THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Shenzhen International Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Shenzhen International Holdings Limited
深圳國際控股有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 00152)

MAJOR TRANSACTION
CAPITAL INJECTION TO SHENZHEN AIRLINES

A notice convening a special general meeting of Shenzhen International Holdings Limited (the "Company") to be held at the conference room of the Company at Rooms 2206-2208, 22nd Floor, Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong on Friday, 16 April 2010 at 11:00 a.m. or any adjournment thereof is set out on pages 199 to 200 of this circular. Whether or not you are able to attend and vote at the meeting, you are requested to complete the enclosed proxy form and return it to the branch share registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjourned meeting(s) should you so wish.

29 March 2010

* *For identification purpose only*

CONTENTS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise:

"Air China"	Air China Limited (中國國際航空股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange as its primary listing venue and on the Official List of the UK Listing Authority as its secondary listing venue, and the A shares of which are listed on the Shanghai Stock Exchange
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of directors of the Company
"Capital Increase Agreement"	the agreement relating to the increase in the registered capital of Shenzhen Airlines dated 21 March 2010 entered into between Total Logistics, Air China and Huirun
"Capital Injection"	the transaction in which Total Logistics subscribed for an additional registered capital of Shenzhen Airlines in the amount of RMB173,125,000 for a consideration of RMB347,981,250 pursuant to the Capital Increase Agreement
"Company"	Shenzhen International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
"Completion"	Completion of the transactions contemplated under the Capital Increase Agreement
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group as enlarged by the increase in equity interest in Shenzhen Airlines
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huirun"	Shenzhen Huirun Investment Co. Ltd. (深圳市匯潤投資有限公司), a company established under the laws of the PRC with limited liability, and as at the Latest Practicable Date, the Intermediate People's Court of Shenzhen has accepted the application for bankruptcy of Huirun filed by its creditor and admitted the case for hearing. A liquidation committee has been designated by the court to take responsibility of the winding up affairs of Huirun
"Latest Practicable Date"	25 March 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information

"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, excluding, for the purpose of this circular only, Hong Kong, Macau Special Administrative Region and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Cap.571, Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held at the conference room of the Company at Rooms 2206-2208, 22nd Floor, Greenfield Tower, Concordia Plaza, No.1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong on Friday, 16 April 2010 at 11:00 a.m. to consider and, if thought fit, to approve the Capital Injection and the transactions contemplated under the Capital Increase Agreement
"Share(s)"	ordinary share(s) of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Airlines"	Shenzhen Airlines Limited(深圳航空有限責任公司), a company established and validly existing under the laws of the PRC with limited liability
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Total Logistics"	Shenzhen International Total Logistics (Shenzhen) Co., Ltd.(深國際全程物流(深圳)有限公司), a company established under the laws of the PRC, and a wholly-owned subsidiary of the Company
"%"	per cent.

In this circular, the English names of the PRC entities are translations of their Chinese names and included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

Shenzhen International Holdings Limited
深圳國際控股有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 00152)

Executive Directors:
Guo Yuan *(Chairman)*
Li Jing Qi
Liu Jun
Yang Hai

Non-executive Directors:
To Chi Keung, Simon
Wang Dao Hai

Independent Non-executive Directors:
Leung Ming Yuen, Simon
Ding Xun
Nip Yun Wing

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business:
Rooms 2206-2208
22nd Floor, Greenfield Tower
Concordia Plaza
No.1 Science Museum Road
Tsimshatsui East, Kowloon
Hong Kong

29 March 2010

To the Shareholders

Dear Sirs or Madams,

MAJOR TRANSACTION
CAPITAL INJECTION TO SHENZHEN AIRLINES

INTRODUCTION

Reference is made to the announcement issued by the Company in relation to the capital injection to Shenzhen Airlines dated 21 March 2010.

