiaries are not listed hereunder and the financial information of such subsidiaries are not disclosed.

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## D. Property, Plant and Equipment

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

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

As of December 31, 2018, the ownership certificates of land with an aggregate carrying value of approximately RMB58,898,000 that was acquired through assets/business acquisition and group restructuring have not yet been changed from the names of the respective original owners to our name, and we had not obtained the ownership certificates of the land use rights, or Land Certificates, of certain parcels of land with an aggregate carrying value of approximately RMB1,227.8 million. After consultation with our PRC legal counsel, we believe there is no legal hurdle for us to apply for us to obtain the Land Certificates and we do not believe the current lack of Land Certificates will lead to any material adverse impact on the operation of our business. Accordingly, we do not consider any provision for impairment necessary. For additional information regarding the Land Certificates that we have not obtained, see Note 8 to our audited consolidated financial statements included elsewhere in this annual report.

As of December 31, 2018, we had not obtained the ownership certificates of certain buildings, or Building Ownership Certificates, which had an aggregate carrying value of approximately RMB1,676.7 million. After consultation with our PRC legal counsel, we believe that there is no legal hurdle for us to apply for and obtain the Building Ownership Certificates and it should not lead to any material adverse impact on the operation of our business. Accordingly, we do not consider any provision for impairment necessary. For additional information regarding the types of buildings for which we have not obtained Building Ownership Certificates, see Note 6 to our audited consolidated financial statements included elsewhere in this annual report.

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

As of April 25, 2019, we had 48 stations situated on our rail line, of which the Guangzhou East Station is the largest, occupying an area of 41,925 square meters.

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

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## ITEM 4A. UNRESOLVED STAFF COMMENTS

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

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

### Overview

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

For the year ended December 31, 2018, our total revenue was RMB19,828.0 million, profit attributable to equity holders was RMB784.1 million, and earnings per share were RMB0.11. Railroad and related business revenue accounted for 93.6%, 94.3% and 94.9% of our total revenue in 2016, 2017 and 2018, respectively.

Passenger transportation is our principal business. In 2018, the total number of our passengers was 89.3 million, representing an increase of 5.0% from 85.1 million in 2017. Our passenger transportation revenue was RMB8,108.4 million in 2018, representing an increase of 4.5% from RMB7,757.1 million in 2017.

We transported a total of 52.1 million tons of freight in 2018, representing an decrease of 0.2% from 52.2 million tons in 2017. Our freight transportation revenue in 2018 was RMB1,849.4 million, representing a decrease of 2.3% from RMB1,893.6 million in 2017.

Revenue from our railway network usages and other transportation related services business was RMB8,886.6 million in 2018, representing an increase of 16.0% from RMB7,644.2 million in 2017.

Revenue from our other businesses was RMB1,005 million in 2018, compared to RMB1,037 million in 2017.

### A. Operating Results

***Principal Factors Affecting Our Results of Operations***

*Economic Development in the Pearl River Delta Region and the PRC.* We are mainly engaged in railway transportation services on the trains between Guangzhou-Shenzhen intercity trains, certain long-distance trains and Hong Kong Through Trains. Our results of operations relating to passenger transportation are influenced by the economic development in the Pearl River Delta region. The level of economic activities in the Pearl River Delta region, including the economic cooperation among Hong Kong, Macau and China, affects the number of business people and migrant workers traveling in this region. In addition, the average income levels of residents in this region and elsewhere in the PRC affects the number of the tourists departing from or arriving at our train stations. The majority of the freight we transport is large-volume, medium-to long-distance freight received from and/or transferred to other railway lines. Economic development in the PRC, including but not limited to the Pearl River Delta region, determines the market demand for such goods as coal, iron ore, steel and therefore indirectly affects the market demand of freight train transportation service. Furthermore, the global financial crisis and economic downturn in 2008 had adversely affected economies and businesses around the world, including in China. This change in the macro-economic conditions had an adverse impact on our business and operations by causing a decrease in the number of passengers and the volume of freight that we transported in 2009. Although many places around the world have recovered since the second half of 2009, the global economic downturn, Europe s sovereign debt crisis, the stability of the Eurozone and the decreased growth rate of China s economy may have a material and adverse effect on our businesses, results of operations and financial condition.

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In 2018, we believe China s economy successfully withstood external challenges, ongoing intensified economic and trading conflicts, as well as the changes in the steady-state economy. China s national GDP reached RMB90 trillion for the first time, representing a year-on-year growth of 6.6%. Meanwhile, the national railway showed significant improvements in both its passenger and freight transportation, with its passenger delivery volume reaching 3.37 billion people, representing a year-on-year increase of 9.4%, and its outbound freight tonnage reaching 4.022 billion tons, representing year-on-year growth of 9.1%.

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

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

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

### Year ended December 31, 2018 compared with year ended December 31, 2017

#### *Revenue*

In 2018, our total revenue was RMB19,828.0 million, representing an increase of 8.2% from RMB18,331.4 million in 2017. Our revenue from railroad passenger transportation service, freight transportation service and railway network usage and other transportation related services was RMB8,108 million, RMB1,849 million and RMB8,866 million, respectively, accounting for approximately 40.9%, 9.3% and 44.7% of our total revenue in 2018, respectively.

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*Passenger transportation*. Revenue from passenger transportation accounted for 40.9% of our total revenue and 43.1% of our railroad and related business revenue in 2018. As of December 31, 2018, we operated 252 pairs of passenger trains each day, including 109 pairs of intercity high-speed passenger trains between Guangzhou and Shenzhen (including 99 pairs of inter-city trains between Guangzhou East to Shenzhen, 10 pairs of Guangzhou East to the Chaozhou-Shantou cross-network EMU trains), 13 pairs of Hong Kong Through Trains (including 11 pairs of Canton-Kowloon Through Trains, 1 pair of Zhaoqing-Kowloon Through Trains and 1 pair of Beijing/Shanghai-Kowloon Through Trains) and 130 pairs of long-distance trains (including 11 pairs of Guangzhou-Foshan-Zhaoqing intercity trains, 4 pairs of Guangzhou to Guilin North, Nanning East and Guiyang North cross-network EMU trains).

In 2018, the total number of our passengers was 89.4 million, representing an increase of 4.95% from 85.1 million in 2017. Our passenger transportation revenue was RMB8,108.4 million in 2018, representing an increase of 4.53% from RMB7,757.1 million in 2017. Despite the commencement of the Hong Kong section of Guangzhou-Shenzhen-Hong Kong Express Rail Link and the diversion effect from the optimizing of the high-speed railway network, coupled with the decreased revenue from the through trains and long-distance trains operated by us, both the passenger transportation volume and revenue of the Guangzhou-Shenzhen inter-city trains recorded considerable increases as driven by the increase in its capacity. The increase in passenger transportation revenues was mainly due to the combined effect of the above as the overall revenues from passenger transportation still achieved growth during the reporting period. The increase in passenger transportation revenues and passenger delivery volume was mainly due to the following: (a) we increased the number of cross-network EMU trains between Guangzhou East to Chaozhou-Shantou from 8 pairs to 10 pairs each day since September 21, 2017; (b) we also utilized the high-capacity CRH6A EMU trains for some of the Guangzhou East to Shenzhen inter-city trains since the Spring Festival of 2018, coupled with the adoption of 3+4 (Tuesday, Wednesday and Thursday for the regular schedule and the other four days of the week for the busy schedule) operation model for inter-city trains between Guangzhou East to Shenzhen since April 10, 2018, resulting in the increase in the capacity and the number of pairs of the trains; and (c) the addition of 1 pair of cross-network EMU trains from Guangzhou East station to Xiamen since July 1, 2018.

The following table sets forth our revenue from passenger transportation and the number of passengers for 2017 and 2018:

| | **Year ended December 31,** | | **Change from 2017 to 2018** |
|---|---|---|---|
| | **2017** | **2018** | |
| Revenue from passenger transportation (RMB thousands) | 7,757,077 | 8,108,380 | 4.53% |
| Total passengers (thousands) | 85,133 | 89,348 | 0.3% |
| Total passenger-kilometers (millions) | 25,529 | 25,497 | 0.2% |
| Revenue per passenger-kilometer (RMB) | 0.30 | 0.30 | 3.4% |

*Freight transportation.* Revenue from our freight transportation accounted for 9.3% of our total revenue and 9.8% of our railroad and related business revenue in 2018.

Revenue from our freight transportation business in 2018 was RMB1,849.4 million, a decrease of 2.3% from RMB1,893.6 million in 2017. The total tonnage of outbound freight we transported in 2018 was 15.7 million tons, representing an decrease of 1.3% from 15.9 million tons in 2017. The decrease in freight transportation revenues was mainly due to the decrease in total amount of freight transportation revenues under the combined effect of the reform in the rail carrier system. The decrease in outbound freight volume was mainly due to (i) the combined effect of industrial restructuring within the Pearl River Delta and (ii) the more fierce competition from highways and ocean transportation, as a result of which the freight delivery volume of steel and petroleum decreased.

The following table sets forth our revenue from freight transportation and the volumes of commodities we shipped for 2017 and 2018:

| | Year ended December 31, | | Change from |
|---|---|---|---|
| | 2017 | 2018 | 2017 to 2018 |
| Revenue from freight transportation (RMB millions) | 1,893.59 | 1,849.36 | (2.3%) |
| - Revenue from freight charges | 1741.97 | 1609.69 | (7.6%) |
| - Revenue from other freight transportation services | 151.62 | 239.67 | 58.1% |
| Outbound freight volume (millions of tons) | 15.86 | 15.71 | (0.9%) |
| Revenue per ton (RMB)[(1)] | 109.83 | 102.46 | (6.7%) |
| Total ton-kilometers (millions) | 10,700 | 10,705 | 0.1% |
| Revenue per ton-kilometer (RMB)[(2)] | 0.18 | 0.17 | (5.6%)) |

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

*Railway network usage and other transportation related services*. Revenue from our railway network usage and other transportation related services accounted for 44.7% of our total revenue and 47.1% of our railroad and related business revenue in 2018. Railway network usage and other transportation related services mainly include locomotive traction, track usage, electric catenary, vehicle coupling and other services. Revenue from our railway network usages and other transportation related services business was RMB8,8865.6 million in 2018, representing an increase of 16.0% from RMB7,644.2 million in 2017. The increase in revenue from railway network usage was primarily due to an increase in revenues from railway network usage of freight transportation as a result of the implementation of a consignment settlement system for railway freight transportation as required by the CRC, effective January 1, 2018, which requires the full freight transportation fee to be received by the carriers, which in turn pay service fees to other railway corporations for the provision of transportation services.

The increase in revenues from other transportation services was mainly due to the increase in workload for railway operations and passenger services provided by us during the reporting period driving the growth of related revenue.

*Other Businesses*. Our other businesses mainly consist of train repair, on-board catering services, leasing, sales of materials and supplies, sale of goods and other businesses related to railway transportation. In 2018, revenues from other businesses was RMB1,005 million, representing a decrease of 3.1% from RMB1,037 million in 2017, primarily due to the decreases in revenue from train repair and sale of goods.

***Operating Expenses***

In 2018, our total operating expenses were RMB18,658.2 million, representing an increase of 10.2% from RMB16,932.6 million in 2017.

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The following table sets forth the principal operating expenses associated with our railroad and related business, as a percentage of our railroad and related business revenue for 2017 and 2018.

| | Year ended December 31, | |
|---|---|---|
| | **2017** | **2018** |
| Railroad and related business revenue (RMB millions) | 17,294.9 | 18,823.6 |
| Business tax and surcharge | 0.1% | 0.1% |
| Employee benefits | 36.4% | 36.7% |
| Equipment leases and services | 25.3% | 28.5% |
| Land use right leases | 0.3% | 0.3% |
| Materials and supplies | 7.6% | 7.1% |
| Repairs and facilities maintenance costs, excluding materials and supplies | 5.1% | 4.9% |
| Depreciation of fixed assets | 9.4% | 8.4% |
| Cargo logistics and outsourcing service charges | 1.4% | 0.9% |
| Amortization of leasehold land payments | 0.2% | 0.2% |
| Utility and office expenses | 0.3% | 0.5% |
| Others | 5.4% | 5.8% |
| Operating expenses ratio | 91.6% | 93.6% |
| Railroad and related business operating margin | 8.4% | 6.4% |

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

*Railway Operating Expenses.* Our total railway operating expenses increased by 11.1% to RMB17,610.2 million in 2018 from RMB15,850.1 million in 2017. This increase was primarily driven by:

(i) the upward adjustment of the industry-wide pay level and the increase in the provision of railway operation service, which induced a rise in wages and welfare expenses;

(ii) the implemention of a consignment settlement system for railway freight transportation in accordance with the requirement of the CRC, which became effective on January 1, 2018. Accordingly, the full freight transportation fee will be received by the carriers, which in turn pay service fees to other railway corporations for the provision of transportation services. Such change in the freight transportation settlement system resulted in an increase in equipment leasing and service fees;

(iii) the additional cross-network EMU trains between Guangzhou East to Chaozhou-Shantou and inter-city trains from Guangzhou East to Shenzhen, and the increase in the provision of railway operation services, altogether inducing the corresponding increase in the consumption of materials and utilities, and passenger service costs.

*Profit from Operations*

Our profit from operations decreased by 21.3% to RMB1,062.3 million in 2018 from RMB1,350.4 million in 2017, primarily due to a rise in the cost of railways, which was primarily attributable to (i) the upward adjustment of the industry-wide pay level and the increase in the provision of railway operation service, which induced a rise in wages and welfare expenses; (ii) as stated above, the implemention of a consignment settlement system for railway freight transportation on January 1, 2018, which resulted in an increase in equipment leasing and service fees; and (iii) increases in the consumption of materials and utilities, and passenger service costs as a result of the additional cross-network EMU trains between Guangzhou East to Chaozhou-Shantou and inter-city trains from Guangzhou East to Shenzhen, and the increase in the provision of railway service.

*Taxation*

In 2018, according to relevant tax regulations, our subsidiaries were subject to income tax at the rate of 25%. Our income tax expense was RMB289.8 million in 2018, representing a decrease of 13.6%, compared to RMB335.4 million in 2017. The effective tax rate of 27.1% in 2018 was slightly higher than the effective tax rate of 24.9% in 2017.

*Profit attributable to equity holders of our Company*

As a result of the above, our profit attributable to equity holders of our Company decreased by 22.8% to RMB784.1 million in 2018 from RMB1,015.4 million in 2017.

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

*Revenue*

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

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

In 2017, the total number of our passengers was 85.1 million, representing an increase of 0.3% from 84.9 million in 2016. Our passenger transportation revenue was RMB7,757.1 million in 2017, representing an increase of 5.4% from RMB7,358.9 million in 2016. The increase in passenger transportation revenues was mainly due to: (i) our addition of 2 pairs, 3 pairs and 2 pairs of cross-network EMU trains between Guangzhou East to Chaozhou-Shantou on February 1, 2016, May 15, 2016 and September 21, 2017, respectively; and 1 pair of long-distance trains between

Shenzhen and Urumqi and 1 pair of long-distance trains between Guangzhou and Yueyang, both of which commenced operations on May 15, 2016; (ii) the recommencement of Guangzhou-Shenzhen inter-city passenger transportation business at Pinghu Railway Station on September 26, 2016; and (iii) the implementation of an increase in ticket prices on April 21, 2017, for the Guangzhou East to Chaozhou-Shantou cross-network EMU trains. The increase in passenger volume was primarily due to recommencement of the Quagnzhou Shenzhen intercity passenger transportation business the Pinghu Station on September 26, 2016.

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

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

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

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

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

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

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

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

***Operating Expenses***

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

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

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

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Note: (1) Total railroad operating expenses as a percentage of railroad and related business revenue.
*Railway Operating Expenses.* Our total railway operating expenses increased by 8.8% to RMB15,850.1 million in 2017 from RMB14,561.8 million in 2016. This increase was primarily driven by:

The increase in the number of staff for the provision of railway operations and passenger services, as well as the corresponding rise in wages in the industry, resulting in the increase of remuneration and benefits expenses.

The increase in the number of pairs of Guangzhou East to the Chaozhou-Shantou cross-network EMU trains, and the commencement of operations of the long-distance trains between Shenzhen to Urumqi and between Guangzhou to Yueyang since May 15, 2016, resulting into the increase in equipment leases and services.

Our acquisition of part of the operating assets of GMSR and SR at the end of October 2016 and newly added fixed assets during the reporting period, which incurred the increase in the depreciation of fixed assets.

The increase in the workload of the fifth-grade maintenance of the EMU trains, resulting in the increase of the repair costs of trains.

***Profit from Operations***

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

***Taxation***

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

***Profit attributable to equity holders of our Company***

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

**Critical Accounting Policies and Estimates**

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

***Revenue recognition***

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

We recognize revenue when the customer obtains the control of relevant goods or services.

(a) Revenue from railroad and related business

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

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

*Revenue from passenger transportation*

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

Revenues are recognized over time when the train transportation services are rendered. The revenue is presented net of value-added tax but before deduction of any sales handling commissions.

*Revenue from freight transportation*

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

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

*Revenue from railway network usage and other transportation related business*

Revenue from railway network usage and other transportation related services, mainly consist of network usage services (locomotive traction, track usage and electric catenaries service, etc.) and railway operation services and other services, are rendered by us together with other railway companies in the PRC. The information relating to network usage service is captured and processed by the central clearance system of the CRC. The revenue from network usage services are recognized over time in the accounting period in which the services are rendered, and revenue can be reliably measured. Railway operation services and other services are rendered solely by us and all proceeds are collected by us directly.

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

(b) Revenue from other businesses

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

For more details relating to IFRS 15, please see Note 2.2(c) to our audited consolidated financial statements included elsewhere in this annual report and ITEM 3. KEY INFORMATION - A. Selected Financial Data for more details of the disaggregated revenue.

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***Fixed assets***

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

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

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

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

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

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

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

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

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

***Government grants***

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

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

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

***Trade and other receivables***

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

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

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

significant financial difficulty of the issuer or obligor;

a breach of contract, such as a default or delinquency in interest or principal payments;

we, for economic or legal reasons relating to the borrower s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

it becomes probable that the borrower will enter bankruptcy or other financial reorganization;

the disappearance of an active market for that financial asset because of financial difficulties; or

observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio; and

(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

***Trade payables***

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

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

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

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### *Goodwill*

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

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

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

### *Impairment of non-financial assets other than goodwill*

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

### *Current and deferred income tax*

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

(a) Current income tax

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

(b) Deferred income tax

*Inside basis differences*

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

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

*Outside basis differences*

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

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

(c) Offsetting

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

***Employee benefits***

(a) Defined contribution plan

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

(b) Termination benefits

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

***Critical Accounting Estimates and Judgments***

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

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

Provision for impairment of trade receivables

The provision for impairment of trade receivables are recognized on the basis of exposure at default and ECL rates which include consideration of historical credit loss experience, current status and forward-looking information. The assessment of the ECL involves significant accounting estimations and judgments, including historical period selection by making reference to historical credit loss experience of each portfolio, trade receivables lifetime recovery information and other relevant data as well as forward-looking estimates such as changes of future economics, unemployment rate forecast, market environment and customer portfolio at the end of each reporting period.

Estimation of the fair value of FVOCI

We make estimates of the fair value of the FVOCI with consideration of the assessed value of the investees and the price from its recent financing, which is regarded as the best estimate of the fair value. The assessment of fair value requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of FVOCI and changes in the fair value of FVOCI recorded in other comprehensive income.

***Recently adopted accounting standards***

In the current year, we have adopted the following new and revised standards, and amendments to existing standards which are mandatory for the financial year beginning January 1, 2018:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers;
- Classification and Measurement of Share-based Payment Transactions   Amendments to IFRS 2;
- Annual Improvements 2014-2016 cycle;
- Transfers to Investment Property   Amendments to IAS 40; and
- Interpretation 22 Foreign Currency Transactions and Advance Consideration.

Except for the impact of adopting IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, our directors consider that the adoption of these accounting standards did not have any impact on the amounts recognized in prior periods. Most of the amendments will also not affect the current or future periods. As IFRS 9 and IFRS 15 were generally adopted without restating comparative information, the reclassifications and the adjustments arising from the new standards are therefore not reflected in the restated balance sheet as at December 31, 2017, but were recognized in the opening balance sheet starting on January 1, 2018. For additional information, see details set out in Note 2.1 to our audited consolidated financial statements included elsewhere in this annual report.

***New accounting pronouncements***

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

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### *Foreign Currency Exchange Impact*

We have certain U.S. dollar-denominated and HK dollar-denominated assets. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between U.S. dollars and each of the RMB and the HK dollar. For details, see ITEM 3. KEY INFORMATION A. Selected Financial Data and ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Currency Risks.

### *Inflation*

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

## B. Liquidity and Capital Resources

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

We generated approximately RMB3,261.4 million of net cash flow from operating activities in 2018. Substantially all of our revenue was received in cash, with accounts receivable arising primarily from long-distance passenger train services provided and pass-through freight transactions originating from other railway companies whose lines connect to our railroad. Similarly, some accounts payable arise from payments for railroad transportation services that we collect on behalf of other railroad companies and should pay to these companies. Accounts receivable and payable were generally settled either quarterly or monthly between us and the other railroad companies. Most of our revenue generated from our other businesses was also received in cash. We also have accounts payable associated with the purchase of materials and supplies in our other businesses.

In 2018, other than operating expenses, our cash outflow mainly related to the following:

- capital expenditures for the purchase of fixed assets and construction in progress of approximately RMB2,683.1 million, representing an increase of 18.0% from RMB2,273.4 million in 2017;
- payment of dividends of approximately RMB566.7 million; and
- income tax expenses of approximately RMB338.6 million.

Our capital expenditures for 2018 consisted primarily of the following projects:

- the reconstruction of automatic inter-locking equipment from the Guangzhou to Pingshi section of the Beijing-Guangzhou railway;

- improvements in system adaptability for the traction power supply system from the Pingshi to Guangzhou section of the Beijing-Guangzhou railway;

- fourth and fifth-grade transformation of uses for CRH1A EMU trains (11 pairs of trains);

- Phase I construction of the newly built staff apartment in Shipai, Guangzhou district;

- section repair, capacity expansion and renovation of the Guangzhou North vehicle section; and

- reconstruction of the Guangzhou East to Xintang section of the Guangshen lines III and IV; and

- purchase of CRH6A EMUs.

Funds not required for immediate use are kept in short-term investments and bank deposits. We had cash and cash equivalents of approximately RMB1,738.8 million as of December 31, 2018.

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As of December 31, 2018, we did not have any entrusted deposits placed with any financial institutions in the PRC and we did not engage in any trust business.

As of December 31, 2018, we did not have any banking facilities.

On March 15, 2019, we obtained a credit facility from China Construction Bank Shenzhen Branch for RMB500.0 million that was not recorded in the December 31, 2018 financial statements. As of the date of this annual report, we have not drawn down any funds from this credit facility.

***Cash Flow***

Our net cash and cash equivalents as of December 31, 2018 increased by approximately RMB578.2 million from December 31, 2017. Our principal source of capital was revenue generated from operating activities.

The following table sets forth certain items in our consolidated cash flow statements for 2016, 2017 and 2018, and the percentage change in these items from 2017 to 2018:

| | Year ended December 31, | | | Change from 2017 to 2018 |
|---|---|---|---|---|
| | 2016 | 2017 | 2018 | |
| | (RMB thousands) | | | |
| Net cash generated from operating activities | 1,641,238 | 2,634,839 | 3,261,402 | 23.8% |
| Net cash used in investing activities | (1,935,702) | (2,264,647) | (2,113,132) | (6.69%) |
| Net cash used in financing activities | (566,683) | (569,333) | (570,032) | 0.1% |
| Net (decrease)/increase in cash and cash equivalents | (861,147) | (199,141) | 578,238 | (390.4%) |

Our net cash inflow from operating activities increased to RMB3,261.4 million in 2018 from RMB2,634.8 million in 2017, primarily due to improved collection of the trade receivables from the state-owned railroad companies and companies in transportation industry.

Our net cash inflow from operating activities increased to RMB2,634.8 million in 2017 from RMB1,641.2 million in 2016, primarily due to (i) the net cash inflow of RMB614.7 million generated from a decrease of trade receivables, and (ii) the decrease in income tax paid in the amount of RMB243.8 million.