On 21 March 2010, the Company, through its wholly-owned subsidiary Total Logistics, entered into the Capital Increase Agreement with Air China and Huirun, pursuant to which Total Logistics and Air China have agreed to make a capital contribution totalling RMB1,030,125,000 to Shenzhen Airlines, of which, Total Logistics will contribute RMB347,981,250 and Air China will contribute RMB682,143,750 to subscribe for additional registered capital of Shenzhen Airlines. Huirun's liquidator, on behalf of Huirun, has waived its right to subscribe for the additional registered capital and agreed that Total Logistics and Air China shall subscribe for the entire additional registered capital of Shenzhen Airlines. Upon completion of such capital increase, Total Logistics will increase its equity interest in Shenzhen Airlines from 10% to 25%, and Air China and Huirun will own 51% and 24% equity interests in Shenzhen Airlines, respectively.

* *For identification purpose only*

The Capital Injection constitutes a major transaction of the Company under the Listing Rules and is therefore subject to the approval by the Shareholders at the SGM.

The purpose of this circular is to give Shareholders further information on the Capital Injection.

THE CAPITAL INCREASE AGREEMENT

Date

21 March 2010

Parties Involved

(1) Total Logistics, which engages in the provision of total logistics and transportation ancillary services;

(2) Air China, whose principal business activity is air passenger, air cargo and airline-related services; and

(3) Huirun, whose principal business activity is industrial investments.

The Company confirms that, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Air China and Huirun and each of their ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

As at the Latest Practicable Date, the Intermediate People's Court of Shenzhen has accepted the application for bankruptcy for Huirun filed by its creditor and admitted the case for hearing. A liquidation committee has also been designated by the court to take responsibility of the winding up affairs of Huirun. In light of the support from Air China and the Company upon Completion and the fact that Shenzhen Airlines' operation is independent from Huirun and it does not rely on Huirun financially, the Directors are of the view that Huirun's bankruptcy would not have material adverse impacts on the operation and financial position of Shenzhen Airlines.

Proposed Capital Injection and Consideration

Pursuant to the Capital Increase Agreement, the registered capital of Shenzhen Airlines shall increase by RMB512,500,000, of which, Total Logistics will subscribe for an additional registered capital of RMB173,125,000 for a cash consideration of RMB347,981,250 and Air China will subscribe for an additional registered capital of RMB339,375,000 for a cash consideration of RMB682,143,750.

Huirun's liquidator, on behalf of Huirun, has waived its right to subscribe, and agreed that Total Logistics and Air China shall subscribe, for the entire additional registered capital of Shenzhen Airlines. The excess of all amounts subscribed for the additional registered capital will be credited to the share premium account of Shenzhen Airlines. The Group intends to fund the Capital Injection by internal resources and borrowings.

Subject to the fulfilment of the conditions under the Capital Increase Agreement, Total Logistics and Air China shall settle their respective cash consideration in full on or before 19 April 2010.

The amount of the capital injection to Shenzhen Airlines, which includes additional registered capital of Shenzhen Airlines in the amount of RMB512,500,000 to be subscribed pursuant to the Capital Increase Agreement, was determined after arm's length negotiations among the Company, Air China and Huirun with reference to a valuation of the assets and liabilities of Shenzhen Airlines at a net amount of approximately RMB602,511,600 as at 31 December 2009, which represents a fair value of the net assets of Shenzhen Airlines, and by taking into consideration the financial position of Shenzhen Airlines.

Prior to Completion, the Group's 10% equity interest in Shenzhen Airlines is classified as available-for-sale financial assets under non-current assets in its consolidated financial statements. Upon Completion, Shenzhen Airlines will become an associate of the Group. Changes in the equity interests in Shenzhen Airlines before and after Completion are summarised as follows:

	Before Completion		**After Completion**	
Equity holders	**Amount of registered and paid up capital** *(in RMB)*	**Percentage**	**Amount of registered and paid up capital** *(in RMB)*	**Percentage**
Total Logistics	30,000,000	10%	203,125,000	25%
Air China	75,000,000	25%	414,375,000	51%
Huirun	195,000,000	65%	195,000,000	24%
Total	300,000,000	100%	812,500,000	100%

Conditions

The transactions contemplated under the Capital Increase Agreement are conditional upon the satisfaction of, among others, the followings:

a) the resolution proposed at the shareholders' general meeting of the Company to approve the Capital Injection having been passed;

b) all necessary approvals and consents having been obtained for the transactions contemplated under the Capital Increase Agreement, including but not limited to the relevant approvals of the Civil Aviation Administration of China;

c) all representations and warranties made by Huirun in the Capital Increase Agreement being true and accurate as at the date of the Capital Increase Agreement and up to and including the date of payment of the contribution pursuant to the Capital Increase Agreement; and

d) there having been no material adverse change in the business or financial position of Shenzhen Airlines since the date of the Capital Increase Agreement and up to and including the date of payment of the contribution pursuant to the Capital Increase Agreement.

INFORMATION ON SHENZHEN AIRLINES

Shenzhen Airlines is principally engaged in airlines operation in the PRC.

According to the audited financial statements of Shenzhen Airlines prepared in accordance with Hong Kong Financial Reporting Standards, the net profit of Shenzhen Airlines for the year ended 31 December 2008 before and after taxation were approximately RMB64 million and RMB73 million, respectively. The net loss of Shenzhen Airlines for the year ended 31 December 2009 before and after taxation were approximately RMB776 million and RMB869 million, respectively. As at 31 December 2009, Shenzhen Airlines had a shareholders' deficit of approximately RMB1,781 million.

Shenzhen Airlines has sound core business and earnings. The losses incurred by Shenzhen Airlines for the years ended 31 December 2007 and 31 December 2009 were due to impairment losses not related to its core business.

Your attention is drawn to sub-paragraph 1(c) headed "Going concern" under the section headed "Notes to the Financial Information" in Appendix III to this circular for more background information of Huirun and the going concern assumptions of Shenzhen Airlines.

REASONS AND BENEFITS FOR THE CAPITAL INJECTION

The Group is principally engaged in the investment, construction and operation of logistic infrastructure facilities, as well as the provision of relevant logistic services which include third party logistic services and logistic information services.

With the gradual recovery of the global economy and the strong growth of economy of the PRC, the domestic air transportation industry in the PRC has led the way to get out of the downturn and shown promising signs of recovery. Amidst the revival of the global economy and the continuous growth of economy of the PRC, the domestic air transportation industry is expecting another new cycle of growth. The capital increase in Shenzhen Airlines is favourable to the improvement of the financial position of Shenzhen Airlines and to the sustained development of Shenzhen Airlines. It is anticipated that through the closer relationship with Air China, the new controlling shareholder of Shenzhen Airlines after Completion, the airline network of Shenzhen Airlines will be enhanced and the profitability of Shenzhen Airlines is expected to be improved. The Directors consider that the Capital Injection presents a valuable investment opportunity to the Group and believe that such opportunity will further enhance Shareholders' return.

The Board also considers that the Capital Increase Agreement was entered into on normal commercial terms, and the terms of the Capital Increase Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE CAPITAL INJECTION

Effects on assets and liabilities

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, had the Capital Injection been completed on 31 December 2009, the unaudited pro forma total assets of the Enlarged Group would be approximately HK$32,872,812,000 and the unaudited pro forma total liabilities of the Enlarged Group would be approximately HK$20,131,033,000 as at 31 December 2009.

Effect on earnings

Upon Completion, Shenzhen Airlines will become an associate of the Company and the Group will equity account for the financial results of Shenzhen Airlines. The Group recorded an audited consolidated net profit attributable to equity holders of the Company of approximately HK$866 million for the year ended 31 December 2009. According to the accountant's report of Shenzhen Airlines as set out in Appendix III to this circular, the audited consolidated results of Shenzhen Airlines for each of the years ended 31 December 2007, 2008 and 2009 were loss of RMB1,818 million, profit of RMB73 million and loss of RMB869 million, respectively. Given the positive future prospect of Shenzhen Airlines (for details please refer to the paragraph headed "Reasons and Benefits for the Capital Injection" above and "Review and Prospects of Shenzhen Airlines" in Appendix IV), the Directors believe that Shenzhen Airlines will derive positive earnings and generate additional financial contributions to the Group.