Our net cash used in investment activities decreased from RMB2,264.6 million in 2017 to RMB2,113.1 million in 2018, primarily due to the receipt of payments made by the local government for land use rights we deposited to them according to the Resumption Compensation Agreement, dated as of April 19, 2018, among the Company, Guangzhou Land Development Center, and other vendors.

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

Our net cash used in financing activities increased to RMB570.0 million in 2018 from RMB569.3 million in 2017, primarily due to the distribution of remaining assets to minority shareholders as a result of the liquidiation of certain subsdiaries in 2018.

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

Our working capital was mainly used for capital expenditures, operating expenses and payment of taxes and dividends and investments. In 2018, our expenses for the purchase of fixed assets and payments for construction-in-progress totaled RMB2,683.1 million. In addition, we paid RMB338.6 million for income taxes and approximately RMB570.0 million for dividends.

We believe we have sufficient financial resources to meet our operational and development requirements in 2019.

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

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

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

### D. Trend Information

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

At the same time, however, with the improvement of highway and waterway transportation facilities, we anticipate additional competition. In addition, the economic measures PRC government implemented to manage its economy may have an impact on our business and results of operations in 2019. In addition, any change of the benchmark interest rates set by the PRC government and the implementation of other applicable policies may have an impact on our business and results of operations in 2019.

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

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In addition, the global financial crisis and economic downturn since 2008 adversely affected economies and businesses around the world, including in China. This change in the macro-economic conditions had an adverse impact on our business and operations by causing a decrease in the number of passengers and the volume of freight that we transported in 2009. Although the economy in China, as well as in many other places around the world, has recovered since the second half of 2009, the sustainability of these recoveries is uncertain due to escalating concerns regarding Europe s sovereign debt crisis, the stability of the Eurozone and sustainability of high rates of growth in China. Although China s GDP growth rate remains high compared to other countries, with the still complicated and evolving domestic and international economic environment, China s economy still faces greater downward pressure, which may suppress the demand growth of passenger and freight transportation. Finally, the institution by some governments of new trade tariffs generally, and specifically between the United States and China, poses a potential risk to the PRC economy and to our freight transportation.

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

Looking into 2019, we believe China remains in a strategic opportunity phase for its development even though the rate of growth in China may not be maintained at historical levels. Under the background of the steady growth of China s economy and its stable social situation, the railway transportation industry is expected to develop in a more scientific, orderly, sustained and stable manner in 2019, with continuous growth of the railway network and transportation capacity, as well as volume of passengers and freight.

## E. Off-Balance Sheet Arrangements

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

## F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations, capital commitments and operating lease commitments as of December 31, 2018 for the periods indicated.

| | Payment due by period (RMB thousands) | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year | 1-3 year | 3-5 year | More than 5 years |
| Capital Expenditure Obligation(1) | 899,290 | 899,290 | | | |

| | | | | | |
|---|---|---|---|---|---|
| Operating Lease Obligations[(2)] | 666,000 | 74,000 | 148,000 | 148,000 | 296,000 |
| Total | 1,565,290 | 973,290 | 148,000 | 148,000 | 296,000 |

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(1) See Note 38(a) to our audited consolidated financial statements, Capital Commitments.
(2) See Note 38(b) to our audited consolidated financial statements, Operating Lease Commitments.

Based on the current progress of our new projects, we estimate that our capital expenditures for 2019 will amount to approximately RMB3.37 billion and will consist primarily of the following projects:

- the reconstruction of automatic blocking and computer inter-locking equipment for the Guangzhou to Pingshi section of the Beijing-Guangzhou Railway line;
- the improvements in system adaptability of the traction power supply system for the Pingshi to Guangzhou section of the Beijing-Guangzhou line;
- the extension project of the Guangzhou North vehicle depot;
- the reconstruction of the Guangzhou East to Xintang section of the Guangzhou-Shenzhen lines III and IV;
- the remaining payments for the purchase of CRH6A EMUs; and
- the renovation of the CTC system of Guangzhou-Shenzhen line and equipment of train control system for Guangzhou-Shenzhen lines I and II.

## G. Safe Harbor

See Forward-Looking Statements.

# ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## A. Directors and Senior Management

### Directors

Our board of directors is composed of six non-independent directors and three independent directors. Guo Ji an and Chen Xiaomei were elected at our annual shareholders general meeting held on June 6, 2018 by cumulative voting, and our other directors were re-elected at our annual shareholders general meeting held on June 15, 2017 by cumulative voting. The business address of each of our directors is No. 1052 Heping Road, Luohu District, Shenzhen, Guangdong Province, the People s Republic of China 518010.

The table below sets forth the information relating to our directors as of April 25, 2019:

| Name | Age | Position | Date First Elected or Appointed |
|---|---|---|---|
| Wu Yong | 55 | Chairman of the Board of Directors | 2014 |
| Hu Lingling | 55 | Executive Director | 2016 |
| Guo Ji an | 46 | Non-executive Director | 2018 |
| Yu Zhiming | 60 | Non-executive Director | 2008 |

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| Name | Age | Position | Date First Elected or Appointed |
|---|---|---|---|
| Chen Xiaomei | 46 | Non-executive Director | 2018 |
| Luo Qing | 54 | Executive Director | 2009 |
| Chen Song | 46 | Independent Non-executive Director | 2014 |
| Jia Jianmin | 61 | Independent Non-executive Director | 2014 |
| Wang Yunting | 60 | Independent Non-executive Director | 2014 |

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

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

Guo Ji an is our non-executive director. Mr. Guo holds a bachelor s degree and is a senior engineer. He had served successively as the vice director of the transportation department of GRGC, the general manager of Guangzhou Branch of China Railway Container Transportation Limited, the director of the transportation department of GRGC, the deputy chief engineer of GRGC, and the deputy in charge of the preparation team of Beijing-Shanghai Passenger Railway Line Company. Mr. Guo is currently the director and the deputy general manager of GRGC.

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

Chen Xiaomei is our non-executive director. Ms. Chen holds a bachelor s degree and is an engineer. She had served successively as the director of passenger service technology in passenger service of GRGC, the assistant to director, the deputy director and the director of passenger service of GRGC.

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

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

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

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

**Supervisors**

The table below sets forth the information relating to our supervisors as of April 25, 2019:

| Name | Age | Position | Date First Elected or Appointed |
|---|---|---|---|
| Liu Mengshu | 55 | Chairman of the supervisory committee. | 2014 |
| Shen Jiancong | 50 | Supervisor | 2011 |
| Chen Shaohong | 52 | Supervisor | 2008 |
| Li Zhiming | 57 | Supervisor | 2005 |
| Zhou Shangde | 48 | Supervisor | 2015 |

| | | | |
|---|---|---|---|
| Song Min | 48 | Supervisor | 2014 |

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

Shen Jiancong is our Supervisor. Mr. Shen holds a bachelor s degree and is an economist. Mr. Shen has worked as secretary of Chinese Youth League of the Guangzhou mechanical refrigerator car depot of Guangzhou Subbureau of Guangzhou Railway Bureau, deputy director and director of division of personnel of GRGC, deputy director of Division of Human Resources of GRGC, concurrently as deputy director of organization department of Party Committee of GRGC and secretary of CPC committee and vice stationmaster of Shenzhen Station of our Company, director of human resources division and director of organization department of party committee of GRGC. He is currently an employee director and the chairman of the trade union of GRGC.

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

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

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

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

**Senior Management**

The table below sets forth information relating to our senior management as of April 25, 2019:

| Name | Age | Position | Date First Elected or Appointed |
|---|---|---|---|
| Hu Lingling | 55 | General Manager | 2015 |
| Gong Yuwen | 52 | Deputy Secretary of the Party and Working Committee, and Secretary of the Discipline Inspection and Working Commission | 2018 |
| Luo Jiancheng | 46 | Deputy General Manager | 2016 |
| Guo Xiangdong | 53 | Deputy General Manager and Company Secretary | 2010<br>2004 |
| Tang Xiangdong | 50 | Chief Accountant | 2008 |

Note: (1) See Item 6. Directors, Senior Management and Employees A. Directors and Senior Management Directors for information regarding Hu Lingling.

(2) Guo Xiangdong was firstly appointed as our Deputy General Manager in 2010 and Company Secretary in 2004.

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

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

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

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

**Additional Information**

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

| Name | Position |
|---|---|
| Wu Yong | *Chairman of the Board of Directors of:* |
| | Guangmeishan Railway Company Limited |
| | Guangdong Sanmao Railway Company Limited |
| | Shichang Railway Company Limited |
| Guo Ji an | *Chairman of the Board of Directors of:* |
| | Guangdong Guangzhou Zhuhai Inter-city Railway Traffic Co., Ltd. |
| | Guangzhou-Zhuhai Railway Company Limited |
| | Xiamen-Shenzhen Railway (Guangdong) Company Limited |
| | Ganzhou-Shenzhen Railway (Guangdong) Company Limited |
| | *Deputy Chairman of the Board of:* |
| | Shenzhen Pingnan Railway Co., Ltd. |
| | *Director of:* |

| | |
|---|---|
| | Guangmeishan Railway Company Limited |
| | Guangdong Sanmao Railway Company Limited |
| Yu Zhiming | *Chairman of the Board of Directors of:* |
| | China Railway (Hong Kong) Holdings Limited |
| | *Chairman of the Supervisory Committee of:* |
| | Hainan Railway Company Limited |
| | Guangdong Guangzhou Zhuhai Inter-city Railway Traffic Co., Ltd. |
| | MaoZhan Railway Company Limited |
| | Guangdong Pearl River Delta Inter-city Railway Traffic Co., Ltd. |
| | Ganzhou-Shenzhen Railway (Guangdong) Company Limited |
| | *Director of:* |
| | Guangmeishan Railway Company Limited |
| | Guangdong Sanmao Railway Company Limited |
| | Shichang Railway Company Limited |
| | Hukun Passenger Railway Line (Hunan) Co., Ltd. |
| | Huai Shao Heng Railway Co., Ltd. |
| | Qian Zhang Chang Railway Company Limited |
| | Ganshao Railway Company Limited |
| | China Railway Container Transportation Company Limited |
| | China Railway Special Goods Transportation Company Limited |
| | *Supervisor of:* |
| | Guangzhou Zhuhai Railway Company Limited |
| | China Railway Express Co., Ltd. |

| Name | Position |
|---|---|
| Chen Xiaomei | *Director of:*<br><br>CYTS Tours Guangdong Railway Co., Ltd.<br><br>Beijing Zhongtie Commemorate Ticket Co., Ltd. |
| Chen Song | *Director and General Manager of:*<br><br>Chongqing Brewery Co., Ltd. |
| Jia Jianmin | *Professor and Chairman of the Department of Marketing of Faculty of Business Administration and Changjiang Scholar Professor of the Ministry of Education of:*<br><br>The Chinese University of Hong Kong |
| Wang Yunting | *Chairman of the Board of Directors of:*<br><br>Shaanxi Fortune Investment Limited |
| Liu Mengshu | *Chairman of Supervisory Committee of:*<br><br>Guangmeishan Railway Company Limited Guangdong Sanmao Railway Co., Ltd.<br><br>Guangdong Sanmao Railway Company Limited |
| Chen Shaohong | *Chairman of Supervisory Committee of:*<br><br>Shichang Railway Company Limited<br><br>Hukun Passenger Railway Line (Hunan) Co., Ltd.<br><br>Guangdong Yangcheng Railway Enterprise Co., Ltd.<br><br><br>*Director of:*<br><br>Guangmeishan Railway Company Limited<br><br>Hainan Railway Co., Ltd.<br><br>Qian Zhang Chang Railway Company Limited<br><br>Xiamen-Shenzhen Railway (Guangdong) Company Limited<br><br>Jingyue Railway Company Limited<br><br>Guangdong Shenmao Railway Company Limited<br><br>Guangdong Meishan Passenger Railway Line Company Limited |

Ganzhou-Shenzhen Railway (Guangdong) Company Limited

*Supervisor of:*

Guangdong Sanmao Railway Company Limited

Hunan Inter-city Railway Company Limited

Guangdong Pearl River Delta Inter-city Railway Traffic Co., Ltd.

Ganzhou-Shaoguan Railway Company Limited

China Railway Express Co., Ltd.

Guangzhou Electric Locomotive Co., Ltd.

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| Name | Position |
|---|---|
| Li Zhiming | *Chairman of the Supervisory Committee of:* |
| | Guangzhou Tiecheng Enterprise Company Limited |
| | Guangdong Shenmao Railway Company Limited |
| | Guangdong Meishan Passenger Railway Line Company Limited |
| | CYTS Tours Guangdong Railway Co., Ltd. |
| | *Director of:* |
| | Hong Kong Qiwen Company Limited |
| | *Supervisor of:* |
| | Guangmeishan Railway Company Limited |
| | Guangdong Sanmao Railway Company Limited |
| | Shichang Railway Company Limited |
| | Hainan Railway Co., Ltd. |
| | Hukun Passenger Railway Line (Hunan) Co., Ltd. |
| | Huai Shao Heng Railway Co., Ltd. |
| | Xiamen-Shenzhen Railway (Guangdong) Company Limited |
| | Ganzhou-Shaoguan Railway Company Limited |
| | Guiyang-Guangzhou Railway Company Limited |
| | Nanning-Guangzhou Railway Company Limited |
| | Jingyue Railway Company Limited |
| | Guangzhou Zhuhai Railway Company Limited |
| | Guangzhou Northeastern Cargo Outer Ring Railway Company Limited |

| | |
|---|---|
| | Guangzhou Nanshagang Railway Company Limited |
| | Ganzhou-Shenzhen Railway (Guangdong) Company Limited |
| Luo Jiancheng | *Director of:* |
| | Guangzhou Tiecheng Enterprise Company Limited |
| | Shenzhen Guangshen Railway Civil Engineering Company |
| Tang Xiangdong | Director of: |
| | Guangzhou Tiecheng Enterprise Company Limited |
| | Shenzhen Guangshen Railway Civil Engineering Company |

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

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**Family Relationships**

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

**B. Compensation**
**Directors and Senior Management**

Total remuneration of our directors, supervisors and senior management members during 2018 included wages, bonuses, other schemes and allowances. Directors or supervisors who are also officers and employees of our Company receive certain other benefits in kind from GRGC or us, such as subsidized or medical insurance, housing and transportation, as customarily provided by the railway companies in the PRC to their employees. The amount of compensation to each director, supervisor and senior management for the year ended December 31, 2018 is listed as follows:

| Name | Position | Total remuneration received from the Company (before tax) during the reporting period (RMB thousand) |
|---|---|---|
| Wu Yong | Chairman of the Board of Directors | |
| Hu Lingling | Executive Director and General Manager | 471 |
| Guo Ji an | Non-executive Director | |
| Sun Jing* | Non-executive Director | |
| Yu Zhiming | Non-executive Director | |
| Chen Xiaomei | Non-executive Director | |
| Chen Jianping* | Non-executive Director | |
| Luo Qing | Executive Director | 379 |
| Chen Song | Independent Non-executive Director | 112 |
| Jia Jianmin | Independent Non-executive Director | 142 |
| Wang Yunting | Independent Non-executive Director | 112 |
| Liu Mengshu | Chairman of the Supervisory Committee | |
| Chen Shaohong | Supervisor | |
| Shen Jiancong | Supervisor | |
| Li Zhiming | Supervisor | |
| Zhou Shangde | Supervisor Representing Employees | 381 |
| Song Min | Supervisor Representing Employees | 321 |
| Gong Yuwen | | 291 |

| | | |
|---|---|---|
| | Deputy Secretary of the Party and Working Committee, and Secretary of the Discipline Inspection and Working Commission | |
| Luo Jiancheng | Deputy General Manager | 377 |
| Guo Xiangdong | Deputy General Manager, Secretary of the Board | 381 |
| Tang Xiangdong | Chief Accountant | 379 |
| **Total:** | | **3,346** |

Note: (1) During the reporting period, except as disclosed above, none of the directors, supervisors, or senior management of the Company has held or dealt in shares of the Company, or has held options to buy Company shares or has been granted any shares with selling restrictions.

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

The aggregate amount of cash remuneration paid by our Company in 2018 to all individuals who are our directors, supervisors and senior management members was approximately RMB3.35 million, of which approximately RMB22.98 million was paid to our non-independent directors and supervisors and approximately RMB0.37 million was paid to the independent non-executive directors. The aggregate amount of cash remuneration we paid during the year ended December 31, 2018 for pension and retirement benefits to all individuals who are currently our directors, supervisors and senior management members was approximately RMB0.30 million.

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

As of December 31, 2018, there was no record of interests or short positions (including the interests or short positions which were taken or deemed to have under the provisions of the Hong Kong Securities and Futures Ordinance) held by our directors or supervisors in our shares, debentures or other securities, or securities of any of our associated corporation (within the meaning of the Hong Kong Securities and Futures Ordinance) in the register required to be kept under section 352 of the Hong Kong Securities and Futures Ordinance. We had not received notification of such interests or short positions from any of our directors or supervisors as required to be made to us and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 to the HKSE Listing Rules. We have not granted any of our directors or supervisors, or any of their respective spouses or children under the age of 18, any right to subscribe for any of our shares or debentures.

***Service Contracts of Our Directors and Supervisors***

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

***Contracts Entered into by Our Directors and Supervisors***

None of our directors or supervisors had any direct or indirect material interests in any contract of significance subsisting during the year ended on December 31, 2018 or as of December 31, 2018 to which we or any of our subsidiaries was a party.

***Remuneration of Our Directors and Supervisors***

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

## C. Board Practices

### Board of Directors

In accordance with our currently effective Articles of Association, our board of directors comprises nine directors, one of whom is the chairman. Directors are appointed at our shareholders general meeting through voting, and generally serve for a term of three years. Upon the expiration of the term of their office, they can serve consecutive terms if re-appointed at the next shareholders general meeting. The service contracts that we have entered into with our directors do not provide for any payment of compensation upon termination. Our board of directors held five meetings during the year ended December 31, 2018.

In December 2018, the Company established its Board Diversity Policy. Under such policy, the Board shall discuss and adopt measurable objectives for achieving Board member diversity each year. When selecting candidates, the

Board shall consider a wide range of factors regarding diversity, including but not limited to gender, cultural and educational background, regional, industry and professional experiences, acquired knowledge and length of service, during which the Company shall also incorporate its and specific requirements to reach a final decision, having due regard to the candidates qualification level according to objective criteria and also the benefits of diversity on the Board.

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

### Supervisory Committee

We have a supervisory committee consisting of five to seven supervisors. Supervisors generally serve a term of three years. Upon the expiration of their terms of office, they may be re-appointed to serve consecutive terms. The supervisory committee is presided over by a chairman who may be elected or removed with the consent of two-thirds or more of the members of the supervisory committee. The term of office of the chairman is three years, renewable upon re-election. Our supervisory committee currently consists of four representatives of the shareholders who may be elected or removed by our shareholders general meeting, and two representatives of our employees who may be elected by our employees at the employees congress or employees general meeting or through any other democratic means. Members of our supervisory committee may also attend meetings of the board of directors. The current members of our supervisory committee are: Liu Mengshu, Shen Jiancong, Chen Shaohong, Li Zhiming, Zhou Shangde and Song Min. All shareholder representatives of our supervisory committee were elected or re-elected at the annual shareholders general meeting held on June 6, 2018. Zhou Shangde and Song Min were elected as the Supervisors of our Company as employee representatives at the employees congress held in 2017. The term of the supervisors is three years. Our supervisory committee held four meetings during the year ended December 31, 2018, at which resolutions concerning our periodic reports, internal control evaluations and our dividend policy were passed and ratified. Our supervisors attended shareholders general meetings, meetings of our board of directors and other important meetings concerning our operation during the year ended December 31, 2018. Our supervisory committee reviews the report of our directors, the financial report and proposed profit distribution presented by our board of directors at our annual general meeting of shareholders.

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

- to examine our Company s financial situation;

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

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

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

- to propose motions to shareholders general meetings; and

- to initiate legal proceedings against any director, general manager, deputy general manager and other senior management in accordance with Article 151 of the Company Law.

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

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

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### Audit Committee

We have an audit committee consisting of three independent non-executive directors. The current members of our audit committee, appointed by the Board of Directors, are Chen Song (Chairman), Jia Jianmin and Wang Yunting. Mr. Chen, Mr. Jia and Mr. Wang are independent directors of our Company as defined in Section 303A.02 of the NYSE Listed Company Manual. The audit committee must convene at least four meetings each year, and may invite the executive directors, persons in charge of the financial and audit departments and our independent auditors to participate. The audit committee must have at least two meetings with management and at least two meetings with the auditors each year without any executive directors present. Our audit committee held seven meetings during the year ended December 31, 2018. The duties of the audit committee include:

- reviewing the annual financial statements and interim financial statements of our Company, including the disclosures made by our Company in this annual report;

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

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

- pursuant to the resolutions of the annual general meeting, determining with the Board of Directors the annual auditing fees paid to our independent auditor;

- reviewing with the management and the independent auditor the performance, adequacy and effectiveness of the internal controls and risk management, as well as any material deficiencies and weakness existing in the internal controls;

- evaluating our Company s performance in complying with industrial practices, market rules, and statutory duties, and the safeguarding of its own interests and the interests of its shareholders;

- considering and determining whether any senior executive officer or senior financial personnel is in violation of their code of conduct, and the consequences for such a violation; and

- overseeing the management of the retirement pension fund of our Company.

### Remuneration Committee

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

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

**D. Employees**

As of December 31, 2016, 2017 and 2018, we had approximately 44,609, 43,767, and 42,738 employees, respectively. The decrease in the number of our employees in 2018 was primarily due to a decrease in personnel after ordinary course retirement. The following chart sets forth the number of our employees by function as of December 31, 2018:

| Function | Employees |
|---|---|
| Passenger and freight transportation and transit operation personnel[(1) (2) (3)] | 19,406 |
| Engineering personnel[(4)] | 5,587 |
| Driving personnel[(5)] | 4,070 |
| Public works personnel[(6)] | 3,788 |
| Electricity personnel[(7)] | 1,901 |
| Electricity and water supplies personnel[(8)] | 2,115 |
| Building construction personnel[(9)] | 1,244 |
| Various operations and other employees of subsidiaries[(10)] | 123 |
| Technical and administrative personnel[(11)] | 4,504 |
| Total | 42,738 |

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

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

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

We have implemented a salary policy which links our employees salaries with results of operations, labor efficiency and individual performance. Employees salaries distribution is subject to our overall operational results and is based on their performance records and reviews. In addition, pursuant to applicable government policies and regulations, we set aside statutory funds for our employees and also maintain various insurance policies for the benefits of our employees, including housing fund, retirement insurance, supplemental retirement insurance, basic and supplemental medical insurance, pregnancy-related medical insurance and other welfare programs. In 2018, we paid approximately RMB7,446.4 million in aggregate salaries and benefits to our employees.

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

Details of our statutory welfare fund and retirement benefits are set out in Notes 25 and 30 to our audited consolidated financial statements included elsewhere in this annual report.