LISTING RULES IMPLICATIONS

As the relevant percentage ratios under Rule 14.07 of the Listing Rules for the Capital Injection are above 25% but below 100%, the Capital Injection constitutes a major transaction of the Company under the Listing Rules and is therefore subject to the approval of the Shareholders at a general meeting.

SGM

The SGM will be convened to consider and, if thought fit, to approve the Capital Injection and the transactions contemplated under the Capital Increase Agreement. A notice convening the SGM is set out on pages 199 to 200 of this circular. Voting at the SGM will be taken on a poll.

As no Shareholder has any material interest in the Capital Injection which is different from other Shareholders, no Shareholder is required to abstain from voting in respect of the resolution to be proposed at the SGM for the approval of the Capital Injection and the transactions contemplated under the Capital Increase Agreement.

A form of proxy for use at the SGM is enclosed. Whether or not Shareholders are able to attend the meeting, they are requested to complete and return the enclosed form of proxy to the branch share registrar of the Company, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting at the meeting should they wish to do so.

RECOMMENDATION

The Directors consider that the terms of the Capital Injection and the transactions contemplated under the Capital Increase Agreement are on normal commercial terms and are fair and reasonable, and the entering into of the Capital Increase Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution approving the Capital Injection and the transactions contemplated under the Capital Increase Agreement.

FURTHER INFORMATION

Your attention is also drawn to the information set forth in the Appendices to this circular and the notice of the SGM.

Yours faithfully,
By Order of the Board
Shenzhen International Holdings Limited
Guo Yuan
Chairman

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

A summary of the results and of the assets and liabilities of the Group as at and for the last three financial years is depicted below. The 2009 figures are extracted from the Group's audited financial statements for the year ended 31 December 2009. The 2008 figures are extracted from the comparatives in the Group's audited financial statements for the year ended 31 December 2009. The 2007 figures are unaudited and compiled based on the Group's audited financial statements for the year ended 31 December 2007 and restated for changes in accounting policies and merger accounting for common control combinations adopted by the Group in 2008, details of which are disclosed in notes 2.2 and 2.3(b) of the Group's audited financial statements for the year ended 31 December 2008.

Results of operations

	Year ended 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited) (Restated)	(Audited)	(Audited)
Revenue	4,984,600	5,951,614	4,080,949
Cost of sales	(3,792,932)	(4,665,236)	(2,635,576)
Gross profit	1,191,668	1,286,378	1,445,373
Other gains – net	2,214,710	160,150	391,840
Other income	114,869	104,782	86,059
Distribution costs	(19,621)	(21,757)	(23,052)
Administrative expenses	(203,760)	(214,332)	(201,637)
Other operating expenses	(6,190)	(1,499)	(10,774)
Operating profit	3,291,676	1,313,722	1,687,809
Share of profit of jointly controlled entities	142,059	244,439	204,763
Share of profit/(loss) of associates	17,842	(17,601)	92,506
Profit before finance costs and tax	3,451,577	1,540,560	1,985,078
Finance costs – net	(449,126)	(383,895)	(541,095)
Profit before income tax	3,002,451	1,156,665	1,443,983
Income tax expense	(550,900)	(190,043)	(266,885)
Profit for the year	2,451,551	966,622	1,177,098
Attributable to:			
Equity holders of the Company	2,122,541	574,986	865,859
Minority interests	329,010	391,636	311,239
	2,451,551	966,622	1,177,098
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in HK cents per share)			
– Basic	15.69	4.06	6.17
– Diluted	14.88	4.04	6.03

Financial position

	As at 31 December		
	2007	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited) (Restated)	(Audited)	(Audited)
Total non-current assets	18,205,498	22,973,232	28,026,316
Total current assets	5,213,213	3,941,392	4,421,746
Total assets	23,418,711	26,914,624	32,448,062
Total non-current liabilities	8,543,920	11,696,317	13,605,561
Total current liabilities	3,340,609	5,335,702	6,122,811
Total liabilities	11,884,529	17,032,019	19,728,372
Shareholders' equity	6,886,343	4,909,921	7,025,136
Minority interests	4,647,839	4,972,684	5,694,554
Total equity	11,534,182	9,882,605	12,719,690

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

The following are the audited financial statements of the Group together with the accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2009.

CONSOLIDATED BALANCE SHEET

(All amounts in HK dollar thousands unless otherwise stated)

		As at 31 December	
	Note	**2009**	**2008**
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	2,214,359	1,636,136
Investment properties	*7*	44,443	49,183
Leasehold land, land use rights and other leased assets	*8*	670,262	509,656
Construction in progress	*9*	636,456	341,542
Intangible assets	*10*	22,463,694	18,125,699
Investments in associates	*12*	1,455,216	1,441,731
Investments in jointly controlled entities	*13*	300,350	773,559
Available-for-sale financial assets	*14*	142,366	95,726
Deferred tax assets	*25*	45,923	–
Other non-current assets	*15*	53,247	–
		28,026,316	22,973,232
Current assets			
Available-for-sale financial assets	*14*	2,311,475	1,134,638
Financial assets at fair value through profit or loss		–	149,827
Assets held for sale	*16*	14,528	14,717
Trade and other receivables	*17*	412,421	573,899
Restricted bank deposits	*18*	556,920	160,168
Cash and cash equivalents	*18*	1,126,402	1,901,000
Derivative financial instruments	*22*	–	7,143
		4,421,746	3,941,392
Total assets		32,448,062	26,914,624
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*19*	2,973,698	2,941,407
Other reserves	*20*	252,447	(1,374,813)
Retained earnings			
– Proposed dividends	*37*	306,880	203,398
– Others		3,492,111	3,139,929
		7,025,136	4,909,921
Minority interests		5,694,554	4,972,684
Total equity		12,719,690	9,882,605

	Note	As at 31 December 2009	2008
LIABILITIES			
Non-current liabilities			
Borrowings	*21*	9,604,665	7,302,217
Derivative financial instruments	*22*	51,608	51,460
Provision for maintenance/resurfacing obligations	*23*	829,180	366,426
Convertible bonds	*24*	1,426,402	3,066,685
Deferred income tax liabilities	*25*	1,684,619	875,921
Deferred income	*26*	–	33,608
Other non-current liabilities		9,087	–
		13,605,561	11,696,317
Current liabilities			
Trade and other payables	*27*	2,086,141	3,233,979
Income tax payable		172,718	159,875
Convertible bonds	*24*	1,776,430	–
Borrowings	*21*	2,084,829	1,941,848
Derivative financial instruments	*22*	2,693	–
		6,122,811	5,335,702
Total liabilities		19,728,372	17,032,019
Total equity and liabilities		32,448,062	26,914,624
Net current liabilities		(1,701,065)	(1,394,310)
Total assets less current liabilities		26,325,251	21,578,922

BALANCE SHEET
(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 December 2009	2008
ASSETS			
Non-current assets			
Investments in subsidiaries	*11*	6,147,943	4,781,734
Current assets			
Other receivables	*17*	1,019	1,265
Dividends due from subsidiaries	*11*	2,842,923	2,842,923
Cash and cash equivalents	*18*	48,136	94,872
		2,892,078	2,939,060
Total assets		9,040,021	7,720,794
EQUITY			
Share capital	*19*	2,973,698	2,941,407
Other reserves	*20*	651,690	657,330
Retained earnings	*35*		
– Proposed dividends	*37*	306,880	203,398
– Others		1,582,337	1,970,855
Total equity		5,514,605	5,772,990
LIABILITIES			
Non-current liabilities			
Borrowings	*21*	1,478,750	47,894
Derivative financial instruments	*22*	51,608	45,968
Convertible bonds	*24*	–	1,706,676
		1,530,358	1,800,538
Current liabilities			
Other payables	*27*	10,070	2,458
Borrowings	*21*	205,625	141,875
Convertible bonds	*24*	1,776,430	–
Amount due to a subsidiary	*11*	2,933	2,933
		1,995,058	147,266
Total liabilities		3,525,416	1,947,804
Total equity and liabilities		9,040,021	7,720,794
Net current assets		897,020	2,791,794
Total assets less current liabilities		7,044,963	7,573,528