### E. Share Ownership

As of April 25, 2019, none of our directors, supervisors or senior management owned any interest in any shares or options to purchase our shares.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

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

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

**Shareholding Structure of our Company**

As of March 31, 2019, we had 328 record holders holding our H shares (including ADSs) and 227,496 record holders holding our A shares according to records we obtained from Computershare Hong Kong Investor Services Limited and CSDC, respectively. As of December 31, 2018 and April 18, 2019, there were 2,083,215 ADSs and 2,194,815 ADSs outstanding held by 133 and 133 registered holders, respectively. Set out below is the current shareholding structure of our Company as of the date hereof:

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

The following table sets forth information regarding ownership of our issued and outstanding capital stock as of April 18, 2019, including all persons who are known by us to own, either as beneficial owners or holders of record, 5% or more of our capital stock.

| Title of Class | Identity of Person or Group | Amount Owned | Percentage of Class of Shares | Percent of Total Capital |
|---|---|---|---|---|
| Ordinary Shares (A shares) | GRGC | 2,629,451,300 | 46.5 | 37.1 |

The following table sets forth all persons who were known by us to beneficially own 5% or more of our issued and outstanding H shares as of April 18, 2019.

| Identity of Person or Group | Shares Owned | Percentage of H Shares | Percentage of Total Capital |
|---|---|---|---|
| BlackRock, Inc. | 161,446,040(L) | 11.28% | 2.28% |
| Pandanus Associates Inc. | 143,718,000(L) | 10.04% | 2.03% |
| BlackRock Global Funds | 114,237,000(L) | 7.98% | 1.61% |
| FIDELITY FUNDS | 112,580,000(L) | 7.87% | 1.59% |
| Kopernik Global Investors LLC | 108,763,554(L) | 7.60% | 1.54% |

Note: (L) Long Position

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

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

## B. Related Party Transactions

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

The following table sets forth our principal related parties that do not control and are not controlled by our Company as of December 31, 2018. For related parties that control or are controlled by our Company, see ITEM 4. INFORMATION ON THE COMPANY C. Organizational Structure .

| Name of related parties | Relationship with Us |
|---|---|
| **Single largest shareholder and its subsidiaries** | |
| Guangzhou Railway Group | Single largest shareholder |
| Guangdong Yangcheng Railway Enterprise Co., Ltd. | Subsidiary of the single largest shareholder |
| GRCL | Subsidiary of the single largest shareholder |
| Shenzhen Guangzhou Railway Group Guangshen Railway Industry Development General Company | Subsidiary of the single largest shareholder |
| Guangzhou Railway Material Supply Company | Subsidiary of the single largest shareholder |
| Construction Engineering Company, Yangcheng Railway Industry Development Corporation | Subsidiary of the single largest shareholder |
| Guangzhou Railway Station Service Center | Subsidiary of the single largest shareholder |
| Changsha Railway Construction Company Limited | Subsidiary of the single largest shareholder |

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| Name of related parties | Relationship with Us |
|---|---|
| Guangzhou Yuetie Operational Development Company | Subsidiary of the single largest shareholder |
| Guangzhou Railway Rolling Stock Company Limited | Subsidiary of the single largest shareholder |
| Guangdong Tieqing International Travel Agency Company Limited | Subsidiary of the single largest shareholder |
| Huaihua Railway Engineer Construction Company | Subsidiary of the single largest shareholder |
| Xiashen Railway Guangdong Company Limited | Subsidiary of the single largest shareholder |
| Ganshao Railway Company Limited | Subsidiary of the single largest shareholder |
| Hunan Changtie Industrial Development Co. Ltd. | Subsidiary of the single largest shareholder |
| Guangzhou Railway Real Estate Construction Engineering Co., Ltd. | Subsidiary of the single largest shareholder |
| Guangzhou Beiyang Information Technology Company Limited | Subsidiary of the single largest shareholder |
| Hainan Railway Company Limited | Subsidiary of the single largest shareholder |
| Guangdong Sanmao Railway Capital Construction Company | Subsidiary of the single largest shareholder |
| **Associates of the Group** | |
| Tiecheng | Associate of the Group |
| Shentu | Associate of the Group |

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

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

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

(a) Mutual provision of railway transportation services, which comprise:

(i) production co-ordination, safety management and dispatching services;

(ii) application and rental services of railway infrastructure and transportation equipment;

(iii) railway communication services;

(iv) railway network services (including but not limited to passenger services, water to supply in trains, use of railway lines, traction and electricity supply for locomotives and ticket services);

(v) crew services; and

(vi) cleaning services of locomotives, trains and railway stations.

(b) Mutual provisions of railway-related services, which comprise:

(i) repair services of railway infrastructure and equipment;

(ii) repair services of locomotives and trains;

(iii) procurement and sales services of railway related materials;

(iv) security services;

(v) hygiene and epidemic prevention services;

(vi) property management and building maintenance services; and

(vii) project construction, management and supervision services.

(c) We will provide special entrusted railway transportation services to the CRC Group, which include but are not limited to:

(i) operation and management of passengers and freight transportation and related services; and

(ii) repair services of transportation facilities and equipment.

(d) Mutual provision of miscellaneous services between us and the CRC Group that are necessary for the proper functioning of railway transportation and operation.

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

(a) the prices as determined by the PRC government;

(b) if the prices are not specified by the PRC government, the prices will be determined in accordance with the pricing standards and rules of national railways within the guidance prices set by Chinese government;

(c) if the prices are not specified by the PRC government and the PRC government has not set applicable guidance prices, the prices shall be determined in accordance with the applicable industry price settlement rules;

(d) except for applying the prices specified by the PRC government, the guidance prices set by the PRC government and the industry settlement rules, if there are comparable market prices or pricing standards, priority shall be given to such market prices or pricing standards as reference points to determine the prices upon negotiation;

(e) if none of the above-mentioned pricing standards is available, the prices shall be determined with reference to the prices of non-connected transactions between the connected parties and independent third parties; and

(f) if neither comparable market prices nor prices of non-connected transactions are available for reference, the prices shall be determined upon negotiation according to the aggregate of the total actual costs for providing the relevant services, reasonable profits and taxes and additional charges paid.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2017 | 2018 |
| | (RMB thousands) | | |
| **Provision of services and sales of goods** | | | |
| *Railroad and Related Business* | | | |
| Provision of train transportation services to GRGC and its subsidiaries(i) | 1,425,538 | 1,505,348 | 1,861,543 |
| Revenue collected by the CRC for railway network usage and related services provided to GRGC and its subsidiaries(ii) | 1,400,876 | 1,428,752 | 1,357,512 |
| Revenue from railway operation service provided to GRGC s subsidiaries(iii) | 579,253 | 660,847 | 736,492 |
| | 3,405,667 | 3,594,947 | 3,955,547 |
| *Other Businesses* | | | |
| Sales of materials and supplies to GRGC and its subsidiaries(iv) | 29,449 | 23,386 | 39,383 |
| **Services received and purchases made** | | | |
| *Railroad and Related Business* | | | |
| Provision of train transportation services by GRGC and its subsidiaries(i) | 989,778 | 1,048,524 | 872,234 |
| Cost settled by the CRC for railway network usage and related services provided by GRGC and its subsidiaries(ii) | 1,628,336 | 1,720,849 | 1,898,623 |
| Operating lease rental paid to GRGC for the leasing of land use rights | 55,090 | 57,358 | 58,490 |
| | 2,673,204 | 2,826,731 | 2,829,347 |
| *Other Businesses* | | | |
| Social services (employee housing and public security services and other ancillary services) provided by GEDC(iii) | 11,297 | | |
| Provision of repair and maintenance services by GRGC and its subsidiaries(iv) | 306,988 | 298,040 | 451,976 |
| Purchase of materials and supplies from GRGC and its subsidiaries(iv) | 469,273 | 455,716 | 555,048 |
| Provision of construction services by GRGC and its subsidiaries(v) | 347,409 | 272,390 | 180,147 |
| | 1,134,967 | 1,026,146 | 1,187,171 |

(i)

The service charges are determined based on a pricing scheme set by the CRC or based on negotiation between the contracting parties with reference to actual cost incurred.

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

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

(iv) The prices are determined based on mutual negotiation between the contracting parties with reference to actual cost incurred.

(v) Based on construction amount determined under national railway engineering guidelines.

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

| | As of December 31, | |
|---|---|---|
| | 2017 | 2018 |
| | (RMB thousands) | |
| Trade receivables | 1,435,421 | 1,934,435 |
| - GRGC(i) | 132,830 | 586,049 |
| - Subsidiaries of GRGC(i) | 1,302,591 | 1,348,386 |
| Prepayments and other receivables | 44,329 | 33,957 |
| - GRGC | 3,277 | 231 |
| - Subsidiaries of GRGC | 41,052 | 33,726 |
| Prepayments for fixed assets and construction-in-progress | 4,352 | 2,489 |
| - GRGC | | 2,160 |
| - Subsidiaries of GRGC(ii) | 4,352 | 329 |
| Trade payables | 681,587 | 597,050 |
| - GRGC(i) | 61,899 | 95,048 |
| - Subsidiaries of GRGC(ii) | 619,509 | 500,385 |
| - Associates | 179 | 1,617 |
| Payables for fixed assets and construction-in-progress | 342,519 | 388,482 |
| - GRGC | 53,821 | 42,604 |
| - Subsidiaries of GRGC | 220,377 | 211,486 |
| - Associates | 68,321 | 134,392 |
| Accruals and other payables | 439,509 | 454,670 |
| - GRGC | 7,390 | 9,212 |
| - Subsidiaries of GRGC(iii) | 430,041 | 443,391 |
| - Associates(iv) | 2,078 | 2,067 |

(i) The trade balances due from/to GRGC, subsidiaries of GRGC mainly represent service fees and charges payable and receivable balances arising from the provision of passenger transportation and cargo forwarding businesses jointly with these related parties within the PRC.

(ii) The trade balances due to subsidiaries of GRGC mainly represent payables arising from unsettled fees for purchase of materials and provision of other services according to various service agreements entered into between the Group and the related parties.

(iii) The other payables due to subsidiaries of GRGC mainly represent the performance deposits received for construction projects and deposits received from ticketing agencies.

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

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On August 22, 2018, we entered into the Entrustment Agreement with Guangzhou Railway Real Estate Construction Engineering Co., Ltd ( GRRE ), a wholly owned subsidiary of the GRGC, pursuant to which GRRE agreed to provide us with certain services in relation to the development of certain land for a total service fee of no more than RMB 50 million.

As of December 31, 2018, all the balances maintained with related parties are unsecured, non-interest bearing and are repayable on demand.

Our related party transactions have been carried out on normal commercial terms according to the HKSE Listing Rules and the contracts we entered into with our related parties. Except for the transactions discussed in this section, no other material related party transactions were entered into in 2018. Our independent non-executive directors have confirmed that these transactions (which are connected transactions as defined in the HKSE Listing Rules) entered into by us in 2018 were entered into in the ordinary and usual course of our business on normal commercial terms and in accordance with the terms of an agreement governing such transactions.

**Transaction with CRC and other railway companies**

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

We work in cooperation with the CRC and other railway companies owned and controlled by the CRC for the operation of certain long distance passenger train and freight transportation businesses within the PRC. The revenues generated from these long-distance passenger and freight transportation businesses are collected and settled by the CRC according to its settlement systems. The charges for the use of the rail lines and services provided by other railway companies are also instructed by the CRC and settled by the CRC based on its systems. Since March 2013, the collecting, processing and distribution functions of revenues, which were previously executed by MOR, have been transferred to the CRC. As of December 31, 2018, the cooperation mode and pricing model had not been subject to any material changes.

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

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| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2017 | 2018 |
| | (RMB thousands) | | |
| **Provision of services and sales of goods** | | | |
| *Railroad and Related Business* | | | |
| Provision of train transportation services to CRC Group(i) | 29,794 | 81,396 | 63,364 |
| Revenue collected by the CRC for services provided to the CRC Group(ii) | 1,777,640 | 1,877,719 | 2,527,897 |
| Revenue from railway operation service provided to the CRC Group (iii) | 1,628,143 | 1,800,692 | 2,012,880 |
| | 3,425,577 | 3,759,807 | 4,604,141 |
| *Other Businesses* | | | |
| Provision of repairing services for cargo trucks to the CRC Group(ii) | 323,993 | 333,917 | 337,432 |
| Sales of materials and supplies to the CRC Group(iv) | 7,073 | 7,185 | 9,099 |
| Provision of apartment leasing services to the CRC Group(iv) | 641 | 722 | 617 |
| | 331,707 | 341,824 | 347,148 |
| **Services received and purchases made** | | | |
| *Railroad and Related Business* | | | |
| Provision of train transportation services by the CRC Group(i) | 292,754 | 306,208 | 283,490 |
| Cost settled by the CRC for services provided by the CRC Group(ii) | 1,376,047 | 1,395,591 | 2,161,146 |
| | 1,668,801 | 1,701,799 | 2,444,636 |
| *Other Businesses* | | | |
| Provision of repair and maintenance services by the CRC Group(iv) | 42,954 | 31,089 | 9,440 |
| Purchase of materials and supplies from the CRC Group(iv) | 15,220 | 19,258 | 27,743 |
| Provision of construction services by the CRC Group(v) | 4,385 | | 1,417 |
| | 62,559 | 50,347 | 38,600 |

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

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

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

(iv)

The prices are determined based on mutual negotiation between the contracting parties with reference to actual costs incurred.

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(v) The prices are determined based on mutual negotiation between the contracting parties with reference to actual costs incurred.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2017 | 2018 |
| | (RMB thousands) | | |
| Passenger transportation | 6,960,491 | 7,295,985 | 7,532,999 |
| Freight transportation | 1,105,061 | 1,266,122 | 1,849,360 |
| Other transportation related services | 86,883 | 112,267 | 78,935 |
| | 8,152,435 | 8,674,374 | 9,461,294 |

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

We had the following material balances maintained with the CRC Group as of December 31, 2017 and December 31, 2018:

| | As of December 31, | |
|---|---|---|
| | 2017 | 2018 |
| | (RMB thousands) | |
| Due from the CRC Group | | |
| Trade receivables | 1,372,631 | 1,015,057 |
| Other receivables | 1,207 | 1,149 |
| Due to the CRC Group | | |
| Trade payables | 62,620 | 32,688 |
| Other payables | 6,413 | 35,851 |

**C. Interests of Experts and Counsel**

Not applicable

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## ITEM 8. FINANCIAL INFORMATION

### A. Consolidated Statements and Other Financial Information
### A.1 A.6:

See pages F-1 to F-94 following ITEM 19.

### A.7 Legal Proceedings

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

### A.8 Dividend Distributions

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

- net after-tax income determined in accordance with PRC accounting standards and regulations; and

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

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

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

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

On March 27, 2019, our Board of Directors proposed a final dividend distribution of RMB0.06 per share to our shareholders for the year ended December 31, 2018. The final dividend payment is expected to be approved by our shareholders at our annual general meeting of shareholders to be held on June 13, 2019.

**B. Significant Changes**

Other than events already mentioned in this annual report, there have been no significant changes since December 31, 2018.

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## ITEM 9. THE OFFER AND LISTING

### A. Offer and Listing Details

**Price Range of our H shares and ADSs**

Our H shares are listed on the HKSE under the stock code 00525 and the ADSs, each representing 50 H shares, are listed on the NYSE under the stock code GSH.

In addition to our H Shares, our A shares have been listed for trading on the Shanghai Stock Exchange under the stock code 601333 since December 22, 2006.

During the year ended December 31, 2018, we did not purchase, sell or redeem any of our H shares.

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### B. Plan of Distribution

Not applicable.

### C. Markets

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

### D. Selling Shareholders

Not applicable.

### E. Dilution

Not applicable.

### F. Expenses of the Issue

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

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

### A. Share Capital

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

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The total number of shares of our Company after the A Share Offering is 7,083,537,000. As of December 31, 2018, our issued share capital consisted of:

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

***Public Float***

As of April 25, 2019, at least 25% of our total issued share capital was held by the public, as required under the HKSE Listing Rules.

***Pre-Emptive Rights***

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

**B. Memorandum and Articles of Association**

Our shareholders previously adopted the amended and restated Articles of Association at an annual shareholders general meeting held on June 25, 2009, which was filed as an exhibit to our annual report on Form 20-F with the SEC on June 22, 2010. On September 27, 2012 and May 28, 2015, our shareholders passed resolutions to make additional amendments to the Articles of Association, the full text of which was filed as an exhibit to our annual report on Form 20-F with the SEC on April 27, 2016. On May 26, 2016, our shareholders passed resolutions to make additional amendments concerning the scope of the business of the Company set forth in Article 13 of the Articles of Association, the full text of which was filed as an exhibit to our annual report on Form 20-F with the SEC on April 27, 2017. On June 15, 2017, our shareholders passed resolutions to make additional amendments to the Articles of Association, the full text of which was filed as an exhibit to our annual report on Form 20-F with the SEC on April 26, 2018.

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

**General**

We are a joint stock limited company established in accordance with the Company Law of China, the Rules of the State Council on the Overseas Issuance and Listings and other relevant laws and regulations of the PRC. Our Company was established by way of promotion with approval evidenced by the document Ti Gai Sheng [1995] No. 151 of the PRC s State Commission for Economic Restructuring. We were registered with and obtained a business license from the Administration for Industry and Commerce of Shenzhen, Guangdong Province on March 6, 1996.

The number of our business license is Shen Si Zi 4403011022106. Article 12 of our Articles of Association states that our object is to carry on the business of railway transportation.

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### Significant Differences between H shares and A shares

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

### Restrictions on Transferability

Under our Articles of Association, we may refuse to register a transfer of H shares unless:

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

### Dividends

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

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

making up losses;

allocations to the statutory common reserve fund;

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allocations to the discretionary common reserve fund upon the approval of shareholders at a general meeting; and

payment of dividends in respect of ordinary shares.

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

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

**Voting Rights and Shareholder Meetings**

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

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

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

the number of directors falls short of the number stipulated in the Company Law of the PRC or our by-laws or is below two-thirds of the number required in our Articles of Association;

our unrecovered losses that have not been made up amount to one-third of our paid-in share capital;

shareholder(s), severally or jointly, holding 10% or more of our issued shares carrying the right to vote make a request in writing to convene an extraordinary general meeting;

the board of directors considers it necessary; or the supervisory committee proposes to convene such a meeting.

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

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

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

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

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

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

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

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our annual financial budget, final accounts, balance sheet, income statement and other financial statements; and

matters other than those that are required by laws, administrative regulations or our Articles of Association to be adopted by way of special resolution.

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

increase or reduction of our share capital and the issuance of shares of any class, warrants and other similar securities;

issuance of Company debentures;

division, merger, dissolution and liquidation of our Company;

amendment to our Articles of Association;

alteration to the form of our Company;

acquisition or disposal within one year of material assets exceeding 30% of the total assets of our Company; and

any other matter that, according to an ordinary resolution of the shareholders meeting, may have a significant impact on our Company and requires adoption by way of a special resolution.

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

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

by the chairman of the meeting;

by at least two shareholders who possess the right to vote, present in person or by proxy; or

by one or more shareholders (including proxies) representing either separately or in aggregate, not less than one-tenth of all shares having the right to vote at the meeting.

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

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**Board of Directors**

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

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

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

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

**Liquidation Rights**

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

**Liability of Shareholders**

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

**Increases in Share Capital**

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

**Reduction of Share Capital and Purchase by Us of Our Shares**

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

(1) cancellation of shares for capital reduction;

(2) merging with another company that holds our shares;

(3) paying shares to our employees as bonus; or

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(4) repurchasing, upon request, any shares held by any shareholder who is opposed to our Company s resolution for merger or spin-off at a shareholders general meeting.

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

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

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

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

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

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

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

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

Unless we are in the process of liquidation:

- where we repurchase our shares at par value, the amount of the total par value of shares so repurchased shall be deducted from our book balance distributable profits or out of the proceeds of a new issue of shares made in respect of the repurchase; and where we repurchase our shares at a premium, an amount equivalent to their total par value shall be deducted from our book balance distributable profits or the proceeds of a new issue of shares made in respect of the repurchase. Payment of the portion in excess of their par value shall be effected as follows:

- if the shares being repurchased were issued at par value, payment shall be made out of our book balance distributable profits; and

- if the shares being repurchased were issued at a premium, payment shall be made out of our distributable profits or out of proceeds of a new issue of shares made in respect of the repurchase, provided that the amount paid out of the proceeds of the new issue may not exceed the aggregate of premiums received by us on the issue of the shares repurchased or the current balance of our capital common reserve account (inclusive of the premiums from the new issue of shares).

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Payment by us in consideration for:

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

**Restrictions on Controlling Shareholders**

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

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

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

**Changing Rights of a Class of Shareholders**

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

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

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

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

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

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

## C. Material Contracts

On April 19, 2018, we entered into a resumption compensation agreement (the Resumption Compensation Agreement ) in relation to the land use rights of Guangzhou East Shipai Old Goods Yard with Guangzhou Land Development Center ( GLDC ) (as purchaser) and other vendors. Pursuant to the Resumption Compensation Agreement, GLDC agreed to resume the land use rights over the relevant land with an initial total compensation of RMB6 billion (subject to adjustments), of which the initial compensation amount payable to us will be RMB1,304.7 million (subject to adjustments). The resumption of land use rights over Guangzhou East Shipai Old Goods Yard and the Resumption Compensation Agreement were approved by stockholders in our 2017 annual general meeting held on June 6, 2018.

Other than the Entrustment Agreement and the Resumption Compensation Agreement, all other material contracts we entered into during the fiscal years of 2017 and 2018 were made in the ordinary course of business.

## D. Exchange Controls

The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. The exchange rate of RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the changes in China s and international political and economic conditions. The PRC government has been gradually promoting the reform of its exchange rate regime and enhance the flexibility of the RMB exchange rate. On August 11, 2015, the PBOC decided to further improve the mechanism of the RMB s central parity rate against the U.S. dollar. Any future fluctuation of the RMB against the U.S. dollar (whether due to a decrease in the foreign currency reserves held by the PRC government or any other reason) will have an adverse effect upon the U.S. dollar equivalent and Hong Kong dollar equivalent of our net income and increase the effective cost of foreign equipment and the amount of foreign currency expenses and liabilities. In 2018, we had a foreign exchange gain of approximately RMB1.0 million mainly due to the appreciation of the Hong Kong dollar against the RMB. If the applicable market exchange rates were to change by 5%, this would result in a change in our net income of approximately RMB2.9 million. We have no plans to hedge our currency exposure in the future. No assurance can be given that the Hong Kong dollar to U.S. dollar exchange rate link will be maintained in the future. Furthermore, any change in exchange rate that has a negative effect on the market for the H shares in either the United States or Hong Kong is likely to result in a similar negative effect on the other market.

We have been, and will continue to be, affected by changes in exchange rates in connection with our ability to meet our foreign currency obligations and will be affected by such changes in connection with our ability to pay dividends on H shares in Hong Kong dollars and on ADSs in U.S. dollars. As of December 31, 2018, we maintained the equivalent of approximately RMB78.1 million in U.S. dollar and Hong Kong dollar-denominated balances for purposes of satisfying our foreign currency obligations (e.g., to purchase foreign equipment) and paying dividends to our overseas shareholders. See Note 3.1(a)(i) to our audited consolidated financial statements included elsewhere in this annual report. We believe that we have or will be able to obtain sufficient foreign exchange to continue to satisfy these obligations. We do not engage in any financial contract or other arrangement to hedge our currency exposure.

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## E. Taxation
## PRC Taxation

*Tax Basis of Assets*

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

*Income Tax*

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

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

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

*Value Added Tax*

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

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

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### *Tax on Dividends*

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

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

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

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

### *Capital Gains Tax*

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

After the latest amendment to the Individual Income Tax Law on June 30, 2011 and its implementation rules on February 18, 2008, the State Administration of Taxation has not stated whether it will continue to exempt from individual income tax income derived by individuals from the transfer of listed shares. However, on December 31, 2009, the Ministry of Finance, State Administration of Taxation and CSRC jointly issued the Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (Cai Shui [2009] No. 167), which states that individuals income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for shares of certain specified companies under certain situations which are subject to sales limitations (as defined in such Circular and its supplementary notice issued on November 10, 2010). Meanwhile, according to Notice on the Continuation of the Individual Income Tax Policy of the Trading Connectivity Mechanism in the Shanghai and Hong Kong Markets (Cai Shui [2017] No. 78), PRC individual investors gains from transferring stock of a company listed on the HKSE through the Shanghai-Hong Kong Stock Connect temporarily were exempted from PRC individual income tax from November 17, 2014 to December 4, 2019. Moreover, the gains received by individual investors from Hong Kong from transferring A shares listed on the Shanghai Stock Exchange also were temporarily exempted from income tax.

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

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

### *Tax Treaties*

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

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

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**U.S. Federal Income Taxation**

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

- banks, insurance companies and financial institutions;
- U. S. expatriates;
- tax-exempt entities;
- certain insurance companies;
- broker-dealers;
- traders in securities that elect to mark to market;
- U.S. holders liable for alternative minimum tax;
- U.S. holders that own (either actually, or constructively, as determined pursuant to the Code) 10% or more of the combined voting power of all classes of our stock entitled to vote, or 10% or more of the total value of all classes of our stock;
- U.S. holders that hold the H shares or ADSs as part of a straddle or a hedging or conversion transaction; or
- U.S. holders whose functional currency is not the U.S. dollar.

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

Act.