CONSOLIDATED INCOME STATEMENT

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2009	2008
Revenue	*28*	4,080,949	5,951,614
Cost of sales	*31*	(2,635,576)	(4,665,236)
Gross profit		1,445,373	1,286,378
Other gains – net	*29*	391,840	160,150
Other income	*30*	86,059	104,782
Distribution costs	*31*	(23,052)	(21,757)
Administrative expenses	*31*	(201,637)	(214,332)
Other operating expenses	*31*	(10,774)	(1,499)
Operating profit		1,687,809	1,313,722
Share of profit of jointly controlled entities	*13*	204,763	244,439
Share of profit/(loss) of associates	*12*	92,506	(17,601)
Profit before finance costs and tax		1,985,078	1,540,560
Finance income	*33*	27,952	61,866
Finance costs	*33*	(569,047)	(445,761)
Finance costs – net	*33*	(541,095)	(383,895)
Profit before income tax		1,443,983	1,156,665
Income tax expense	*34*	(266,885)	(190,043)
Profit for the year		1,177,098	966,622
Attributable to:			
Equity holders of the Company		865,859	574,986
Minority interests		311,239	391,636
		1,177,098	966,622
Earnings per share for the profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)			
– Basic	*36*	6.17	4.06
– Diluted	*36*	6.03	4.04
Dividends	*37*	306,880	203,398

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2009	2008
Profit for the year		1,177,098	966,622
Other comprehensive income:			
Fair value gains on available-for-sale financial assets, net of tax	*20*	1,005,013	28,391
Transfer of fair value gains to income statement upon disposal of available-for-sale financial assets, net of tax	*20*	(81,410)	–
Fair value losses on derivative financial instruments, net of tax	*20*	(5,640)	(49,211)
Derecognition of cash flow hedge, net of tax	*20*	5,210	–
Revaluation surplus arising from business combination, net of tax		978,170	–
Currency translation differences		10,013	643,845
		1,911,356	623,025
Total comprehensive income for the year		3,088,454	1,589,647
Total comprehensive income attributable to:			
Equity holders of the Company		2,266,520	1,011,983
Minority interests		821,934	577,664
		3,088,454	1,589,647

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

	Attributable to equity holders of the Company				
	Share capital and share premium	Other reserves	Retained earnings	Minority interests	Total equity
Balance at 1 January 2008	3,043,104	368,589	3,474,650	4,647,839	11,534,182
Comprehensive income					
Profit for the year	–	–	574,986	391,636	966,622
Other comprehensive income					
Fair value gains on available-for-sale financial assets, net of tax	–	28,391	–	–	28,391
Fair value losses on derivative financial instruments, net of tax	–	(49,211)	–	–	(49,211)
Currency translation differences	–	457,817	–	186,028	643,845
Total other comprehensive income	–	436,997	–	186,028	623,025
Total comprehensive income	–	436,997	574,986	577,664	1,589,647
Transaction with owners					
Employee share options – proceeds from shares issued	1,692	–	–	–	1,692
Merger reserve arising from common control combinations	–	(2,181,643)	–	–	(2,181,643)
Transfer to reserves	–	66,221	(66,221)	–	–
Dividend relating to 2007	–	–	(640,088)	–	(640,088)
Dividend paid to minority shareholders by subsidiaries	–	–	–	(15,194)	(15,194)
Repurchase and cancellation of shares	(103,389)	–	–	–	(103,389)
Acquisition of minority interests	–	(64,977)	–	(333,649)	(398,626)
Minority interest arising on business combination	–	–	–	46,674	46,674
Injection by minority shareholders	–	–	–	49,350	49,350
Total transaction with owners	(101,697)	(2,180,399)	(706,309)	(252,819)	(3,241,224)
Balance at 31 December 2008	2,941,407	(1,374,813)	3,343,327	4,972,684	9,882,605