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

- a citizen or resident (as determined pursuant to the special rules of the Code) of the United States for U.S. federal income tax purposes;

- an entity which is treated as a corporation for U.S. federal tax purposes and which has been created or organized under the laws of the United States, any state thereof or the District of Columbia;

- an estate the income of which is subject to U.S. federal income tax without regard to its source; or

- an arrangement which is treated for U.S. federal tax purposes as a trust:

  - subject to the primary supervision of a U.S. court and the control of one or more U.S. persons; or

  - that has elected to be treated as a U.S. person under applicable U.S. Treasury regulations.

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If an entity which is treated for U.S. federal tax purposes as a partnership holds the H shares or ADSs, the tax treatment of a holder of equity ownership interests in such entity generally will depend on the status of such holder and the activities of the entity. If you are a holder of equity ownership interests in an entity which is treated for U.S. federal tax purposes as a partnership which holds the H shares or ADSs, we urge you to consult your tax advisors regarding the consequences of the purchase, ownership and disposition of the H shares or ADSs.

This discussion does not address any U.S. federal estate or gift tax consequences, or any state, local or non-U.S. tax consequences of the purchase, ownership and disposition of the H shares or ADSs.

**We urge you to consult your tax advisors regarding the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership and disposition of the H shares or ADSs.**

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

*Distributions on the H shares or ADSs*

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

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

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

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

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

If we make a distribution paid in Hong Kong dollars, you will be considered to receive the U.S. dollar value of the distribution determined at the spot HK dollar/U.S. dollar rate on the date such distribution is received by you or by the depositary, regardless of whether you or the depositary convert the distribution into U.S. dollars on such date. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is includible in your income to the date you or the depositary convert the distribution into U.S. dollars will be treated as foreign currency exchange gain or loss that is U.S.-source ordinary income or loss for foreign tax credit limitation purposes.

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

***Sale, Exchange or Other Disposition***

Upon a sale, exchange or other disposition of the H shares or ADSs, you will recognize a capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and your tax basis, determined in U.S. dollars, in such H shares or ADSs. Any gain or loss will generally be U.S. source gain or loss for foreign tax credit limitation purposes. Capital gain of certain non-corporate U.S. holders, including individuals, is generally taxed at reduced rates where the H shares or ADSs have been held more than one year. Your ability to deduct capital losses is subject to limitations.

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

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

***PFIC Rules***

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

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

We believe that we were not a PFIC for our taxable year ended December 31, 2018 and do not currently believe that we will be treated as a PFIC for the current or subsequent taxable years. However, PFIC status cannot be determined until the close of a taxable year and, accordingly, there can be no assurance that we will not be a PFIC in the current or subsequent taxable years.

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

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

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

If you own the H shares or ADSs during any year that we are a PFIC, you generally will be required to file Internal Revenue Service (the IRS ), Form 8621, as described in the instructions to Form 8621, subject to certain exceptions based on the value of PFIC stock held. We encourage you to consult your own tax advisor concerning the U.S. federal income tax consequences of holding the H shares or ADSs that would arise if we were considered a PFIC.

***Backup Withholding and Information Reporting***

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

- fall within various other exempt categories, and, when required, demonstrate this fact; or

- provide a correct taxpayer identification number on a properly completed IRS Form W-9 or a substitute form, certify that you are exempt from backup withholding and otherwise comply with applicable requirements of the backup withholding rules.

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

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

### Hong Kong Taxation

The following discussion summarizes the material Hong Kong tax provisions relating to the ownership and disposition of H shares or ADSs held by you. This discussion does not address all of the tax considerations that may be relevant to specific investors in light of their particular circumstances or to investors subject to special treatment under the tax laws of Hong Kong. This discussion is based on the tax laws of Hong Kong as in effect on the date of this annual report, which are subject to change (or changes in interpretation), possibly with retroactive effect. This discussion does not address any aspects of Hong Kong taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisers regarding Hong Kong and other tax consequences of owning and disposing of H shares.

***Dividends***

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

***Taxation of Capital Gains***

No capital gain tax is generally imposed in Hong Kong in respect of capital gains from the sale of shares (such as the H shares). However, if trading gains from the sale of property by persons as part of profit making are regarded as carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, such trading gains will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a rate of 15% on unincorporated businesses, unless such gains are chargeable under the respective half-rates of 8.25% and 7.5% that may apply for the first HK$2 million of assessable profits for years of assessment beginning on or after April 1, 2018. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment. Gains from sales of the H shares affected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

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

***Hong Kong Stamp Duty***

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

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

***Hong Kong Estate Duty***

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

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### F. Dividends and Paying Agents

Not applicable.

### G. Statement by Experts

Not applicable.

### H. Documents on Display

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

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

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

### I. Subsidiary Information

Not applicable.

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

The following paragraphs describe the various market risks to which we were exposed as of December 31, 2017 and 2018.

### Currency Risks

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

The monetary assets and liabilities held by us that are denominated in U.S. dollars and Hong Kong dollars as of December 31, 2017 and 2018 are set forth below.

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| Monetary assets and liabilities | Currency Denomination | As of December 31, 2017 | 2018 |
|---|---|---|---|
| | | (RMB thousands) | |
| Cash and cash equivalents | USD | 146 | 54 |
| Cash and cash equivalents | HKD | 32,650 | 77,608 |
| Other receivables | HKD | 67 | 416 |
| Other payables | HKD | | |

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

We had a foreign exchange gain of RMB1.0 million for the year ended December 31, 2018. As of December 31, 2018, our assets denominated in Hong Kong dollars and U.S. dollars were translated into RMB at the applicable market exchange rates as of that date and amounted to approximately RMB78.1 million. If the applicable market exchange rates were to change by 5%, this would result in a change in fair value of approximately RMB2.9 million in these balances.

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

**Interest Rate Risks**

As of December 31, 2018, funds that we do not need in the short term are generally kept as temporary cash deposits in commercial banks in the form of fixed-term deposits. We do not hold any market risk-sensitive instruments for trading purposes. As we have no significant interest-bearing assets (except for deposits held in banks), our income and operating cash flows are not materially affected by the changes of market interest rates. Other than deposits held in banks, the Group does not have significant interest-bearing assets.

**Credit Risks**

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

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

The majority of our accounts receivable balance relate to the rendering of services or sales of products to third party customers. Our other receivable balances mainly arise from services other than the main railway transportation services. We perform ongoing credit evaluations of our customers/debtors financial condition and generally do not require collateral from the customers/debtors account on the outstanding balances. Based on the expected reliability and the timing for collection of the outstanding balances, we maintain a provision for doubtful accounts and actual losses incurred have been within management s expectation. For more information of our credit risks, see Note 3 to our audited consolidated financial statements included elsewhere in this annual report.

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

**Liquidity Risks**

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

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

Except as described above and in Note 3 to our audited consolidated financial statements included elsewhere in this annual report, our management believes that as of December 31, 2018, at present and in our normal course of business, we are not subject to any other material market-related risks.

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

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

### D. American Depositary Shares

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

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

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

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### Fees Payable by ADS Holders

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

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

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

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

### Payments Received by Foreign Private Issuer

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

#### *Direct Payments*

The table below sets forth the types of expenses that the depositary has reimbursed us for the year ended December 31, 2018:

| Category of Expenses | Amount (US$) |
| --- | --- |
| Broker reimbursements | 92,857 |
| Miscellaneous | 1,778 |
| **Total** | 94,635 |

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## PART II

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

None.

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

None.

### ITEM 15. CONTROLS AND PROCEDURES

**Disclosure Controls and Procedures**

Our Chairman of the Board, General Manager, Chief Accountant and Company Secretary, evaluated the effectiveness of the design and operation of our Company s disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Form 20-F. Based on this evaluation, our Chairman of the Board, General Manager, Chief Accountant and Company Secretary concluded that our Company s disclosure controls and procedures were effective as of December 31, 2018. Our Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file and furnish under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and regulations and such information is accumulated and communicated to our Company s management including the Chairman of the Board, General Manager, Chief Accountant and Company Secretary, as appropriate, to allow timely decision regarding required disclosures.

**Management s Report on Internal Control over Financial Reporting**

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

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

For the year ended December 31, 2018 under the supervision, and with the participation, of our Chairman of the Board, General Manager, Company Secretary and Chief Accountant, our management has conducted an assessment of the effectiveness of our internal control over financial reporting based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control Integrated Framework (2013)*. Based on this evaluation, our Company s management has concluded that its internal control over financial reporting was effective as of December 31, 2018.

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The effectiveness of our Company s internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere in this annual report.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 16.

## ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

## ITEM 16B. CODE OF ETHICS

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

## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Resolutions to appoint PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm, or PwC, as our auditor for 2018 have been approved at the annual general meeting of our shareholders held on June 6, 2018.

The following table presents the aggregate fees for professional services and other services rendered by PwC to us in 2017 and 2018.

| | **2017** | **2018** |
|---|---|---|
| | **(RMB millions)** | |

| | | |
|---|---|---|
| Audit Fees | 8.40 | 8.40 |
| Audit-related Fees | | |
| Tax Fees | | |
| All Other Fees | 0.95 | 0.75 |
| Total | 9.35 | 9.15 |

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Notes:

1. Traveling expenses and certain tax surcharge fees are included in the audit fees and do not require additional payment.
2. As of December 31, 2018, there did not exist any amount that became payable but remained outstanding.

***Audit Committee Pre-approved Policies and Procedures***

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

During the year ended December 31, 2018, services relating to all non-audit related fees provided to us by PwC were approved by our audit committee in accordance with the de minimis exception to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

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

Not applicable.

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

During the year ended December 31, 2018, there was no purchase, sale or redemption of our H shares or ADSs by us, or any of our subsidiaries.

## ITEM 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT

Not applicable.

## ITEM 16G. CORPORATE GOVERNANCE

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

- we do not have the majority of our board of directors comprised of independent directors as defined under Section 303A.02 of the NYSE Manual;

we do not have a nominating committee or a corporate governance committee similar to that required for U.S. domestic companies;

we do not have a compensation committee wholly made up of independent directors. Our remuneration committee currently consists both executive directors and independent non-executive directors with the independent non-executive directors making up the majority of such committee;

instead of having formal corporate governance guidelines similar to those required for U.S. domestic companies, we have, in accordance with applicable PRC laws and regulations and the HKSE Listing Rules, adopted the Articles of Association, the General Meeting System, the Working Ordinance for the Board of Directors, the Board Diversity Policy, the Working Ordinance for the supervisory committee, the Working Ordinance for the General Manager, the Capital Management Measures, the Investment Management Measures, the Code of Ethics for Senior Officers and the Audit Committee Charter that contain provisions addressing (i) director diversity, qualification standards and responsibilities; (ii) key board committee responsibilities; (iii) director access to management and, as necessary and appropriate, independent advisors; (iv) director compensation; (v) management succession and (vi) director orientation and continuing education;

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as a company listed on the HKSE, we are required to comply with applicable corporate governance and other related requirements of the HKSE Listing Rules, including the Corporate Governance Code, unless an exemption is available; and

we have not adopted a set of formal code of business conduct and ethics for our directors, officers and employees similar to that required for U.S. domestic companies. We have implemented code of business conduct and ethics for senior management, including our General Manager, Deputy General Manager, Chief Accountant and Company Secretary. In addition, our directors are required to comply with the Model Code for Securities Transactions by Directors of Listed Companies set out in the HKSE Listing Rules, which sets out standards with which directors are required to comply with respect to transactions involving our securities.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

## PART III

**ITEM 17. FINANCIAL STATEMENTS**

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

**ITEM 18. FINANCIAL STATEMENTS**

See pages F-1 to F-94 following ITEM 19.

**ITEM 19. EXHIBITS**

(a) See pages F-1 to F-94 following this item.

(b) Index of Exhibits.

Documents filed as exhibits to this annual report:

| Exhibit Number | Description |
|---|---|
| 1.1(1) | Amended and Restated Articles of Association |
| 2.1(2) | Form of Amended and Restated Deposit Agreement |
| 2.2(2) | Form of American Depositary Receipt |

| | |
|---|---|
| 4.1(3) | English Translation of the Land Lease Agreement dated November 15, 2004 between Guangshen Railway Company Limited and Guangzhou Railway (Group) Company |

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| | |
|---|---|
| 4.2(4) | English Translation of the Comprehensive Services Framework Agreement, dated November 1, 2016, between Guangshen Railway Company Limited and China Railway Corporation |
| 4.3(1) | English Translation of the Resumption Compensation Agreement, dated April 19, 2018, between Guangshen Railway Company Limited, Guangzhou Land Development Center, and other vendors |
| 4.4 | English Translation of the Entrustment Agreement, dated August 22, 2018, between Guangshen Railway Company Limited and Guangzhou Railway Real Estate Construction Engineering Co., Ltd |
| 8.1 | List of subsidiaries of Guangshen Railway Company Limited as of December 31, 2018 |
| 11.1(5) | Code of Ethics for the Senior Management as amended on April 29, 2009 |
| 12.1 | Section 302 principal executive officers and principal financial officer s certifications |
| 13.1 | Certifications of principal executive officers and principal financial officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension |

(1) Incorporated by reference from the Registrant s annual report on Form 20-F filed with the SEC on April 26, 2018.
(2) Incorporated by reference from the Registrant s Form F-6 filed with the SEC on May 12, 2015.
(3) Incorporated by reference from the Registrant s annual report on Form 20-F filed with the SEC on June 28, 2005.
(4) Incorporated by reference from the Registrant s annual report on Form 20-F filed with the SEC on April 26, 2017.
(5) Incorporated by reference from the Registrant s annual report on Form 20-F filed with the SEC on June 25, 2009.

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## SIGNATURE

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

GUANGSHEN RAILWAY COMPANY LIMITED

Date: April 25, 2019

By: /s/ Wu Yong
Wu Yong
Chairman of the Board of Directors

## INDEX TO FINANCIAL STATEMENTS

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**Report of Independent Registered Public Accounting Firm**

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

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Guangshen Railway Company Limited and its subsidiaries (the Company ) as of December 31, 2018 and 2017, and the related consolidated comprehensive income statements, consolidated statements of changes in equity and consolidated cash flow statements for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the consolidated financial statements ). We also have audited the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the COSO.

***Basis for Opinions***

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

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

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

***Definition and Limitations of Internal Control over Financial Reporting***

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

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

/s/ PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People s Republic of China

April 25, 2019

We have served as the Company s auditor since 2016.

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**AS AT DECEMBER 31, 2017 AND 2018**

(Amounts in thousands)

| | Note | December 31 2017 RMB | 2018 RMB | 2018 US$* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Fixed assets - net | 6 | 23,617,138 | 24,184,248 | 3,517,453 |
| Construction-in-progress | 7 | 1,430,671 | 1,828,372 | 265,926 |
| Prepayments for fixed assets and construction-in-progress | | 54,368 | 51,955 | 7,557 |
| Leasehold land payments | 8 | 1,980,278 | 1,924,496 | 279,906 |
| Goodwill | 9 | 281,255 | 281,255 | 40,907 |
| Investments in associates | 11 | 174,548 | 181,725 | 26,431 |
| Deferred tax assets | 12 | 37,005 | 197,295 | 28,695 |
| Long-term prepaid expenses | 13 | 33,401 | 46,614 | 6,780 |
| Financial assets at fair value through other comprehensive income | 15 | | 321,246 | 46,723 |
| Available-for-sale investments | 15 | 296,414 | | |
| Long-term receivable | 16 | 31,274 | 28,354 | 4,124 |
| | | 27,936,352 | 29,045,560 | 4,224,502 |
| **Current assets** | | | | |
| Assets classified as held for sale | 17 | 2,183 | 2,183 | 318 |
| Materials and supplies | 18 | 330,727 | 296,217 | 43,083 |
| Trade receivables | 19 | 4,142,210 | 3,861,617 | 561,649 |
| Prepayments and other receivables | 20 | 314,251 | 348,907 | 50,747 |
| Short-term deposits | 21 | 108,000 | 109,000 | 15,853 |
| Cash and cash equivalents | 21 | 1,160,515 | 1,738,753 | 252,891 |
| | | 6,057,886 | 6,356,677 | 924,541 |
| **Total assets** | | 33,994,238 | 35,402,237 | 5,149,043 |
| **EQUITY AND LIABILITIES** | | | | |
| **Capital and reserves attributable to the Company s equity holders** | | | | |
| Share capital | 22 | 7,083,537 | 7,083,537 | 1,030,258 |
| Share premium | | 11,562,738 | 11,562,657 | 1,681,719 |
| Other reserves | 23 | 3,109,516 | 3,188,161 | 463,699 |
| Retained earnings | | 6,928,886 | 7,017,944 | 1,020,718 |
| | | 28,684,677 | 28,852,299 | 4,196,394 |
| **Non-controlling interests** | | (27,596) | (35,970) | (5,232) |
| **Total equity** | | 28,657,081 | 28,816,329 | 4,191,162 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | 12 | 66,391 | 63,898 | 9,294 |
| Deferred income | 24 | 105,791 | 99,765 | 14,510 |

| | | | | |
|---|---|---|---|---|
| | | 172,182 | 163,663 | 23,804 |
| **Current liabilities** | | | | |
| Trade payables | 26 | 1,325,077 | 1,440,834 | 209,561 |
| Contract liabilities | 27 | | 203,631 | 29,617 |
| Payables for fixed assets and construction-in-progress | | 2,214,547 | 2,441,647 | 355,123 |
| Dividends payable | | 12,893 | 12,894 | 1,875 |
| Income tax payable | | 149,227 | 246,441 | 35,843 |
| Accruals and other payables | 28 | 1,463,231 | 2,076,798 | 302,058 |
| | | 5,164,975 | 6,422,245 | 934,077 |
| **Total liabilities** | | 5,337,157 | 6,585,908 | 957,881 |
| **Total equity and liabilities** | | 33,994,238 | 35,402,237 | 5,149,043 |

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

* Translation of amounts from Renminbi ( RMB ) into United States dollars ( US$ ) for the convenience of the reader has been made at US$1.00=RMB6.8755, the certified exchange rates for December 31, 2018 as published by the Federal Reserve Board of the United States. No representation is made that the RMB amounts could have been, or could be, converted into US$ at that rate on December 31, 2018 or on any other date.

Chairman General Manager Chief Accountant

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018**

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

| | Note | Years ended December 31 2016 RMB | 2017 RMB | 2018 RMB | 2018 US$* |
|---|---|---|---|---|---|
| Revenue from Railroad and Related Business | | | | | |
| Passenger | | 7,358,851 | 7,757,077 | 8,108,384 | 1,179,316 |
| Freight | | 1,718,260 | 1,893,594 | 1,849,360 | 268,978 |
| Railway network usage and other transportation related services | | 7,093,198 | 7,644,230 | 8,865,635 | 1,289,453 |
| | | 16,170,309 | 17,294,901 | 18,823,379 | 2,737,747 |
| Revenue from other businesses | | 1,110,195 | 1,036,521 | 1,004,639 | 146,119 |
| Total revenue | | 17,280,504 | 18,331,422 | 19,828,018 | 2,883,866 |
| Operating expenses | | | | | |
| Railroad business | | | | | |
| Business tax and surcharge | | (38,723) | (21,658) | (16,242) | (2,362) |
| Employee benefits | 30 | (5,654,869) | (6,300,223) | (6,912,390) | (1,005,365) |
| Equipment leases and services | | (4,193,555) | (4,372,330) | (5,370,634) | (781,126) |
| Land use right leases | 38(b) | (55,090) | (57,358) | (58,490) | (8,507) |
| Materials and supplies | | (1,336,614) | (1,314,002) | (1,342,344) | (195,236) |
| Repair and facilities maintenance costs, excluding materials and supplies | | (612,484) | (879,597) | (917,898) | (133,503) |
| Depreciation of fixed assets | 6 | (1,488,324) | (1,632,926) | (1,581,685) | (230,047) |
| Cargo logistics and outsourcing service charges | | (206,195) | (246,563) | (171,390) | (24,928) |
| Amortisation of leasehold land payments | 8 | (27,338) | (34,348) | (44,450) | (6,465) |
| Social services expenses | | (11,297) | | | |
| Utility and office expenses | | (55,718) | (60,360) | (98,820) | (14,373) |
| Others | | (881,586) | (930,691) | (1,095,845) | (159,384) |
| | | (14,561,793) | (15,850,056) | (17,610,188) | (2,561,296) |
| Other businesses | | | | | |
| Employee benefits | 30 | (564,478) | (541,997) | (534,025) | (77,671) |
| Materials and supplies | | (360,552) | (313,990) | (315,983) | (45,958) |
| Depreciation of fixed assets | 6 | (30,646) | (29,534) | (28,058) | (4,081) |
| Amortisation of leasehold land payments | 8 | (11,332) | (11,332) | (11,332) | (1,648) |
| Utility and office expenses | | (23,051) | (34,488) | (53,759) | (7,819) |
| Others | | (86,147) | (151,190) | (104,868) | (15,252) |
| | | (1,076,206) | (1,082,531) | (1,048,025) | (152,429) |
| Total operating expenses | | (15,637,999) | (16,932,587) | (18,658,213) | (2,713,725) |
| Reversal of impairment losses on financial assets, net | | | | 1,061 | 154 |
| Other losses - net | 31 | (108,270) | (48,477) | (108,613) | (15,797) |

| | | | | | |
|---|---|---|---|---|---|
| **Operating profit** | | 1,534,235 | 1,350,358 | 1,062,253 | 154,498 |
| Finance(costs)/income-net | 32 | 2,551 | (10,170) | (630) | (92) |
| Share of results of associates, net of tax | 11 | 7,223 | 6,944 | 7,177 | 1,044 |
| **Profit before income tax** | | 1,544,009 | 1,347,132 | 1,068,800 | 155,450 |
| Income tax expense | 33 | (390,309) | (335,364) | (289,766) | (42,145) |
| **Profit for the year** | | 1,153,700 | 1,011,768 | 779,034 | 113,305 |

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018**

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

| | Note | Years ended December 31 2016 RMB | 2017 RMB | 2018 RMB | 2018 US$* |
|---|---|---|---|---|---|
| Profit for the year | | 1,153,700 | 1,011,768 | 779,034 | 113,305 |
| **Other comprehensive income** | | | | | |
| *Items that may be reclassified to profit or loss* | | | | | |
| Changes in the fair values of available-for-sale financial assets | 23 | | 242,588 | | |
| Deferred tax liabilities for the changes in the fair values of available-for-sale financial assets | 23 | | (60,647) | | |
| **Total comprehensive income for the year, net of tax** | | 1,153,700 | 1,193,709 | 779,034 | 113,305 |
| **Profit attributable to:** | | | | | |
| Equity holders of the Company | | 1,158,253 | 1,015,361 | 784,059 | 114,037 |
| Non-controlling interests | | (4,553) | (3,593) | (5,025) | (732) |
| | | 1,153,700 | 1,011,768 | 779,034 | 113,305 |
| **Total comprehensive income attributable to:** | | | | | |
| Equity holders of the Company | | 1,158,253 | 1,197,302 | 784,059 | 114,037 |
| Non-controlling interests | | (4,553) | (3,593) | (5,025) | (732) |
| | | 1,153,700 | 1,193,709 | 779,034 | 113,305 |
| **Earnings per share for profit attributable to the equity holders of the Company during the year** | | | | | |
| - Basic and diluted | 34 | RMB 0.16 | RMB 0.14 | RMB 0.11 | US$ 0.02 |
| **Earnings per equivalent ADS** | | | | | |
| - Basic and diluted | 34 | RMB 8.18 | RMB 7.17 | RMB 5.53 | US$ 0.80 |

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

* Translation of amounts from Renminbi ( RMB ) into United States dollars ( US$ ) for the convenience of the reader has been made at US$1.00=RMB6.8755, the certified exchange rates for December 31, 2018 as published by the Federal Reserve Board of the United States. No representation is made that the RMB amounts could have been, or could be, converted into US$ at that rate on December 31, 2018 or on any other date.

| | | |
|---|---|---|
| Chairman | General Manager | Chief Accountant |

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**CONSOLIDATED CASH FLOW STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018**

(Amounts in thousands)

| | Note | Year ended December 31 2016 RMB | 2017 RMB | 2018 RMB | 2018 US$* |
|---|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | | |
| Cash generated from operations | 36(a) | 2,212,863 | 2,962,704 | 3,600,022 | 523,601 |
| Income tax paid | | (571,625) | (327,865) | (338,620) | (49,250) |
| Net cash generated from operating activities | | 1,641,238 | 2,634,839 | 3,261,402 | 474,351 |
| **Cash flows from investing activities:** | | | | | |
| Payments for acquisition of fixed assets, construction-in-progress and prepayment for fixed assets, net of related payables | | (1,973,897) | (2,273,426) | (2,683,053) | (390,234) |
| Proceeds from disposal of fixed assets | 36(b) | 17,950 | 527 | 392 | 57 |
| Advances received from disposal of assets classified as held for sale | | | | 587,123 | 85,393 |
| Government grants received | | 6,082 | | | |
| Interest received | | 1,949 | 1,779 | 1,765 | 257 |
| Payment of investment | | | | (24,832) | (3,612) |
| Decrease in short-term deposits with maturities more than three months, net | | (2,000) | | (1,000) | (145) |
| Dividends received | | 14,214 | 6,473 | 6,473 | 941 |
| Net cash used in investing activities | | (1,935,702) | (2,264,647) | (2,113,132) | (307,343) |
| **Cash flows from financing activities:** | | | | | |
| Transactions with non-controlling interests | | | | (3,349) | (487) |
| Dividends paid to the Company s shareholders | | (566,683) | (569,333) | (566,683) | (82,421) |
| Net cash used in financing activities | | (566,683) | (569,333) | (570,032) | (82,908) |
| **Net increase/(decrease) in cash and cash equivalents** | | (861,147) | (199,141) | 578,238 | 84,100 |
| **Cash and cash equivalents, at beginning of year** | | 2,220,803 | 1,359,656 | 1,160,515 | 168,791 |
| **Cash and cash equivalents, at end of year** | 21 | 1,359,656 | 1,160,515 | 1,738,753 | 252,891 |

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

* Translation of amounts from Renminbi ( RMB ) into United States dollars ( US$ ) for the convenience of the reader has been made at US$1.00=RMB6.8755, the certified exchange rates for December 31, 2018 as published by the Federal Reserve Board of the United States. No representation is made that the RMB amounts could have been, or could be, converted into US$ at that rate on December 31, 2018 or on any other date.

| | | |
|---|---|---|
| Chairman | General Manager | Chief Accountant |

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018**

(Amounts in thousands)

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB (Note 22) | Share premium RMB | Statutory surplus reserve RMB (Note 23) | Discretionary surplus reserve RMB (Note 23) | Other reserve RMB (Note 23) | Retained earnings RMB | Total RMB | Non-controlling interests RMB | Total equity RMB |
| Balance at January 1, 2016 | 7,083,537 | 11,562,738 | 2,404,484 | 304,059 | | 6,107,670 | 27,462,488 | (18,226) | 27,444,262 |
| Total comprehensive income | | | | | | 1,158,253 | 1,158,253 | (4,553) | 1,153,700 |
| Profit for the year | | | | | | 1,158,253 | 1,158,253 | (4,553) | 1,153,700 |
| Other comprehensive income | | | | | | | | | |
| Special reserve-Safety Production Fund (Note 23) | | | | | | | | | |
| Appropriation | | | | | 204,792 | (204,792) | | | |
| Utilisation | | | | | (204,792) | 204,792 | | | |
| Appropriations from retained earnings (Note 23) | | | 117,050 | | | (117,050) | | | |
| Transaction with owners: | | | | | | (566,683) | (566,683) | (1,224) | (567,907) |
| Dividends relating to 2015 (Note 35) | | | | | | (566,683) | (566,683) | (1,224) | (567,907) |
| Balance at December 31, 2016 | 7,083,537 | 11,562,738 | 2,521,534 | 304,059 | | 6,582,190 | 28,054,058 | (24,003) | 28,030,055 |

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018**

(Amounts in thousands)

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB (Note 22) | Share premium RMB | Statutory surplus reserve RMB (Note 23) | Discretionary surplus reserve RMB (Note 23) | Other reserve RMB (Note 23) | Retained earnings RMB | Total RMB | Non-controlling interests RMB | Total equity RMB |
| Balance at January 1, 2017 | 7,083,537 | 11,562,738 | 2,521,534 | 304,059 | | 6,582,190 | 28,054,058 | (24,003) | 28,030,055 |
| Total comprehensive income | | | | | 181,941 | 1,015,361 | 1,197,302 | (3,593) | 1,193,709 |
| Profit for the year | | | | | | 1,015,361 | 1,015,361 | (3,593) | 1,011,768 |
| Other comprehensive income (Note 23) | | | | | 181,941 | | 181,941 | | 181,941 |
| Special reserve-Safety Production Fund (Note 23) | | | | | | | | | |
| Appropriation | | | | | 227,250 | (227,250) | | | |
| Utilisation | | | | | (227,250) | 227,250 | | | |
| Appropriations from retained earnings (Note 23) | | | 101,982 | | | (101,982) | | | |
| Transaction with owners | | | | | | (566,683) | (566,683) | | (566,683) |
| Dividend relating to 2016 (Note 35) | | | | | | (566,683) | (566,683) | | (566,683) |
| Balance at December 31, 2017 | 7,083,537 | 11,562,738 | 2,623,516 | 304,059 | 181,941 | 6,928,886 | 28,684,677 | (27,596) | 28,657,081 |

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018**

(Amounts in thousands)

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB (Note 22) | Share premium RMB | Statutory surplus reserve RMB (Note 23) | Discretionary surplus reserve RMB (Note 23) | Other reserve RMB (Note 23) | Retained earnings RMB | Total RMB | Non-controlling interests RMB | Total equity RMB |
| Balance at December 31, 2017 | 7,083,537 | 11,562,738 | 2,623,516 | 304,059 | 181,941 | 6,928,886 | 28,684,677 | (27,596) | 28,657,081 |
| Change in Accounting Policy (Note 2.2) | | | (4,967) | | | (44,706) | (49,673) | | (49,673) |
| Balance at 1 January 2018 | 7,083,537 | 11,562,738 | 2,618,549 | 304,059 | 181,941 | 6,884,180 | 28,635,004 | (27,596) | 28,607,408 |
| Total comprehensive income | | | | | | 784,059 | 784,059 | (5,025) | 779,034 |
| Profit for the year | | | | | | 784,059 | 784,059 | (5,025) | 779,034 |
| Other comprehensive income (Note 23) | | | | | | | | | |
| Special reserve-Safety Production Fund (Note 23) | | | | | | | | | |
| Appropriation | | | | | 242,456 | (242,456) | | | |
| Utilisation | | | | | (242,456) | 242,456 | | | |
| Appropriations from retained earnings (Note 23) | | | 83,612 | | | (83,612) | | | |
| Disposal of subsidiaries | | (81) | | | | | (81) | (3,349) | (3,430) |
| Transaction with owners | | | | | | (566,683) | (566,683) | | (566,683) |
| Dividend relating to 2017 (Note 35) | | | | | | (566,683) | (566,683) | | (566,683) |
| Balance at December 31, 2018 | 7,083,537 | 11,562,657 | 2,702,161 | 304,059 | 181,941 | 7,017,944 | 28,852,299 | (35,970) | 28,816,329 |
| | US$ 1,030,258 | US$ 1,681,719 | US$ 393,013 | US$ 44,224 | US$ 26,462 | US$ 1,020,718 | US$ 4,196,394 | US$ (5,232) | US$ 4,191,162 |

| |
|---|
| Balance at December 31, 2018(*) |

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

* Translation of amounts from Renminbi ( RMB ) into United States dollars ( US$ ) for the convenience of the reader has been made at US$1.00=RMB6.8755, the certified exchange rates for December 31, 2018 as published by the Federal Reserve Board of the United States. No representation is made that the RMB amounts could have been, or could be, converted into US$ at that rate on December 31, 2018 or on any other date.

| Chairman | General Manager | Chief Accountant |
|---|---|---|

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in Renminbi unless otherwise stated)

## 1 GENERAL INFORMATION

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

The Predecessor was controlled by and was under the administration of the Guangzhou Railway Group. Pursuant to a restructuring agreement entered into between the Guangzhou Railway Group, the Predecessor and the Company in 1996, the Company issued to the Guangzhou Railway Group 100% of its equity interest in the form of 2,904,250,000 ordinary shares (the State-owned Domestic Shares ) for the exchange of assets and liabilities associated with the operations of the Businesses (the Restructuring ). After the Restructuring, the Predecessor changed its name to Guangzhou Railway (Group) Guangshen Railway Enterprise Development Company. In 2017, its name was changed to Shenzhen Guangzhou Railway Group Guangshen Railway Industry Development General Company (the GIDC ).

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

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

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

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in Renminbi unless otherwise stated)

## 1 GENERAL INFORMATION (CONTINUED)

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

In 2018, three subsidiaries of the Group, Shenzhen Nantie Construction Supervision Company Limited, Shenzhen Railway Property Management Company Limited and Shenzhen Shenhuasheng Storage and Transportation Company Limited, were liquidated and were no longer consolidated except for the comprehensive income statements of these companies in 2018 (see note 10).

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

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

The financial statements were authorised for issue by the board of directors of the Company on 25 April 2019.

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

## 2 PRINCIPAL ACCOUNTING POLICIES

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

**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in Renminbi unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation

(a) Compliance with IFRS

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ( IFRS ) as issued by International Accounting Standards Board ( IASB ).

(b) Historical cost convention

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

(c) Going concern basis

As at 31 December 2018, the Group had net current liabilities of RMB65,568,000 and capital expenditure contracted for but not recognised as liabilities of RMB899,290,000 (see note 38(a)). Considering the current financial position, operating plan and usable bank facilities amounting to RMB500,000,000 of the Group (note 41), the Board of Directors believes that the Group has sufficient liquidity for the following 12 months. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

(d) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 *Financial Instruments* ;
- IFRS 15 *Revenue from Contracts with Customers* ;
- *Classification and Measurement of Share-based Payment Transactions Amendments to IFRS 2*
- *Annual Improvements 2014-2016 cycle*
- *Transfers to Investment Property Amendments to IAS 40*

*Interpretation 22 Foreign Currency Transactions and Advance Consideration*

Except for the impact of adopting IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, the other standards have no significant impact on the consolidated financial statements for the year ended 31 December 2018. As IFRS 9 and IFRS 15 were generally adopted without restating comparative information, the reclassifications and the adjustments arising from the new standards are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognized in the opening balance sheet on 1 January 2018. Details are set out in note 2.2(b) and (c) below.

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in Renminbi unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (continued)

(e) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group.

| | | Effective for annual periods beginning on or after |
|---|---|---|
| IFRS 16 | Lease | 1 January 2019 |
| Annual improvements project (amendments) | Annual improvements to 2015-2017 cycle | 1 January 2019 |
| IFRS 19 (amendments) | Plan amendment, curtailment or settlement | 1 January 2019 |
| IFRS 28 (amendments) | Long-term Interests in Associates and Joint Ventures | 1 January 2019 |
| IFRS 9 (amendments) | Prepayment features with negative compensation | 1 January 2019 |
| IFRIC 23 | Uncertainty over income tax treatments | 1 January 2019 |
| IFRS 3 (amendments) | Definition of business | 1 January 2020 |
| Amendments to IAS 1 and IAS 8 | Definition of material | 1 January 2020 |
| IFRS 17 | Insurance contracts | 1 January 2021 |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |

Except for IFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions. IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has reviewed all of the Group s leasing arrangements over the year ended 31 December 2018 in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group s operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of land, as mentioned in note 38(b). The Group s operating leases mainly consisted of lease of land for self-occupied purpose. The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Group expects that the adoption of IFRS 16 will result in an increase in both total assets and total liabilities of approximately RMB 1,177,000,000, as at 1 January, 2019. In addition, the Group does not expect that there will be significant impact in net profit after tax as a result of adopting the new rules.

**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in Renminbi unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on the Group s financial statements.

(a) Impact on the financial statements

The impact on the Group s balance sheet on 1 January 2018 is as follows:

| Balance sheet (extract) | 31 December 2017 As originally presented RMB 000 | IFRS 9 RMB 000 | IFRS 15 RMB 000 | 1 January 2018 Restated RMB 000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| FVOCI(b(i)) | | 296,414 | | 296,414 |
| AFS(b(i)) | 296,414 | (296,414) | | |
| Deferred tax assets | 37,005 | 16,558 | | 53,563 |
| | 333,419 | 16,558 | | 349,977 |
| **Current assets** | | | | |
| Trade receivables | 4,142,210 | (60,704) | | 4,081,506 |
| Prepayments and other receivables | 314,251 | (5,527) | | 308,724 |
| | 4,456,461 | (66,231) | | 4,390,230 |
| **Non-current liabilities** | | | | |
| Deferred income | 105,791 | | (37) | 105,754 |
| **Current liabilities** | | | | |
| Contract liabilities | | | 135,499 | 135,499 |
| Accruals and other payables | 1,463,231 | | (135,462) | 1,327,769 |
| | 1,463,231 | | 37 | 1,463,268 |
| **Equity** | | | | |
| Other reserves | 3,109,516 | (4,967) | | 3,104,549 |

| | | | |
|---|---|---|---|
| Retained earnings | 6,928,886 | (44,706) | 6,884,180 |
| | 10,038,402 | (49,673) | 9,988,729 |

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in Renminbi unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policies (continued)

(b) IFRS 9 Financial Instruments Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the classification and measurement of financial assets and financial liabilities (see note 2.2(a)), impairment of financial assets (see note 2.2(a)) and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in below.

The impact on the Group s retained earnings as at 1 January 2018 is as follows:

| | | **2018** |
|---|---|---|
| | **Notes** | **RMB 000** |
| **Closing retained earnings 31 December 2017 IAS 39** | | 6,928,886 |
| Reclassify investments from AFS to FVOCI | (i) | |
| Increase in provision for trade receivables, prepayments and other receivables | (ii) | (66,231) |
| Increase in deferred tax assets relating to impairment provision | (ii) | 16,558 |
| Decrease in statutory surplus reserve | | 4,967 |
| **Opening retained earnings 1 January 2018 - IFRS 9** | | 6,884,180 |

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group s management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories.

The Group elected to present in other comprehensive income ( OCI ) the changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of approximately RMB296,414,000 were reclassified from AFS to FVOCI.

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in Renminbi unless otherwise stated)

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policies (continued)

(b) IFRS 9 Financial Instruments Impact of adoption (continued)

(i) Classification and measurement (continued)

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

| | **Measurement category** | | **Carrying amount** | | |
|---|---|---|---|---|---|
| | **Original** | **New** | **Original** | **New** | **Difference*** |
| | **(IAS 39)** | **(IFRS 9)** | **RMB 000** | **RMB 000** | **RMB 000** |
| **Non-current financial assets** | | | | | |
| Equity investment | AFS | FVOCI | 296,414 | 296,414 | |
| **Current financial assets** | | | | | |
| Trade receivables | Amortised cost | Amortised cost | 4,142,210 | 4,081,506 | (60,704) |
| Prepayments and other receivables | Amortised cost | Amortised cost | 314,251 | 308,724 | (5,527) |
| Cash and cash equivalents | Amortised cost | Amortised cost | 1,160,515 | 1,160,515 | |
| Short-term deposits | Amortised cost | Amortised cost | 108,000 | 108,000 | |

* The differences noted in this column are the result of applying the new expected credit loss model.

(ii) Impairment of financial assets

The Group has three types of financial assets that are subject to IFRS 9 s new expected credit loss model:

- Trade receivables
- Other receivables
- Long-term receivable

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group s retained earnings is disclosed in the table in note 2.2(a) above.

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

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in Renminbi unless otherwise stated)

**2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**2.2 Changes in accounting policies (continued)**

(b) IFRS 9 Financial Instruments Impact of adoption (continued)

(ii) Impairment of financial assets (continued)

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss provision for all trade receivables. This resulted in an increase of the loss provision on 1 January 2018 by RMB60,704,000 for trade receivables. Note 3.1(b) provides for details about the calculation of the provision.

The loss provision decreased by a further RMB5,695,000 for trade receivables during the current reporting period.

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables, and long-term receivable. Applying the expected credit risk model resulted in the recognition of a loss provision of RMB18,852,000 on 1 January 2018 (previous loss provision was RMB13,325,000) and a decrease in the provision by RMB8,262,000 in the current reporting period.

Trade and other receivables are written off when there is no reasonable expectation of recovery.

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**2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**2.2 Changes in accounting policies (continued)**

(c) IFRS 15 Revenue from contracts with customers Impact of adoption

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

The Group applies IFRS 15 retrospectively with the accumulated effect of initial application recognised at 1 January 2018 without restating comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

| | IAS 18 carrying amount 31 December 2017 RMB 000 | Reclassification RMB 000 | IFRS 15 carrying amount 1 January 2018 RMB 000 |
|---|---|---|---|
| Contract liabilities | | 135,499 | 135,499 |
| Deferred income | 105,791 | (37) | 105,754 |
| Accruals and other payables | 1,463,231 | (135,462) | 1,327,769 |
| | 1,569,022 | | 1,569,022 |

There was no impact on the Group s retained earnings as at 1 January 2018.

(i) Presentation of assets and liabilities related to contracts with customers

The Group has changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15:

Contract liabilities in relation to the frequent traveller program were previously presented as deferred income.

Contract liabilities in relation to the advances received from customers were previously included in accruals and other payables.

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## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.3 Subsidiaries

#### 2.3.1 Consolidation

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

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

(a) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

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

The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.10).

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

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**2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**2.3 Subsidiaries (continued)**

**2.3.1 Consolidation (continued)**

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

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

(c) Disposal of subsidiaries

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

**2.4 Associates**

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

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

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## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.4 Associates (continued)

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

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

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

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

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

### 2.5 Segment reporting

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

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**2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**2.6 Foreign currency transaction**

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

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

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

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

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

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

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**2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**2.7 Fixed assets (continued)**

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

(a) The estimated useful lives of some buildings, tracks, bridges and service roads exceed the initial lease periods of the land use rights from operation lease (details contained in note 38(b)); and the initial period of certain land use right acquired (note 2.9), on which these assets are located.

The Group will renew the term of land use right upon its expiry in strict compliance with requirements of relevant laws and regulations. There is no substantive impediment for the renewal except for public interests. In addition, based on the provision of the land use right operating lease agreement entered into with Guangzhou Railway Group (note 38(b)), the Company can renew the lease at its own discretion upon expiry of the operating lease term. Based on the above consideration, the directors of the Company consider the current estimated useful lives of those assets to be reasonable.

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

An asset s carrying amount is written down immediately to its recoverable amount if the asset s carrying amount is greater than its estimated recoverable amount (note 2.11).

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

**2.8 Construction-in-progress**

Construction-in-progress represents buildings, tracks, bridges and service roads under construction, and mainly includes the construction related costs for the associated facilities of the existing railway lines of the Group. Construction-in-progress is stated at cost, which includes all expenditures and other direct costs, site restoration costs, prepayments attributable to the construction and interest charges arising from borrowings used to finance the construction during the construction period, less impairment loss. Construction-in-progress is not depreciated until such assets are completed and ready for their intended use.

From time to time, certain railway assets of the Group require major modifications and improvements. The carrying amounts are transferred from fixed assets to construction-in-progress. The carrying amounts, including costs of modifications, are transferred back to fixed assets upon completion of the improvement projects.

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## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.9 Leasehold land payments

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

### 2.10 Goodwill

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

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

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

### 2.11 Impairment of non-financial assets other than goodwill

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

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**2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**2.12 Financial assets**

**2.12.1 Classification**

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

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

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

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

**2.12.2 Recognition and derecognition**

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

**2.12.3 Measurement**

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

*Equity instruments*

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

Dividends from such investments continue to be recognised in profit or loss as other income when the Group s right to receive payments is established.

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

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## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.12 Financial assets (continued)

#### 2.12.3 Measurement (continued)

*Debt instruments*

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

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

#### 2.12.4 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost, including trade receivables, other receivables and long-term receivable.

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

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

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

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## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.12 Financial assets (continued)

#### 2.12.4 Impairment (continued)

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

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

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

#### 2.12.5 Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group s previous accounting policy.

(i) Classification

Until 31 December 2017 the Group classifies its financial assets in the following categories: receivables and AFS. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(ii) Subsequent measurement

The measurement at initial recognition did not change an adoption of IFRS 9, see description above.

Subsequent to the initial recognition, receivables are subsequently carried at amortised cost using the effective interest method.

The measurement at initial recognition did not change an adoption of IFRS 9, see description above.

Subsequent to the initial recognition, receivables are subsequently carried at amortised cost using the effective interest method.

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## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.12 Financial assets (continued)

#### 2.12.5 Accounting policies applied until 31 December 2017(continued)

(iii) Subsequent measurement (continued)

Available-for-sale financial assets are subsequently carried at fair value, except for those investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which shall be measured at cost. Details on how the fair value of financial instruments is determined are disclosed in note 3.3. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as other gain/losses net . Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group s right to receive payments is established.

### 2.13 Offsetting financial instruments

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

### 2.14 Long-term prepaid expenses

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

### 2.15 Non-current assets held for sale

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

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

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**2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**2.15 Non-current assets held for sale (continued)**

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

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

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

**2.16 Materials and supplies**

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

**2.17 Trade and other receivables**

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

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

**2.18 Cash and cash equivalents**

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

**2.19 Share capital**

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

**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

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## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.20 Financial liabilities

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

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

Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

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

### 2.21 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

*Inside basis differences*

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

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**2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**2.21 Current and deferred income tax (continued)**

(b) Deferred income tax (continued)

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

*Outside basis differences*

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

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

(c) Offsetting

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

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## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.22 Employee benefits

(a) Defined contribution plan

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

(b) Termination benefits

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

### 2.23 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

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

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## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.24 Revenue recognition

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

(a) Revenue from railroad and related business

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

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

Revenue from passenger transportation

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

Revenues are recognized overtime when the train transportation services are rendered. The revenue is presented net of value-added tax but before deduction of any sales handling commissions.

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**2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**2.24 Revenue recognition (continued)**

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

Revenue from freight transportation

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

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

Revenue from railway network usage and other transportation related services

Revenue from railway network usage and other transportation related services, mainly consist of network usage services (locomotive traction, track usage and electric catenaries service, etc.) and railway operation services and other services, are rendered by the Group together with other railway companies in the PRC. The information relating to network usage service is captured and processed by the central clearance system of CRC. The revenue from network usage services are recognized overtime in the accounting period in which the services are rendered, and revenue can be reliably measured. Railway operation services and other services are rendered solely by the Group and all proceeds are collected by the Group directly.

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

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

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

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## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### 2.25 Interest income

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

### 2.26 Dividend income

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

### 2.27 Government grants

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

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

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

### 2.28 Operating leases

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

### 2.29 Dividend distribution

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

**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

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## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factor

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

(a) Market risk

(i) Foreign currency risk

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

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

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

| **Monetary assets** | **Currency denomination** | **As at 31 December** | |
|---|---|---|---|
| | | **2017** | **2018** |
| Cash and cash equivalents | HKD | 32,650 | 77,608 |
| Cash and cash equivalents | USD | 146 | 54 |
| Other receivables | HKD | 67 | 416 |
| | | 32,863 | 78,078 |

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

As at 31 December 2018, if RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, profit after tax for the year would have been RMB2,926,000 (2017: RMB1,227,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD-denominated cash in banks. The impact of exchange fluctuations of USD is not expected to be significant.

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.1 Financial risk factor (continued)**

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

Other than deposits held in banks and long-term receivable, the Group does not have significant interest-bearing assets or liabilities. The average interest rate of deposits held in banks in the PRC throughout the year was approximately 1.62% (2017: 1.54%) per annum. Any change in the interest rate promulgated by the People s Bank of China from time to time is not considered to have a significant impact to the Group.

As at 31 December 2018 and 2017, the Group had no interest bearing debts, which may expose the Group to any interest rate risk.

(iii) Other price risk

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

As at 31 December 2018, if the expected price of the equity investments held by the Group increased/decreased by 5% with all other variables held constant, other comprehensive income for the year would have been RMB12,047,000 (2017: RMB10,503,000) higher/lower.

(b) Credit risk

Credit risk arises from cash and cash equivalents, short-term deposits, trade and other receivables (excluding prepayments) and long-term receivable.

(i) Risk management

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

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.1 Financial risk factor (continued)**

(b) Credit risk (continued)

(i) Risk management (continued)

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| **Trade receivables** | | |
| Due from Guangzhou Railway Group and its subsidiaries | 1,261,244 | 1,756,816 |
| Due from CRC Group (excluding Guangzhou Railway Group and its subsidiaries) | 1,106,311 | 665,009 |
| Due from third parties | 431,473 | 613,105 |
| | 2,799,028 | 3,034,930 |

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| **Other receivables excluding prepayments** | | |
| Due from Guangzhou Railway Group and its subsidiaries | 9,460 | 1,880 |
| Due from CRC Group (excluding Guangzhou Railway Group and its subsidiaries) | 381 | 1,149 |
| Due from third parties | 194,245 | 289,387 |
| | 204,086 | 292,416 |

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| **Long-term receivable** | | |
| Due from a third party | 31,274 | 28,354 |

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

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|

| | | |
|---|---|---|
| **Cash at bank and short-term deposits** | | |
| Placed in listed banks in the PRC | 1,268,478 | 1,847,723 |

Cash and short term deposits are placed with reputable banks. There was no recent history of default of cash and cash equivalents and short-term deposits from such financial institutions. There were no other financial assets carrying a significant exposure to credit risk. None of the financial assets that are fully performing has been renegotiated in the current year.

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.1 Financial risk factor (continued)**

(b) Credit risk (continued)

(ii) Impairment of financial assets

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

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

Trade receivables

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

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

Portfolio 1: receivable incurred from revenues collected and settled through the CRC;

Portfolio 2: receivable incurred from revenue from railway operation; and

Portfolio 3: receivable incurred from revenue other than railway operation and revenues collected and settled without the CRC.

Provision for credit losses are recognised on the basis of exposure at default and ECL rates which include consideration of historical credit loss experience, current status and forward-looking information.

On that basis, the loss provision as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined for trade receivables (in RMB thousands):

| | As at 31 December 2018 | | | As at 1 January 2018 | | |
|---|---|---|---|---|---|---|
| | Carrying amount | ECL rates | Loss provision | Carrying amount | ECL rates | Loss provision |
| Portfolio 1 | 248,481 | | | 636,686 | | |
| Portfolio 2 | 3,560,959 | 1.66% | (58,945) | 3,444,463 | 1.90% | (65,563) |
| Portfolio 3 | 113,389 | 2.00% | (2,267) | 67,264 | 2.00% | (1,344) |

| | | | |
|---|---|---|---|
| 3,922,829 | (61,212) | 4,148,413 | (66,907) |

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.1 Financial risk factor (continued)**

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

The loss provision for trade receivables as at 31 December 2017 reconciles to the opening loss provision on 1 January 2018 and to the closing loss provision as at 31 December 2018 as follows:

| | Trade receivables RMB 000 |
|---|---|
| **At 31 December 2017 calculated under IAS 39** | 6,203 |
| Amount restated through opening retained earnings | 60,704 |
| Opening loss provision as at 1 January 2018 calculated under IFRS 9 | 66,907 |
| Receivables written off during the year as uncollectible | (6) |
| Reversal of impairment loss provision | (5,689) |
| **At 31 December 2018** | 61,212 |

Other financial assets at amortised cost

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

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

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.1 Financial risk factor (continued)**

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

On that basis, the loss provision as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) for other receivables was as follows (in RMB thousands):

| | As at 31 December 2018 | | | As at 1 January 2018 | | |
|---|---|---|---|---|---|---|
| | Carrying amount | ECL rates | Loss provision | Carrying amount | ECL rates | Loss provision |
| Stage 1 | 317,224 | 1.88% | (5,959) | 275,541 | 2.16% | (5,961) |
| Stage 2 | | | | | | |
| Stage 3 | 4,631 | 100% | (4,631) | 12,891 | 100% | (12,891) |
| | 321,855 | | (10,590) | 288,432 | | (18,852) |

The loss provision for other financial assets at amortised cost as at 31 December 2017 reconciles to the opening loss provision on 1 January 2018 and to the closing loss provision as at 31 December 2018 as follows:

| | Other receivables RMB 000 | Long-term receivables RMB 000 |
|---|---|---|
| **At 31 December 2017 calculated under IAS 39** | 13,325 | |
| Amount restated through opening retained earnings | 5,527 | |
| Opening loss provision as at 1 January 2018 calculated under IFRS 9 | 18,852 | |
| Increase in loss provision recognised in profit or loss during the year | 4,631 | |
| Receivables written off during the year as uncollectible | (12,891) | |
| Reversal of impairment loss provision | (2) | |
| **At 31 December 2018** | 10,590 | |

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.1 Financial risk factor (continued)**

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

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

Previous accounting policy for impairment of assets carried at amortised cost

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event ) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio;

(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factor (continued)

(b) Credit risk (continued)

(ii) Impairment of financial assets (continued)

Previous accounting policy for impairment of assets classified as AFS

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

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

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the ability to close out market positions. Management monitors rolling forecasts of the Group s liquidity reserves (comprising cash and cash equivalents) on the basis of expected cash flows.

As at 31 December 2018, the Group had net current liabilities of RMB65,568,000 and RMB899,290,000 of capital expenditure contracted for at 31 December 2018 but not recognised as liabilities (see note 38(a)). Taking into account of the factors mentioned in note 2.1(c), the Board of Directors believes that the Group has sufficient liquidity for the following 12 months.

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## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factor (continued)

(c) Liquidity risk (continued)

The table below analyses the Group s financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Less than 1 year RMB 000 |
|---|---|
| **At 31 December 2018** | |
| Trade and other payables excluding non-financial liabilities | 2,631,433 |
| Payables for fixed assets and construction-in-progress | 2,441,647 |
| Dividends payable | 12,894 |
| | |
| **At 31 December 2017** | |
| Trade and other payables excluding non-financial liabilities | 2,356,953 |
| Payables for fixed assets and construction-in-progress | 2,214,547 |
| Dividends payable | 12,893 |

### 3.2 Capital risk management

The Group s objectives of managing capital are to safeguard the Group s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

As at 31 December 2018 and 2017, the Group has no short-term loan, long-term loan, bond payable or long-term payable. Management considered that such capital structure is appropriate.

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**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**3.3 Fair value estimation**

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

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2018, the Group did not have any financial instruments that were measured at fair value except for FVOCI (note 15). As at 31 December 2017, the Group did not have any financial instruments that were measured at fair value except for certain available-for-sale financial assets (note 15).

The following table presents the Group s assets that are measured at fair value at 31 December 2018:

| Assets | Level 1 RMB 000 | Level 2 RMB 000 | Level 3 RMB 000 | Total RMB 000 |
|---|---|---|---|---|
| Financial assets at FVOCI | | | 321,246 | 321,246 |

The following table presents the Group s assets that are measured at fair value at 31 December 2017:

| Assets | Level 1 RMB 000 | Level 2 RMB 000 | Level 3 RMB 000 | Total RMB 000 |
|---|---|---|---|---|
| AFS | | | 280,088 | 280,088 |

There were no transfers between levels 1, 2 and 3 or changes in valuation techniques during the year. There were no gains/(losses) recognised for the year ended 31 December 2018.

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

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## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Provision for impairment of trade receivables

The provision for impairment of trade receivables are recognised on the basis of exposure at default and ECL rates which include consideration of historical credit loss experience, current status and forward-looking information. The assessment of the ECL involves significant accounting estimations and judgements, including historical period selection by making reference to historical credit loss experience of each portfolio, trade receivables lifetime recovery information and other relevant data as well as forward looking estimates such as changes of future economics, unemployment rate forecast, market environment and customer portfolio at the end of each reporting period.

(b) Estimation of the fair value of FVOCI

The Group makes estimates of the fair value of the FVOCI with consideration of the assessed value of the investees and the price from its recent financing, which is regarded as the best estimate of the fair value. The assessment of fair value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of FVOCI and changes in the fair value of FVOCI recorded in other comprehensive income.

## 5 SGEMENT INFORMATION

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

Senior executives evaluate the business from a perspective of revenues and operating results generated from railroad and related business conducted by the Company ( the Railway Transportation Business ). Other segments mainly include on-board catering services, leasing, sales of materials, sale of goods and other businesses related to railway transportation provided by the subsidiaries of the Company. Senior executives of the Company assess the performance of the operating segments based on a measure of the profit before income tax. Other information provided, except as noted below, to senior executives of the Company is measured in a manner consistent with that in the consolidated financial statements.

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## 5 SEGMENT INFORMATION (CONTINUED)

The segment results for 2016, 2017 and 2018 are as follows:

| | The Railway Transportation Business | | | All other segments | | | Elimination | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Segment revenue | | | | | | | | | | | | |
| - Railroad and Business | 16,170,309 | 17,294,901 | 18,823,379 | | | | | | | 16,170,309 | 17,294,901 | 18,823,379 |
| - Other Businesses | 663,418 | 705,423 | 779,719 | 487,097 | 395,661 | 273,274 | (40,320) | (64,563) | (48,354) | 1,110,195 | 1,036,521 | 1,004,639 |
| Total revenue | 16,833,727 | 18,000,324 | 19,603,098 | 487,097 | 395,661 | 273,274 | (40,320) | (64,563) | (48,354) | 17,280,504 | 18,331,422 | 19,828,018 |
| Timing of revenue recognition | | | | | | | | | | | | |
| - Overtime | 16,715,139 | 17,899,006 | 19,480,546 | 182,871 | 180,331 | 89,590 | (40,320) | (64,563) | (48,354) | 16,857,690 | 18,014,774 | 19,521,782 |
| - At a point in time | 118,588 | 101,318 | 122,552 | 304,226 | 215,330 | 183,684 | | | | 422,814 | 316,648 | 306,236 |
| | 16,833,727 | 18,000,324 | 19,603,098 | 487,097 | 395,661 | 273,274 | (40,320) | (64,563) | (48,354) | 17,280,504 | 18,331,422 | 19,828,018 |
| **Segment result** | 1,549,120 | 1,341,601 | 1,120,148 | 3,548 | 14,519 | (26,078) | (8,659) | (8,988) | (25,270) | 1,544,009 | 1,347,132 | 1,068,800 |
| Finance costs/(income) net | (2,728) | 10,011 | 451 | 177 | 159 | 179 | | | | (2,551) | 10,170 | 630 |
| Share of results of associates, net of tax | 7,223 | 6,944 | 7,177 | | | | | | | 7,223 | 6,944 | 7,177 |
| Depreciation of fixed assets | 1,511,570 | 1,655,657 | 1,603,106 | 7,400 | 6,803 | 6,637 | | | | 1,518,970 | 1,662,460 | 1,609,743 |
| Amortisation of leasehold land payments | 27,338 | 34,348 | 44,450 | 11,332 | 11,332 | 11,332 | | | | 38,670 | 45,680 | 55,782 |
| Amortisation of long-term prepaid expenses | 6,729 | 3,256 | 12,596 | 239 | (88) | 313 | | | | 6,968 | 3,168 | 12,909 |
| Impairment of fixed assets | | 11,185 | 10,364 | | | | | | | | 11,185 | 10,364 |
| Impairment of construction-in progress | 5,662 | | | | | | | | | 5,662 | | |
| Provision for/(reversal of) impairment of materials and supplies | (5,209) | 7,844 | 11,361 | | | | | | | (5,209) | 7,844 | 11,361 |

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**5 SEGMENT INFORMATION (CONTINUED)**

A reconciliation of the segment results to profit of 2016, 2017 and 2018 is as follows:

| | The Railway Transportation Business | | | All other segments | | | Elimination | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Segment result | 1,549,120 | 1,341,601 | 1,120,148 | 3,548 | 14,519 | (26,078) | (8,659) | (8,988) | (25,270) | 1,544,009 | 1,347,132 | 1,068,800 |
| Income tax expense | (385,840) | (328,727) | (291,202) | (4,469) | (6,637) | 1,436 | | | | (390,309) | (335,364) | (289,766) |
| Profit/(loss) for the year | 1,163,280 | 1,012,874 | 828,946 | (921) | 7,882 | (24,642) | (8,659) | (8,988) | (25,270) | 1,153,700 | 1,011,768 | 779,034 |

The Group is domiciled in the PRC. All the Group s revenues were generated in the PRC, and the total assets are also located in the PRC.

| | The Railway Transportation Business | | All other segments | | Elimination | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| **Total segment assets** | 33,621,101 | 35,089,100 | 535,840 | 496,353 | (162,703) | (183,216) | 33,994,238 | 35,402,237 |
| Total segment assets include: | | | | | | | | |
| Investment in associates | 174,548 | 181,725 | | | | | 174,548 | 181,725 |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | 2,415,143 | 2,885,650 | 1,083 | 7,635 | | | 2,416,226 | 2,893,285 |
| Total segment liabilities | 4,908,103 | 6,163,507 | 545,500 | 571,273 | (116,446) | (148,872) | 5,337,157 | 6,585,908 |

Revenues of approximately RMB3,966,988,000 (2016: RMB3,407,998,000 and 2017: RMB3,595,959,000 ) were derived from Guangzhou Railway Group and its subsidiaries. These revenues are attributable to the Railway Transportation Business. Except that, no revenues derived from a single external customer have exceeded 10% of the total revenues.

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## 6 FIXED ASSETS-NET

| | Buildings RMB 000 | Tracks, bridges and service roads RMB 000 | Locomotives and rolling stock RMB 000 | Communications and signalling systems RMB 000 | Other machinery and equipment RMB 000 | Total RMB 000 |
|---|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | | |
| Cost | 7,468,977 | 14,887,093 | 8,557,841 | 1,917,478 | 6,514,493 | 39,345,882 |
| Accumulated depreciation | (2,623,687) | (3,186,872) | (3,702,522) | (1,424,604) | (4,129,003) | (15,066,688) |
| Impairment | | | | | (1,162) | (1,162) |
| Net book amount | 4,845,290 | 11,700,221 | 4,855,319 | 492,874 | 2,384,328 | 24,278,032 |
| **Year ended 31 December 2017** | | | | | | |
| Opening net book amount | 4,845,290 | 11,700,221 | 4,855,319 | 492,874 | 2,384,328 | 24,278,032 |
| Other additions | 1,849 | | 69,311 | 13,086 | 123,436 | 207,682 |
| Transfer in from construction-in-progress (Note 7) | 345,676 | 179,842 | 843,489 | 80,867 | 203,557 | 1,653,431 |
| Transfer out to construction-in-progress for improvement/modifications (Note 7) | (305,208) | | (987,236) | (299) | (18,903) | (1,311,646) |
| Transfer in from construction-in-progress after repair | 310,885 | | 875,497 | 299 | 16,697 | 1,203,378 |
| Reclassifications | 1,342 | 7,116 | 25 | | (8,483) | |
| Reclassified to leasehold land payments | | (403,282) | | | | (403,282) |
| Disposals | (15,942) | (69,516) | (234,830) | (744) | (15,780) | (336,812) |
| Depreciation charges | (332,581) | (216,075) | (571,640) | (115,870) | (426,294) | (1,662,460) |
| Impairment charge | | | (9,865) | | (1,320) | (11,185) |
| Closing net book amount | 4,851,311 | 11,198,306 | 4,840,070 | 470,213 | 2,257,238 | 23,617,138 |
| **At 31 December 2017** | | | | | | |
| Cost | 7,441,605 | 14,588,338 | 7,903,204 | 1,993,168 | 6,628,084 | 38,554,399 |
| Accumulated depreciation | (2,590,294) | (3,390,032) | (3,053,269) | (1,522,955) | (4,368,375) | (14,924,925) |
| Impairment | | | (9,865) | | (2,471) | (12,336) |
| Net book amount | 4,851,311 | 11,198,306 | 4,840,070 | 470,213 | 2,257,238 | 23,617,138 |
| **Year ended 31 December 2018** | | | | | | |
| Opening net book amount | 4,851,311 | 11,198,306 | 4,840,070 | 470,213 | 2,257,238 | 23,617,138 |
| Other additions | 6,956 | | 712,632 | 22,784 | 115,526 | 857,898 |
| Transfer in from construction-in-progress (Note 7) | 162,624 | 277,739 | 127,805 | 28,629 | 133,089 | 729,886 |
| Transfer out to construction-in-progress for improvement/modifications(Note 7) | (60,507) | (273,678) | (715,707) | (8,042) | (36,835) | (1,094,769) |
| Transfer in from construction-in-progress after repair | 124,345 | 324,386 | 1,414,100 | 40,026 | 76,003 | 1,978,860 |
| Reclassifications | (5,631) | | | | 5,631 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Disposals | (4,082) | (99,463) | (167,790) | (10,531) | (15,128) | (296,994) |
| Depreciation charges | (320,823) | (213,858) | (611,095) | (104,096) | (359,871) | (1,609,743) |
| Impairment charge | (2,881) | | | | (7,483) | (10,364) |
| Impairment write-off | | | 9,865 | | 2,471 | 12,336 |
| Closing net book amount | 4,751,312 | 11,213,432 | 5,609,880 | 438,983 | 2,170,641 | 24,184,248 |
| **At 31 December 2018** | | | | | | |
| Cost | 7,590,161 | 14,735,949 | 8,218,284 | 2,034,318 | 6,631,867 | 39,210,579 |
| Accumulated depreciation | (2,835,968) | (3,522,517) | (2,608,404) | (1,595,335) | (4,453,743) | (15,015,967) |
| Impairment | (2,881) | | | | (7,483) | (10,364) |
| Net book amount | 4,751,312 | 11,213,432 | 5,609,880 | 438,983 | 2,170,641 | 24,184,248 |

**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

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## 6 FIXED ASSETS-NET (CONTINUED)

(a) As at 31 December 2018, the ownership certificates of certain buildings of the Group with an aggregate carrying value of approximately RMB1,676,711,000 (2017: RMB1,858,288,000) had not been obtained by the Group.

These kind of buildings are classified as below:

| | **Carrying value as at 31 December 2018 RMB 000** | **Reason for delay in obtaining the ownership certificates** |
|---|---|---|
| Certificates for buildings under application procedures | 1,067,076 | The Group commenced such application procedures with the respective authorities in China by the end of 2017, and the Group s management expects that these procedures would be completed within a short period of time and the ownership certificates will be obtained. |
| Certain buildings located on the land of which the land use right certificates have not been obtained | 53,392 | According to relevant laws and regulations in China, the land use right certificates of the land on which these buildings are located must be obtained before the Group can start the application for the respective housing ownership certificates. As a result, the Group will start to apply for the ownership certificates of these buildings after they have completed the procedures to obtain the land use right certificates. |
| Certain buildings attached to pieces of land which is held by lease | 556,243 | Such land is held by lease under certain operating lease arrangements. Due to the fact that the Group does not have the underlying land use right certificates for such land, therefore, the Group cannot apply for the respective ownership certificates of the buildings constructed on top of it. According to the lease agreements and communication with the leasors, and as confirmed by the Company s legal counsel, the Group possesses the right to use and/or own such buildings without the certificates. |

After consultation made with the Company s legal counsel, the directors of the Company consider that there is no legal restriction for the Group to apply for and obtain the ownership certificates of these buildings and it should not lead to any significant adverse impact on the operations of the Group.

(b) As at 31 December 2018, fixed assets of the Group with an aggregate net book value of approximately RMB138,390,000(2017: RMB155,125,000) had been fully depreciated but they were still in use.

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## 7 CONSTRUCTION-IN-PROGRESS

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| At 1 January | 790,308 | 1,430,671 |
| Transfer in from fixed assets for improvement/modifications (Note 6) | 1,311,646 | 1,094,769 |
| Other additions | 2,185,526 | 2,011,678 |
| Transfer to fixed assets (Note 6) | (1,653,431) | (729,886) |
| Transfer out to fixed assets after improvement/modifications (Note 6) | (1,203,378) | (1,978,860) |
| At 31 December | 1,430,671 | 1,828,372 |

Construction-in-progress as at 31 December 2018 mainly comprise of improvement projects for road existing railway equipment in the PRC.

For the year ended 31 December 2018, no interest expense (2017: nil) had been capitalised in the construction-in-progress balance as there were no third party borrowings during the year.

As at 31 December 2018, the balance of the provision for writing down the construction-in-progress was approximately RMB15,456,000 (2017: RMB15,456,000).

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## 8 LEASEHOLD LAND PAYMENTS

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

| | RMB 000 |
|---|---|
| **At 1 January 2017** | |
| Cost | 1,989,085 |
| Accumulated amortisation | (364,226) |
| Net book amount | 1,624,859 |
| **Year ended 31 December 2017** | |
| Opening net book amount | 1,624,859 |
| Transfer from fixed assets (Note 6) | 403,282 |
| Assets classified as held for sale | (2,183) |
| Amortisation charges | (45,680) |
| Closing net book amount | 1,980,278 |
| **At 31 December 2017** | |
| Cost | 2,388,326 |
| Accumulated amortisation | (408,048) |
| Net book amount | 1,980,278 |
| **Year ended 31 December 2018** | |
| Opening net book amount | 1,980,278 |
| Amortisation charges | (55,782) |
| Closing net book amount | 1,924,496 |
| **At 31 December 2018** | |
| Cost | 2,388,326 |
| Accumulated amortisation | (463,830) |
| Net book amount | 1,924,496 |

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**8 LEASEHOLD LAND PAYMENTS (CONTINUED)**

As at 31 December 2018, the ownership certificates of land with an aggregate carrying value of approximately RMB58,898,000 that was acquired through assets/business acquisition and group restructuring have not yet been changed from the names of the respective original owners to the name of the Company, and the ownership certificates of the land use rights of the Group with an aggregate carrying value of approximately RMB1,227,820,000 (2017: RMB1,318,686,000) had not been obtained by the Group.

| | **Carrying value as at 31 December 2018 RMB 000** | **Reason for delay in obtaining the ownership certificates** |
|---|---|---|
| Certain pieces of land associated with the operations of Guangshen Line IV, one of the railway lines operated by the Company | 1,227,820 | Due to the fact that Guangshen Line IV spans across several cities, counties and villages in China, it is practically cumbersome and time consuming for the Group to coordinate and execute the procedures for acquiring the respective land use rights certificates with the respective local bureaus and authorities governing the title registration and transfer, and therefore, the progress of acquiring the formal title certificates has been progressing slowly. |

After consultation made with the Company s legal counsel, the directors of the Company consider that there is no legal restriction for the Group or the Company to apply for and obtain the land use right certificates and it should not lead to any significant adverse impact on the operations of the Group or the Company.

The remaining lease period of leasehold land as at 31 December 2018 was as follows:

| | **2017 RMB 000** | **2018 RMB 000** |
|---|---|---|
| Lease of between 10 to 20 years | 1,257,346 | 1,227,820 |
| Lease of between 20 to 30 years | 722,932 | 696,676 |
| | 1,980,278 | 1,924,496 |

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## 9 GOODWILL

| | RMB 000 |
|---|---|
| **Year ended 31 December 2017 and 2018** | |
| Opening net book amount | 281,255 |
| Additions | |
| Impairment | |
| Closing net book amount | 281,255 |
| **At 31 December 2017 and 2018** | |
| Cost | 281,255 |
| Accumulated impairment | |
| Net book amount | 281,255 |

As at 31 December 2018 and 2017, the outstanding balance of goodwill arose from the excess of a purchase consideration paid by the Company over the aggregate fair values of the identifiable assets, liabilities and contingent liabilities of the Yangcheng Railway Business acquired by the Company in 2007.

On 1 January 2009, the Group integrated the Yangcheng Railway Business with the Group s railway business in order to improve the operation efficiency. As a result, the management considers that the Yangcheng Railway Business and the Group s other railway business (collectively the Combined Railway Business ) represents the lowest level of CGUs within the Group at which goodwill is monitored for internal management purposes. As a result, the goodwill balance has been allocated to the CGU comprising the Combined Railway Business.

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

At 31 December 2018, the recoverable amount calculated based on value-in-use exceeded carrying value of the CGU by RMB5,514,738,000.

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## 9 GOODWILL (CONTINUED)

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

| **Railroad business** | **2017** | **2018** |
|---|---|---|
| Gross margin | 17.76% | 16.73% |
| Growth rate | 2.00% | 2.00% |
| Discount rate | 12.44% | 12.44% |

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

Even if the budgeted growth rate used in the value-in-use calculation for the CGU in railroad business had been 10% lower than management s estimates as at 31 December 2018, the Group would not need to recognise impairment charges against goodwill.

Even if the estimated pre-tax discount rate applied to the discounted cash flows for the CGU in railroad business had been 1% higher than management s estimates as at 31 December 2018, no impairment charges had to be recognised by the Group against goodwill.

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**10 SUBSIDIARIES**

The following is a list of the principal subsidiaries at 31 December 2018:

| Name of the entity | Place of incorporation and nature of legal entity | Principal activities and place of operation | Proportion of equity interests held by the Company (%) | Proportion of equity interests held by the Group (%) | Proportion of equity interests held by non-controlling interests (%) | Registered capital RMB 000 |
|---|---|---|---|---|---|---|
| Dongguan Changsheng Enterprise Company Limited | China, limited liability company | Warehousing in the PRC | 51% | 51% | 49% | 38,000 |
| Shenzhen Fu Yuan Enterprise Development Company Limited | China, limited liability company | Hotel management in the PRC | 100% | 100% | | 18,500 |
| Shenzhen Pinghu Qun Yi Railway Store Loading and Unloading Company Limited | China, limited liability company | Cargo loading and unloading, warehousing, freight transportation in the PRC | 100% | 100% | | 10,000 |
| Shenzhen Guangshen Railway Economic and Trade Enterprise Company Limited | China, limited liability company | Catering management in the PRC | 100% | | | 2,000 |
| Shenzhen Railway Station Passenger Services Company Limited | China, limited liability company | Catering services and sales of merchandise in the PRC | 100% | 100% | | 1,500 |
| Guangshen Railway Station Dongqun Trade and Commerce Service Company Limited | China, limited liability company | Sales of merchandises in the PRC | 100% | 100% | | 1,020 |
| Guangzhou Railway Huangpu Service Company Limited | China, limited liability company | Cargo loading and unloading, warehousing, freight transportation in the PRC | 100% | 100% | | 379 |
| Zengcheng Lihua Stock Company Limited ( Zengcheng Lihua )(i) | China, limited liability company | Real estate construction, provision of warehousing, cargo uploading and unloading services in the PRC | 44.72% | 44.72% | 55.28% | 107,050 |

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**10 SUBSIDIARIES (CONTINUED)**

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

In 2018, three subsidiaries of the Group was liquidated. No amount was charged to consolidated comprehensive income statement as the Group recovered the liquidated asset in the same amount as the Group s share of these companies net assets.

As at 31 December 2018, the non-wholly owned subsidiaries individually and in aggregate is not significant to the Group. Therefore, financial information of the non-wholly owned subsidiaries are not disclosed.

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## 11 INVESTMENTS IN ASSOCIATES

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Share of net assets | 174,548 | 181,725 |
| Less: provision for impairment | | |
| | 174,548 | 181,725 |

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

| | 2016<br>RMB 000 | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|---|
| Beginning of the year | 168,711 | 167,604 | 174,548 |
| Share of results after tax | 7,223 | 6,944 | 7,177 |
| Dividend | (8,330) | | |
| End of the year | 167,604 | 174,548 | 181,725 |

As at 31 December 2018, the Group had direct interests in the following companies which are incorporated/established and are operating in the PRC:

| Name of the entity | Percentage of equity interest attributable to the Company | Paid-in capital | Principal activities |
|---|---|---|---|
| Guangzhou Tiecheng Enterprise Company Limited ( Tiecheng ) | 49% | RMB343,050,000 | Properties leasing and trading of merchandise |
| Shenzhen Guangzhou Railway Civil Engineering Company ( Shentu ) | 49% | RMB64,000,000 | Construction of railroad properties |

The above associates are limited liability companies and are unlisted companies. There are no significant contingent liabilities relating to the Group s interest in the associates and there are no significant restrictions on the transfer of assets or earnings from the associates to the Group.

**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

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**11 INVESTMENTS IN ASSOCIATES (CONTINUED)**

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

Summarised balance sheets

| | Tiecheng | | Shentu | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Current assets | 105,556 | 121,465 | 780,104 | 1,143,125 |
| Non-current assets | 333,602 | 326,644 | 12,151 | 12,794 |
| Total assets | 439,158 | 448,109 | 792,255 | 1,155,919 |
| Current liabilities | 210,546 | 208,458 | 664,646 | 1,024,702 |
| Equity | 228,612 | 239,651 | 127,609 | 131,217 |
| Share of net assets | 112,020 | 117,429 | 62,528 | 64,296 |
| Carrying amount of interest in associates | 112,020 | 117,429 | 62,528 | 64,296 |

Summarized comprehensive income statements

| | Tiecheng | | | Shentu | | |
|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Revenue | 41,217 | 44,351 | 45,017 | 493,277 | 506,608 | 851,701 |
| Net profit | 8,800 | 12,225 | 11,039 | 5,941 | 1,947 | 3,608 |
| Total comprehensive income for the year | 8,800 | 12,225 | 11,039 | 5,941 | 1,947 | 3,608 |

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

| Tiecheng | | | Shentu | | | Total | | |
|---|---|---|---|---|---|---|---|---|
| 2016 | 2017 | 2018 | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| 207,587 | 216,387 | 228,612 | 136,721 | 125,662 | 127,609 | 344,308 | 342,049 | 356,221 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Opening net assets | | | | | | | | | |
| Profit for the year | 8,800 | 12,225 | 11,039 | 5,941 | 1,947 | 3,608 | 14,741 | 14,172 | 14,647 |
| Dividend | | | | (17,000) | | | (17,000) | | |
| Closing net assets | 216,387 | 228,612 | 239,651 | 125,662 | 127,609 | 131,217 | 342,049 | 356,221 | 370,868 |
| Percentage of ownership interest | 49% | 49% | 49% | 49% | 49% | 49% | 49% | 49% | 49% |
| Carrying value | 106,030 | 112,020 | 117,429 | 61,574 | 62,528 | 64,296 | 167,604 | 174,548 | 181,725 |

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

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## 12 DEFERRED TAX ASSETS/(LIABILITIES)

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Deferred tax assets | 115,716 | 273,022 |
| Less: Offsetting of deferred tax liabilities | (78,711) | (75,727) |
| Deferred tax assets (net) | 37,005 | 197,295 |
| Deferred tax liabilities | (145,102) | (139,625) |
| Less: Offsetting of deferred tax assets | 78,711 | 75,727 |
| Deferred tax liabilities (net) | (66,391) | (63,898) |
| | (29,386) | 133,397 |

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

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| **Deferred tax assets:** | | |
| - Deferred tax assets to be recovered after more than 12 months | 114,387 | 124,666 |
| - Deferred tax assets to be recovered within 12 months | 1,329 | 148,356 |
| | 115,716 | 273,022 |
| **Deferred tax liabilities:** | | |
| - Deferred tax liabilities to be recovered after more than 12 months | (142,159) | (134,492) |
| - Deferred tax liabilities to be recovered within 12 months | (2,943) | (5,133) |
| | (145,102) | (139,625) |

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

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

| | At 1 January 2017 RMB 000 | (Charged)/ Credited to the comprehensive income statement RMB 000 | At 31 December 2017 RMB 000 | Change in accounting policy (Note 2.2) RMB 000 | At 1 January 2018 RMB 000 | (Charged)/ Credited to the comprehensive income statement RMB 000 | At 31 December 2018 RMB 000 |
|---|---|---|---|---|---|---|---|
| **Deferred tax assets:** | | | | | | | |
| Impairment provision for receivables | 7,003 | (2,230) | 4,773 | 16,558 | 21,331 | (3,490) | 17,841 |
| Impairment provision for fixed assets and construction-in-progress | 4,155 | 2,793 | 6,948 | | 6,948 | (493) | 6,455 |
| Impairment provision for materials and supplies | 5,994 | 1,126 | 7,120 | | 7,120 | 2,335 | 9,455 |
| Differences in accounting base and tax base of government grants | 25,720 | (201) | 25,519 | | 25,519 | (90) | 25,429 |
| Differences in accounting base and tax base of employee benefits obligations | 39,655 | 992 | 40,647 | | 40,647 | 5,093 | 45,740 |
| Loss on disposal of fixed assets | 16,285 | 14,424 | 30,709 | | 30,709 | (17,361) | 13,348 |
| Difference in accounting base and tax base of party organization activity fee | | | | | | 7,973 | 7,973 |
| Difference in accounting base and tax base in the recognition of land disposal proceed | | | | | | 146,781 | 146,781 |
| Others | 50 | (50) | | | | | |
| | 98,862 | 16,854 | 115,716 | 16,558 | 132,274 | 140,748 | 273,022 |

| | At 1 January 2017 RMB 000 | Charged/ (Credited) to the comprehensive | At 31 December | Charged/ (Credited) to the comprehensive | At 31 December |
|---|---|---|---|---|---|

| | | income statement RMB 000 | 2017 RMB 000 | income statement RMB 000 | 2018 RMB 000 |
|---|---|---|---|---|---|
| **Deferred tax liabilities:** | | | | | |
| Differences in accounting base and tax base in recognition of fixed assets | 8,267 | (404) | 7,863 | (2,593) | 5,270 |
| Differences in accounting base and tax base in recognition of leasehold land payments | 68,883 | (2,493) | 66,390 | (2,493) | 63,897 |
| Changes in the fair value of available-for-sale financial assets | | 60,647 | 60,647 | | 60,647 |
| Others | 10,666 | (464) | 10,202 | (391) | 9,811 |
| | 87,816 | 57,286 | 145,102 | (5,477) | 139,625 |

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

Deferred income tax assets are recognised for tax loss carry-forwards and other temporary difference to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of tax losses and other temporary difference amounting to RMB118,264,000 (2017: RMB95,370,000) arising from operations of subsidiaries which do not foresee to have enough tax deductible assessable profits in the near future.

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Tax losses that can be carried forward (a) | 82,918 | 105,812 |
| Deductible temporary differences | 12,452 | 12,452 |
| | 95,370 | 118,264 |

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

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| 2018 | 13,499 | |
| 2019 | 6,371 | 6,371 |
| 2020 | 18,478 | 18,478 |
| 2021 | 22,325 | 22,325 |
| 2022 | 22,245 | 22,245 |
| 2023 | | 36,393 |
| | 82,918 | 105,812 |

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## 13 LONG-TERM PREPAID EXPENSES

The long-term prepaid expenses represented staff uniforms. The movements of long-term prepaid expenses are set forth as follows:

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| **At 1 January** | | |
| Cost | 64,077 | 92,822 |
| Accumulated amortisation | (56,253) | (59,421) |
| Net book amount | 7,824 | 33,401 |
| **Year ended 31 December** | | |
| Opening net book amount | 7,824 | 33,401 |
| Additions | 28,745 | 26,122 |
| Amortisation | (3,168) | (12,909) |
| Closing net book amount | 33,401 | 46,614 |
| **At 31 December** | | |
| Cost | 92,822 | 118,944 |
| Accumulated amortisation | (59,421) | (72,330) |
| Net book amount | 33,401 | 46,614 |

## 14 FINANCIAL INSTRUMENTS BY CATEGORY

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| **Financial assets** | | |
| Long-term receivable (Note 16) | 31,274 | 28,354 |
| Trade and other receivables excluding prepayments (Notes 19 and 20) | 4,417,317 | 4,172,882 |
| Short-term deposits (Note 21) | 108,000 | 109,000 |
| Cash and cash equivalents (Note 21) | 1,160,515 | 1,738,753 |
| FVOCI (Note 15) | | 321,246 |
| Available-for-sale investments (Note 15(e)) | 296,414 | |
| **Total** | 6,013,520 | 6,370,235 |

**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

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**14 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)**

| | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|
| **Financial liabilities** | | |
| Liabilities at amortised cost | | |
| Trade and other payables excluding non-financial liabilities (Notes 26 and 28) | 2,356,953 | 2,631,433 |
| Payables for fixed assets and construction-in-progress | 2,214,547 | 2,441,647 |
| Dividends payable | 12,893 | 12,894 |
| **Total** | 4,584,393 | 5,085,974 |

**15 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

(a) Classification of financial assets at FVOCI

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

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

| | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|
| **Non-current assets** | | |
| Investments in unlisted companies | | 321,246 |

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

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

Note 2.2 explains the change of accounting policy and the reclassification of certain equity investments from AFS to FVOCI. Note 2.12 sets out the remaining accounting policies.

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

(c) Amounts recognised in profit or loss and other comprehensive income
During the year, the following gains were recognised in profit or loss and other comprehensive income.

| | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|
| Change in fair value recognised in other comprehensive income (Note 23; 2017 relating to available-for-sale financial assets) | 242,588 | |
| Dividends from equity investments at FVOCI recognised in profit or loss in other losses - net (Note 31) | | |
| - Related to investments held at the end of the reporting period | 6,473 | 6,473 |

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

(e) Financial assets previously classified as AFS (2017)
AFS included the following classes of financial assets:

| | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|
| **Non-current assets** | | |
| Investments in unlisted companies | 296,414 | |

*Classification of financial assets as available-for-sale*

Investments were designated as AFS if they did not have fixed maturities and fixed or determinable payments, and management intended to hold them for the medium to long-term. Financial assets that were not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) were also included in the available-for-sale category.

The financial assets were presented as non-current assets unless they matured, or management intended to dispose of them within 12 months of the end of the reporting period.

*Impairment indicators for AFS*

A security was considered to be impaired if there had been a significant or prolonged decline in the fair value below its cost. See note 3.1 for further details about the Group s previous impairment policies for AFS.

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## 16 LONG-TERM RECEIVABLE

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

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

The balance approximated its fair value as at 31 December 2018.

## 17 ASSETS CLASSIFIED AS HELD FOR SALE

By April 19, 2018, with the approval of the board of directors, the Group entered into an irrevocable land use right transfer agreement with the Guangzhou Land Development Center ( GLDC ), transferring the land to GLDC, and the transfer price was RMB1,304,717,000. The transfer of assets was not completed in 2018 and the Group received RMB587,123,000 from GLDC in advance (Note 28).

## 18 MATERIALS AND SUPPLIES

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Raw materials | 185,639 | 160,048 |
| Reusable rail-line track materials | 76,017 | 75,415 |
| Accessories | 67,493 | 59,261 |
| Retailing consumables | 1,578 | 1,493 |
| | 330,727 | 296,217 |

The costs of materials and supplies consumed by the Group during the year were recognised as operating expenses in the amount of RMB1,658,327,000 (2017: RMB1,627,992,000).

As at 31 December 2018, the balance of the provision for writing down the materials and supplies to their net realisable values was approximately RMB37,820,000 (2017: RMB28,466,000). During the year, additional provision of RMB19,128,000 was made, RMB7,767,000 was reversed and RMB2,007,000 was written off arising from realization of losses in the disposal of these assets (2017: RMB7,844,000, nil and RMB3,354,000).

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## 19 TRADE RECEIVABLES

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Trade receivables | 4,148,413 | 3,922,829 |
| Including: receivables from related parties | 2,808,052 | 2,949,492 |
| Less: Provision for impairment of receivables | (6,203) | (61,212) |
| | 4,142,210 | 3,861,617 |

As at 31 December 2018 and 2017, the Group s trade receivables were all denominated in RMB. The majority of the trade receivable were from state-owned railroad companies or companies in transportation industry.

The passenger railroad services are usually transacted on a cash basis. The Group does not have formal contractual credit terms agreed with its customers for freight services but the trade receivables are usually settled within a period less than one year. As a result, the Group regards any receivable balance within one year being not overdue. The aging analysis of the outstanding trade receivables is as follows:

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Within 1 year | 2,799,028 | 3,034,930 |
| Over 1 year but within 2 years | 763,812 | 524,652 |
| Over 2 years but within 3 years | 522,122 | 231,879 |
| Over 3 years | 63,451 | 131,368 |
| | 4,148,413 | 3,922,829 |

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## 19 TRADE RECEIVABLES (CONTINUED)

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

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

| | 2016<br>RMB 000 | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|---|
| At 31 December | 8,395 | 4,965 | 6,203 |
| Change of accounting policy (Note 2.2(a)) | | | 60,704 |
| **At 1 January** | 8,395 | 4,965 | 66,907 |
| Provision for impairment | 6 | 5,904 | |
| Reversal of impairment loss provision | | | (5,689) |
| Written-off | (3,436) | (4,666) | (6) |
| **At 31 December** | 4,965 | 6,203 | 61,212 |

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

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## 20 PREPAYMENTS AND OTHER RECEIVABLES

| | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|
| Due from third parties | 268,715 | 313,801 |
| Due from related parties | 45,536 | 35,106 |
| | 314,251 | 348,907 |

| | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|
| Other receivables | 288,432 | 321,855 |
| Less: Provision for impairment | (13,325) | (10,590) |
| Other receivables, net (Note (a)) | 275,107 | 311,265 |
| Prepayments (Note (b)) | 39,144 | 37,642 |
| | 314,251 | 348,907 |

(a) Other receivables mainly represent miscellaneous deposits and receivables arising from the course of provision of non-railway transportation services by the Group. As of 31 December 2018, the input VAT with related invoices not been received or verified amounted to RMB148,369,000 (2017: RMB122,190,000).

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

| | 2016 RMB 000 | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|---|
| At 31 December | 13,377 | 13,336 | 13,325 |
| Change of accounting policy (Note 2.2(a)) | | | 5,527 |
| **At 1 January** | 13,377 | 13,336 | 18,852 |
| Provision for impairment loss | | | 4,631 |
| Reversal of impairment loss provision | (1) | (3) | (2) |
| Written-off | (40) | (8) | (12,891) |
| **At 31 December** | 13,336 | 13,325 | 10,590 |

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

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**20 PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)**

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

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| RMB | 314,184 | 348,491 |
| HKD | 67 | 416 |
| | 314,251 | 348,907 |

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

**21 CASH AND CASH EQUIVALENTS AND SHORT-TERM DEPOSITS**

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Cash at bank and on hand | 1,108,015 | 1,686,253 |
| Term deposits with initial term not more than three months | 52,500 | 52,500 |
| Cash and cash equivalents | 1,160,515 | 1,738,753 |
| Term deposits with initial term of over three months (a) | 108,000 | 109,000 |
| | 1,268,515 | 1,847,753 |

(a) The original effective interest rate of term deposits was 1.62% per annum (2017: 1.54% per annum).

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

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| RMB | 1,235,719 | 1,770,091 |
| HKD | 32,650 | 77,608 |
| USD | 146 | 54 |

| | | |
|---|---|---|
| | 1,268,515 | 1,847,753 |

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## 22 SHARE CAPITAL

As at 31 December 2018 and 2017, the total authorised number of ordinary shares is 7,083,537,000 shares with a par value of RMB1.00 per share. These shares are divided into A shares and H shares. They rank pari passu against each other and they were fully paid up.

| | As at 31 December 2016 RMB 000 | Movement RMB 000 | As at 31 December 2017 RMB 000 | Movement RMB 000 | As at 31 December 2018 RMB 000 |
|---|---|---|---|---|---|
| Authorised, issued and fully paid: | | | | | |
| Listed shares | | | | | |
| - H shares | 1,431,300 | | 1,431,300 | | 1,431,300 |
| - A shares | 5,652,237 | | 5,652,237 | | 5,652,237 |
| Total | 7,083,537 | | 7,083,537 | | 7,083,537 |

## 23 RESERVES

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

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

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

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## 23 RESERVES (CONTINUED)

For the year ended 31 December 2016, 2017 and 2018, the directors proposed the following appropriations to reserves of the Company:

| | 2016 Percentage | 2016 RMB 000 | 2017 Percentage | 2017 RMB 000 | 2018 Percentage | 2018 RMB 000 |
|---|---|---|---|---|---|---|
| Statutory surplus reserve | 10% | 117,050 | 10% | 101,982 | 10% | 83,612 |

In accordance with the provisions of the Articles of Association of the Company, the profit after appropriation to reserves and available for distribution to shareholders shall be the lower of the retained earnings determined under (a) PRC GAAP or (b) IFRS. Due to the fact that the statutory financial statements of the Company have been prepared in accordance with PRC GAAP, the retained earnings so reported may be different from those reported in the statement of changes in shareholders equity prepared under IFRS contained in these financial statements. The main difference between the retained earnings of the Company determined under PRC GAAP and those determined under IFRS was relating to accounting policies in respect of investment in associates adopted under PRC GAAP and IFRS.

For the year 2016,2017 and 2018, the movement of Special reserve - Safety Production Fund of the Group are as below:

| | 2016 RMB 000 | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|---|
| Beginning of the year | | | |
| Appropriation for retained earnings | 204,792 | 227,250 | 242,456 |
| Utilisation | (204,792) | (227,250) | (242,456) |
| End of the year | | | |

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

(a) 1% for regular freight business;

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

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## 23 RESERVES (CONTINUED)

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

For the year 2016,2017 and 2018, the movement of other comprehensive income of the Group are as below:

| | 2016<br>RMB 000 | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|---|
| Beginning of the year | | | 181,941 |
| Addition due to fair value changes on available-for-sale investments | | 242,588 | |
| Addition due to deferred liabilities related to fair value changes on available-for-sale investments | | (60,647) | |
| End of the year | | 181,941 | 181,941 |

*Financial assets at FVOCI*

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in note 2.12. These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

*Available-for-sale financial assets until 31 December 2017*

Changes in the fair value and exchange differences arising on translation of investments that were classified as available-for-sale financial assets (e.g. equities), were recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts were reclassified to profit or loss when the associated assets are sold or impaired, see accounting policy note 2.12 for details.

## 24 DEFERRED INCOME

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Government grants | 105,754 | 99,765 |
| Others | 37 | |
| Total | 105,791 | 99,765 |

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

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

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## 25 EMPLOYEE BENEFITS OBLIGATIONS

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Employee benefits obligations | 30,745 | 28,389 |
| Less: current portion included in accruals and other payables (Note 28) | (30,745) | (28,389) |
| | | |

Pursuant to a redundancy plan implemented by the Group in 2006, selected employees who had met certain specified criteria and accepted voluntary redundancy were provided with an offer of early retirement benefits, up to their official age of retirement. Such arrangements required specific approval granted by management of the Group.

With the acquisition of the Yangcheng Railway Business in 2007 and Guangmeishan Railway Company Limited ( GRCL ) Business and Guangdong Sanmao Railway Company Limited ( GSRC ) Business in 2016, the Group has also assumed certain retirement and termination benefits obligations associated with the operations of Yangcheng Railway Business, GSRL Business and GSRC Business. These obligations mainly include the redundancy termination benefits similar to those mentioned above, as well as the obligation for funding post-retirement medical insurance premiums of retired employees before the respective acquisitions.

The employee benefits obligations have been provided for by the Group at amounts equal to the total expected benefit payments. Where the obligation does not fall due within twelve months, the obligation payable has been discounted using a pre-tax rate that reflects management s current market assessment of the time value of money and risk specific to the obligation. The discount rate was determined with reference to treasury bond yields in the PRC.

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

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| At 1 January | 34,043 | 30,745 |
| Additions | | |
| Payments | (3,298) | (2,356) |
| At 31 December | 30,745 | 28,389 |

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## 26 TRADE PAYABLES

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Payables to third parties | 614,822 | 826,717 |
| Payables to related parties | 710,255 | 614,117 |
| | 1,325,077 | 1,440,834 |

The aging analysis of trade payables was as follows:

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Within 1 year | 1,075,298 | 1,233,902 |
| Over 1 year but within 2 years | 180,294 | 114,480 |
| Over 2 years but within 3 years | 49,359 | 46,383 |
| Over 3 years | 20,126 | 46,069 |
| | 1,325,077 | 1,440,834 |

## 27 CONTRACT LIABILITIES

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Contract liabilities advances received from customers | | 198,251 |
| Contract liabilities frequent traveller program | | 5,380 |
| | | 203,631 |

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## 28 ACCRUALS AND OTHER PAYABLES

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Due to third parties | 1,017,309 | 1,586,277 |
| Due to related parties | 445,922 | 490,521 |
| | 1,463,231 | 2,076,798 |

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Advance received from disposal of assets classified as held for sale (Note 17) | | 587,123 |
| Advances received from others | 152,010 | |
| Payables to GIDC assumed by business combination | 377,703 | 368,560 |
| Other deposits received | 226,453 | 213,056 |
| Salary and welfare payables | 178,427 | 203,791 |
| Deposits received for construction projects | 203,886 | 209,245 |
| Other taxes payable | 70,173 | 66,896 |
| Amounts received on behalf of Labour Union | 73,463 | 96,523 |
| Deposits received from ticketing agencies | 34,298 | 32,448 |
| Employee benefits obligations (Note 25) | 30,745 | 28,389 |
| Housing maintenance fund | 15,740 | 15,741 |
| Other payables | 100,333 | 255,026 |
| | 1,463,231 | 2,076,798 |

## 29 AUDITORS REMUNERATION

Auditors remuneration in respect of audit and non-audit services provided by the auditors for the year ended 31 December 2018 were RMB8,400,000 and RMB750,000 respectively (2017: RMB8,400,000 and RMB950,000 respectively and 2016: RMB8,080,000 and RMB190,000 respectively).

## 30 EMPLOYEE BENEFITS

| | 2016<br>RMB 000 | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|---|
| Wages and salaries | 4,362,506 | 4,848,830 | 5,320,484 |
| Provision for medical, housing scheme and other employee benefits (a) | 1,114,918 | 1,220,708 | 1,296,392 |
| Contributions to the defined contribution scheme (b) | 741,923 | 772,682 | 829,539 |

| | | |
|---|---|---|
| 6,219,347 | 6,842,220 | 7,446,415 |

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**30 EMPLOYEE BENEFITS (CONTINUED)**

(a) Housing scheme

In accordance with the PRC housing reform regulations, the Group is required to make contributions to a state-sponsored housing fund at 10% or 12% of the salaries of the employees. At the same time, the employees are also required to make a contribution at 10% or 12% of the salaries out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. The Group has no further legal nor constructive obligation towards housing benefits of these employees offered beyond the above contributions made.

(b) Defined contribution pension scheme

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (2017: one), three senior executives (2017: three) and one supervisor (2017: one). No remuneration has been paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office.

The emolument range of each individual is within the band of Nil to RMB471,000 (2017: Nil to RMB498,000).

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## 31 OTHER LOSSES NET

| | 2016 RMB 000 | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|---|
| Loss on disposal of fixed assets net | (133,073) | (77,026) | (93,914) |
| Interest income from banks | 24,772 | 18,974 | 25,209 |
| Government grants | 9,769 | 13,272 | 15,223 |
| Dividend income from FVOCI(2017: AFS) | 5,884 | 6,473 | 6,473 |
| Income from compensation | 749 | 295 | 2,176 |
| Impairment of fixed assets(Note 6) | | (11,185) | (10,364) |
| Impairment of construction-in-progress(Note 7) | (5,662) | | |
| Impairment of trade receivables (Note 19) | (6) | (5,904) | |
| Unwinding of interest accrued on long-term receivable | 2,602 | 2,868 | 4,080 |
| Income from disposal of subsidiaries | | | 81 |
| Renovation cost for the separation and transfer of facilities | | | (65,735) |
| Others | (13,305) | 3,756 | 8,158 |
| | (108,270) | (48,477) | (108,613) |

## 32 FINANCE (INCOME)/COSTS NET

| | 2016 RMB 000 | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|---|
| Net foreign exchange gains/(loss) | 6,374 | (7,304) | 1,044 |
| Bank charges | (3,823) | (2,866) | (1,674) |
| | 2,551 | (10,170) | (630) |

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## 33 INCOME TAX EXPENSE

In 2016, 2017 and 2018, the applicable income tax rate of the Company was 25%.

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

| | 2016<br>RMB 000 | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|---|
| Current income tax | 379,482 | 355,579 | 435,991 |
| Deferred income tax (Note 12) | 10,827 | (20,215) | (146,225) |
| | 390,309 | 335,364 | 289,766 |

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

| | 2016<br>RMB 000 | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|---|
| Profit before tax | 1,544,009 | 1,347,132 | 1,068,800 |
| Tax calculated at the statutory rate of 25% (2017 and 2016: 25%) | 386,002 | 336,783 | 267,200 |
| Effect of expenses not deductible for tax purposes | 1,928 | 663 | 19,647 |
| Effect of income not subject to tax | (3,277) | (3,354) | (3,432) |
| Tax losses for which no deferred tax asset was recognised | 5,656 | 5,561 | 9,098 |
| Adjustments for current tax of prior periods | | (3,886) | (2,335) |
| Utilisation of previously unrecognised tax losses | | (403) | (412) |
| Income tax expense | 390,309 | 335,364 | 289,766 |

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## 34 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to equity holders of approximately RMB784,059(2016 and 2017: RMB1,158,253,000and RMB1,015,361,000 ), divided by the weighted average number of ordinary shares outstanding during the year of 7,083,537,000 shares (2016 and 2017: 7,083,537,000 shares). There were no dilutive potential ordinary shares during each of the three years in the period ended December 31, 2018. The calculation of earnings per equivalent ADS is based on the net profit for the year attributable to equity holders, divided by the weighted average equivalent ADSs (one ADS represents 50 H Shares) outstanding during the year of 141,670,740 ADSs (2016 and 2017: 141,670,740 ADSs).

| | **2016**<br>**RMB 000** | **2017**<br>**RMB 000** | **2018**<br>**RMB 000** |
|---|---|---|---|
| Profit attributable to owners of the Company | 1,158,253 | 1,015,361 | 784,059 |
| Weighted average number of ordinary shares in issue | 7,083,537 | 7,083,537 | 7,083,537 |
| Weighted average equivalent ADSs | 141,670 | 141,670 | 141,670 |
| Basic and diluted earnings per share | RMB0.16 | RMB0.14 | RMB0.11 |
| Basic and diluted earnings per equivalent ADS | RMB8.18 | RMB7.17 | RMB5.53 |

## 35 DIVIDENDS

The dividends paid to the ordinary shareholders of the Group in 2016, 2017 and 2018 were all RMB566,683,000 (RMB0.08 per share) respectively.

| | **2016**<br>**RMB 000** | **2017**<br>**RMB 000** | **2018**<br>**RMB 000** |
|---|---|---|---|
| Final, proposed, of RMB0.06 (2016 and 2017: RMB0.08) per ordinary share | 566,683 | 566,683 | 425,012 |

At the meeting of the directors held on 27 March 2019, the directors proposed a final dividend of RMB0.06 per ordinary share for the year ended 31 December 2018, which is subject to the approval by the shareholders in general meeting. This proposed dividend was not reflected as a dividend payable in the Group s and the Company s financial statements as at 31 December 2018.

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## 36 CASH FLOW GENERATED FROM OPERATIONS

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

| | 2016 RMB 000 | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|---|
| Profit before income tax: | 1,544,009 | 1,347,132 | 1,068,800 |
| Adjustments for: | | | |
| Depreciation of fixed assets (Note 6) | 1,518,970 | 1,662,460 | 1,609,743 |
| Impairment of fixed assets (Note 6) | | 11,185 | 10,363 |
| Impairment of construction-in-progress (Note 7) | 5,662 | | |
| Provision for impairment of materials and supplies (Note 18) | (5,209) | 7,844 | 11,361 |
| Amortisation of leasehold land payments (Note 8) | 38,670 | 45,680 | 55,782 |
| Loss on disposal of fixed assets and costs on repairs | 133,073 | 321,741 | 261,476 |
| Amortisation of long-term prepaid expenses (Note 13) | 6,968 | 3,168 | 12,909 |
| Share of results of associates , net of tax (Note 11) | (7,223) | (6,944) | (7,177) |
| Dividend income on FVOCI/AFS (Note 31) | (5,884) | (6,473) | (6,473) |
| Investment income from liquidation of a subsidiary (Note 31) | | | (81) |
| (Reversal of)/provision for impairment of receivables | 5 | 5,901 | (1,061) |
| Amortisation of deferred income | (3,258) | (3,282) | (5,988) |
| Interest income | (4,353) | (4,647) | (5,845) |
| Operating profit before working capital changes | 3,221,430 | 3,383,765 | 3,003,809 |
| Decrease/(increase) in trade receivables | (1,034,064) | (419,349) | 230,877 |
| Decrease in materials and supplies | 14,432 | 6,121 | 39,224 |
| Increase in prepayments and other receivables | (47,594) | (12,975) | (17,218) |
| Decrease in long-term receivable | 2,000 | 3,000 | 7,000 |
| Increase in trade payables | 34,178 | 181,554 | 115,759 |
| Increase/(decrease) in accruals and other payables | 22,481 | (179,412) | 220,571 |
| Net cash generated from operations | 2,212,863 | 2,962,704 | 3,600,022 |

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## 36 CASH FLOW GENERATED FROM OPERATIONS (CONTINUED)

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

| | 2016 RMB 000 | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|---|
| Net book amount (Note 6) | 142,336 | 336,812 | 284,658 |
| Receivable arising from disposal of fixed assets | 20,349 | | |
| Payable arising from disposal of fixed assets | | (2,457) | (6,715) |
| Transfer to materials and supplies | (11,662) | (12,087) | (16,075) |
| Loss on disposal of fixed assets and costs on repairs | (133,073) | (321,741) | (261,476) |
| Proceeds from disposal of fixed assets | 17,950 | 527 | 392 |

## 37 CONTINGENCY

There were no significant contingent liabilities as at 31 December 2018 and up to the date of approval of these financial statements.

## 38 COMMITMENTS

(a) Capital commitments

As at 31 December 2018, the Group had the following capital commitments:

| | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|
| Contracted but not provided for | 1,341,055 | 899,290 |
| Authorised but not contracted for | 518,945 | 1,765,710 |

A substantial amount of these commitments is related to the reform of stations or facilities relating to the existing railway lines of the Company, which would be financed by self-generated operating cash flow.

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## 38 COMMITMENTS (CONTINUED)

(b) Operating lease commitments

In connection with the acquisition of Yangcheng Railway Business, the Company signed an agreement on 15 November 2004 with Guangzhou Railway Group for leasing the land use rights associated with the land on which the acquired assets of Yangcheng Railway Business are located. The agreement became effective upon the completion of the acquisition on 1 January 2007 and the remaining lease term is 20 years, renewable at the discretion of the Company. According to the terms of the agreement, the rental for such lease would be agreed by both parties every year with a maximum amount not exceeding RMB74,000,000 per year. During the year ended 31 December 2018, the related lease rental paid and payable was approximately RMB58,490,000 (2016 and 2017: RMB55,090,000 and RMB57,358,000).

## 39 BUSINESS COMBINATIONS

On 26 October 2016, the Company entered into agreements to acquire certain railway service businesses of Guangzhou Railway Group, Guangmeishan Railway Company Limited ( GRCL ) and Guangdong Sanmao Railway Company Limited( GSRC ). GRCL and GSRC are subsidiaries of Guangzhou Railway Group which operate freight service business (the Acquisition ).

The purchase considerations payable to Guangzhou Railway Group, GRCL and GSRC were approximately RMB28,657,000, RMB453,658,000 and RMB249,677,000, respectively.

On 26 October 2016, the Company obtain control over above mentioned railway service businesses and the directors of the Company determined that it was the completion date of the Acquisition. The results of the operations of the above-mentioned entities have been included in the Group s consolidated comprehensive income statement from 26 October 2016 onwards accordingly.

The following table summarizes the consideration paid for Guangzhou Railway Group, GRCL and GSRC, the fair value of identifiable assets acquired and liabilities assumed at the date of the Acquisition:

| | Guangzhou Railway Group RMB 000 | GRCL RMB 000 | CSRC RMB 000 | Total RMB 000 |
|---|---|---|---|---|
| Amount payables arising from the Acquisition(a) | 28,657 | 453,658 | 249,677 | 731,992 |
| Less Employee benefits obligation undertaken to be borne by the Company | | (9,024) | (15,703) | (24,727) |
| Total consideration(a) | 28,657 | 444,634 | 233,974 | 707,265 |

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**39 BUSINESS COMBINATIONS (CONTINUED)**

(a) The total consideration of approximately RMB707,265,000 had been offset against the trade receivables due from Guangzhou Railway Group, GRCL and GSRC to the Group. Therefore, no actual cash outflow occurred in the business acquisition.

As at the completion date of the Acquisition, the fair value of the identifiable assets and liabilities acquired were as below:

| | |
|---|---|
| Inventories | 23,110 |
| Fixed assets | 648,890 |
| Construction-in-progress | 59,992 |
| Other liabilities | (24,727) |
| Total identifiable net assets | 707,265 |
| Total consideration | 707,265 |
| Goodwill | |

The directors of the Company made reference to the valuation report performed by an independent valuer on the acquired businesses when they determined the fair value of the identifiable assets and the liabilities acquired.

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## 40 RELATED PARTY TRANSACTIONS

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

(a) Related parties that control the Company or are controlled by the Company:
See note 10 for the principal subsidiaries.

None of the shareholders is the controlling entity of the Company.

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

(i) Guangzhou Railway Group and its subsidiaries

| Name of related parties | Relationship with the Company |
|---|---|
| ***Single largest shareholder and its subsidiaries*** | |
| Guangzhou Railway Group | Single largest shareholder |
| Guangdong Yangcheng Railway Enterprise Co., Ltd. | Subsidiary of the single largest shareholder |
| GRCL | Subsidiary of the single largest shareholder |
| GIDC | Subsidiary of the single largest shareholder |
| Guangzhou Railway Material Supply Company | Subsidiary of the single largest shareholder |
| Guangzhou Railway Station Service Centre | Subsidiary of the single largest shareholder |
| Changsha Railway Construction Company Limited | Subsidiary of the single largest shareholder |
| GSRC | Subsidiary of the single largest shareholder |
| Guangzhou Yuetie Operational Development Company | Subsidiary of the single largest shareholder |
| Guangzhou Railway Rolling Stock Company Limited | Subsidiary of the single largest shareholder |
| Guangdong Tieqing International Travel Agency Company Limited | Subsidiary of the single largest shareholder |
| Huaihua Railway Engineer Construction Company | Subsidiary of the single largest shareholder |
| Xiashen Railway Guangdong Company Limited | Subsidiary of the single largest shareholder |
| Ganshao Railway Company Limited | Subsidiary of the single largest shareholder |
| Hunan Changtie Industrial Development Co. Ltd. | Subsidiary of the single largest shareholder |
| Guangzhou Railway Real Estate Construction Engineering Co., Ltd. | Subsidiary of the single largest shareholder |
| Guangzhou Beiyang Information Technology Company Limited | Subsidiary of the single largest shareholder |
| Hainan Railway Company Limited | Subsidiary of the single largest shareholder |
| Guangdong Sanmao Railway Capital Construction Company | Subsidiary of the single largest shareholder |
| | Subsidiary of the single largest shareholder |

Construction Engineering Company of Yangcheng Railway
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**40 RELATED PARTY TRANSACTIONS (CONTINUED)**

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

(ii) Associates of the Group:

| Associates of the Group | |
|---|---|
| Tiecheng | Associate of the Group |
| Shentu | Associate of the Group |

(iii) Relationship with CRC and other railway companies

On 14 March 2013, pursuant to the Approval, the previous controlling entity of Guangzhou Railway Group, MOR, had been dismantled. The administrative function of MOR were transferred to the Ministry of Transport and the newly established National Railway Bureau, and its business functions were transferred to the CRC. Accordingly, the equity interests of Guangzhou Railway Group which was wholly controlled by MOR previously were transferred to the CRC ( Reform ). The Reform was completed since 1 January 2017 and the Company disclosed details of transactions undertaken with CRC Group for both years of 2018 and 2017 for reference. Unless otherwise specified, the transactions with CRC Group disclosed below have excluded transactions undertaken with Guangzhou Railway Group and its subsidiaries.

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**40 RELATED PARTY TRANSACTIONS (CONTINUED)**

(c) In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with related parties:

(I) Material transactions undertaken with Guangzhou Railway Group and its subsidiaries:

| | 2016 RMB 000 | 2017 RMB 000 | 2018 RMB 000 |
|---|---|---|---|
| ***Provision of services and sales of goods*** | | | |
| Transportation related services | | | |
| Provision of train transportation services to Guangzhou Railway Group and its subsidiaries (i) | 1,425,538 | 1,505,348 | 1,861,543 |
| Revenue collected by CRC for railway network usage and related services provided to Guangzhou Railway Group and its subsidiaries (ii) | 1,400,876 | 1,428,752 | 1,357,512 |
| Revenue from railway operation service provided to Guangzhou Railway Group s subsidiaries (iii) | 579,253 | 660,847 | 736,492 |
| | 3,405,667 | 3,594,947 | 3,955,547 |
| *Other services* | | | |
| Sales of materials and supplies to Guangzhou Railway Group and its subsidiaries (iv) | 29,449 | 23,386 | 39,383 |
| ***Services received and purchase made*** | | | |
| Transportation related services | | | |
| Provision of train transportation services by Guangzhou Railway Group and its subsidiaries (i) | 989,778 | 1,048,524 | 872,234 |
| Cost settled by CRC for railway network usage and related services provided by Guangzhou Railway Group and its subsidiaries (ii) | 1,628,336 | 1,720,849 | 1,898,623 |
| Operating lease rental paid to Guangzhou Railway Group for the leasing of land use rights (Note 38 (b)) | 55,090 | 57,358 | 58,490 |
| | 2,673,204 | 2,826,731 | 2,829,347 |
| *Other services* | | | |
| Social services (employee housing and public security services and other ancillary services) provided by GEDC and Yangcheng Railway (iii) | 11,297 | | |
| Provision of repair and maintenance services by Guangzhou Railway Group and its subsidiaries (iv) | 306,988 | 298,040 | 451,976 |
| Purchase of materials and supplies from Guangzhou Railway Group and its subsidiaries (iv) | 469,273 | 455,716 | 555,048 |
| Provision of construction services by Guangzhou Railway Group and its subsidiaries (v) | 347,409 | 272,390 | 180,147 |

| | | |
|---|---|---|
| 1,134,967 | 1,026,146 | 1,187,171 |

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**40 RELATED PARTY TRANSACTIONS (CONTINUED)**

(c) In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with related parties (continued):

(I) Material transactions undertaken with Guangzhou Railway Group and its subsidiaries:

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

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

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

(iv) The prices are determined based on mutual negotiation between the contracting parties with reference to actual costs incurred.

(v) Based on construction amount determined under national railway engineering guidelines.

(II) Material transactions with CRC and other railway companies

When the passenger trains and freight trains operated by the Group pass through rail lines owned by other railway companies controlled by the CRC, the Group need to pay those companies for the services rendered (track usage, locomotive traction and electric catenaries service, etc.), and vice versa. The charge rate of such services are instructed by the CRC and are collected and settled by the CRC according to its central recording and settlement systems (see details in note 2.24).

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**40 RELATED PARTY TRANSACTIONS (CONTINUED)**

(c) In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with related parties (continued):

(II) Material transactions with CRC and other railway companies (continued):

In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with the CRC Group:

| | **2016 RMB 000** | **2017 RMB 000** | **2018 RMB 000** |
|---|---|---|---|
| ***Provision of services and sales of goods*** | | | |
| *Transportation related services* | | | |
| Provision of train transportation services to CRC Group (i) | 29,794 | 81,396 | 63,364 |
| Revenue collected by CRC for services provided to CRC Group (ii) | 1,777,640 | 1,877,719 | 2,527,897 |
| Revenue from railway operation service provided to CRC Group (iii) | 1,628,143 | 1,800,692 | 2,012,880 |
| | 3,435,577 | 3,759,807 | 4,604,141 |
| *Other services* | | | |
| Provision of repairing services for cargo trucks to CRC Group (ii) | 323,993 | 333,917 | 337,432 |
| Sales of materials and supplies to CRC Group (iv) | 7,073 | 7,185 | 9,099 |
| Provision of apartment leasing services to CRC Group (iv) | 641 | 722 | 617 |
| | 331,707 | 341,824 | 347,148 |
| ***Services received and purchases made*** | | | |
| Transportation related services | | | |
| Provision of train transportation services by CRC Group (i) | 292,754 | 306,208 | 283,490 |
| Cost settled by CRC for services provided by CRC Group (ii) | 1,376,047 | 1,395,591 | 2,161,146 |
| | 1,668,801 | 1,701,799 | 2,444,636 |
| *Other services* | | | |
| Provision of repair and maintenance services by CRC Group (iv) | 42,954 | 31,089 | 9,440 |
| Purchase of materials and supplies from CRC Group (iv) | 15,220 | 19,258 | 27,743 |
| Provision of construction services by CRC Group (v) | 4,385 | | 1,417 |
| | 62,559 | 50,347 | 38,600 |

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

(ii) Such revenue/charges are determined by the CRC based on its standard charges applied on a nationwide basis.

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**40 RELATED PARTY TRANSACTIONS (CONTINUED)**

(c) In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with related parties (continued):

(II) Material transactions with CRC and other railway companies (continued):
In addition to those disclosed elsewhere in the financial statements, during the year, the Group had the following material transactions undertaken with the CRC Group (continued):

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

(iv) The prices are determined based on mutual negotiation between the contracting parties with reference to actual costs incurred.

(v) Based on construction amounts determined under national railway engineering guidelines.

(III) Revenues collected and settled through the CRC:

| | 2016<br>RMB 000 | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|---|
| - Passenger transportation | 6,960,491 | 7,295,985 | 7,532,999 |
| - Freight transportation | 1,105,061 | 1,266,122 | 1,849,360 |
| - Other transportation related services | 86,883 | 112,267 | 78,935 |
| | 8,152,435 | 8,674,374 | 9,461,294 |

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**40 RELATED PARTY TRANSACTIONS (CONTINUED)**

(d) As at 31 December 2017 and 2018, the Group had the following material balances maintained with related parties:

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

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Trade receivables | 1,435,421 | 1,934,435 |
| - Guangzhou Railway Group (i) | 132,830 | 586,049 |
| - Subsidiaries of Guangzhou Railway Group (i) | 1,302,591 | 1,348,386 |
| Prepayments and other receivables | 44,329 | 33,957 |
| - Guangzhou Railway Group | 3,277 | 231 |
| - Subsidiaries of Guangzhou Railway Group | 41,052 | 33,726 |
| Prepayments for fixed assets and construction-in-progress | 4,352 | 2,489 |
| - Subsidiaries of Guangzhou Railway Group (ii) | 4,352 | 329 |
| -Associates | | 2,160 |
| Trade payables | 681,587 | 597,050 |
| - Guangzhou Railway Group (i) | 61,899 | 95,048 |
| - Subsidiaries of Guangzhou Railway Group (ii) | 619,509 | 500,385 |
| - Associates | 179 | 1,617 |
| Payables for fixed assets and construction-in-progress | 342,519 | 388,482 |
| - Guangzhou Railway Group | 53,821 | 42,604 |
| - Subsidiaries of Guangzhou Railway Group | 220,377 | 211,486 |
| - Associates | 68,321 | 134,392 |
| Contract liabilities | | 1,100 |
| - Subsidiaries of Guangzhou Railway Group | | 1,096 |
| - Associates | | 4 |
| Accruals and other payables | 439,509 | 454,670 |
| - Guangzhou Railway Group | 7,390 | 9,212 |
| - Subsidiaries of Guangzhou Railway Group (iii) | 430,041 | 443,391 |
| - Associates (iv) | 2,078 | 2,067 |

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## 40 RELATED PARTY TRANSACTIONS (CONTINUED)

(e) As at 31 December 2017 and 2018, the Group had the following material balances maintained with related parties (continued):

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

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

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

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

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

As at 31 December 2017 and 2018, all the balances maintained with related parties were unsecured, non-interest bearing and were repayable on demand.

(II) Material balances with CRC Group:

| | 2017<br>RMB 000 | 2018<br>RMB 000 |
|---|---|---|
| Due from CRC Group | | |
| - Trade receivables | 1,372,631 | 1,015,057 |
| - Other receivables | 1,207 | 1,149 |
| | | |
| Due to CRC Group | | |
| - Trade payables and payables for fixed assets and construction-in-progress | 62,620 | 32,688 |
| - Other payables | 6,413 | 35,851 |

As at 31 December 2018, all the balances maintained with CRC Group were unsecured, non-interest bearing and were repayable on demand.

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**GUANGSHEN RAILWAY COMPANY LIMITED AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts expressed in Renminbi unless otherwise stated)

**41 SUBSEQUENT EVENTS**

In addition to the disclosure in note 35, the Group obtained a bank facility amounting to RMB500,000,000 on 15 March 2019. This bank facility was not recorded in the Group s and the Company s financial statements as at 31 December 2018.