	Attributable to equity holders of the Company				
	Share capital and share premium	**Other reserves**	**Retained earnings**	**Minority interests**	**Total equity**
Balance at 1 January 2009	2,941,407	(1,374,813)	3,343,327	4,972,684	9,882,605
Comprehensive income					
Profit for the year	–	–	865,859	311,239	1,177,098
Other comprehensive income					
Fair value gains on available-for-sale financial assets, net of tax	–	1,005,013	–	–	1,005,013
Transfer of fair value gain to income statement upon disposal of available-for-sale financial assets, net of tax	–	(81,410)	–	–	(81,410)
Fair value losses on derivative financial instruments, net of tax	–	(5,640)	–	–	(5,640)
Derecognition of cash flow hedge, net of tax	–	5,210	–	–	5,210
Revaluation surplus arising from business combination, net of tax	–	471,385	–	506,785	978,170
Currency translation differences	–	6,103	–	3,910	10,013
Total other comprehensive income	–	1,400,661	–	510,695	1,911,356
Total comprehensive income	–	1,400,661	865,859	821,934	3,088,454
Transaction with owners					
Employee share options – proceeds from shares issued	32,291	–	–	–	32,291
Transfer to reserves	–	206,786	(206,786)	–	–
Dividend relating to 2008	–	–	(203,409)	–	(203,409)
Dividend paid to minority shareholders by subsidiaries	–	–	–	(171,058)	(171,058)
Acquisition of minority interests	–	19,316	–	(88,041)	(68,725)
Minority interest arising on business combination *(Note 41(a))*	–	–	–	50,036	50,036
Injection by minority shareholders	–	497	–	108,999	109,496
Total transaction with owners	32,291	226,599	(410,195)	(100,064)	(251,369)
Balance at 31 December 2009	2,973,698	252,447	3,798,991	5,694,554	12,719,690

CONSOLIDATED STATEMENT OF CASH FLOWS
(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2009	2008
Cash flows from operating activities			
Cash generated from operations	*38(a)*	1,834,500	1,376,947
Proceeds from disposals of financial assets at fair value through profit or loss		246,405	277,376
Interest paid		(404,407)	(238,820)
Income tax paid		(373,622)	(294,872)
Net cash generated from operating activities		1,302,876	1,120,631
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	*38(c)*	(2,131,521)	10,666
Acquisition of minority interests		(68,725)	(398,626)
Purchases of property, plant and equipment, construction in progress, and intangible assets		(2,078,015)	(3,177,318)
Purchases of leasehold land, land use rights and other leased assets		(195,122)	(59,661)
Increase in investments in associates and jointly controlled entities		(51,119)	(1,246,210)
Purchases of available-for-sale financial assets		(46,564)	–
Proceeds from disposals of property, plant and equipment	*38(b)*	11,643	29,920
Proceeds from disposals of investment properties		4,040	–
Proceeds from disposals of leasehold land, land use rights and other leased assets		37,547	19,530
Proceeds from disposal of associates		–	532,160
Proceeds from disposal of available-for-sale financial assets		288,677	–
Interest received		27,952	61,866
Dividends received		310,281	381,372
Net cash used in investing activities		(3,890,926)	(3,846,301)
Cash flows from financing activities			
Proceeds from derivative financial instruments		4,117	–
Payment for shares repurchased	*19*	–	(103,389)
Proceeds from issuance of ordinary shares	*19*	32,291	1,692
Capital contribution by minority interests		109,496	49,350
Proceeds from borrowings		6,474,860	6,543,311
Repayments of borrowings		(4,036,054)	(4,460,847)
Increase in restricted bank deposits for guarantee		(396,752)	(142,719)
Dividends paid to the Company and subsidiaries' shareholders		(374,467)	(655,282)
Net cash generated from financing activities		1,813,491	1,232,116
Net decrease in cash and cash equivalents		(774,559)	(1,493,554)
Cash and cash equivalents at beginning of year		1,901,000	3,319,744
Exchange (loss)/gain		(39)	74,810
Cash and cash equivalents at end of year	*18*	1,126,402	1,901,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

1. General information

Shenzhen International Holdings Limited (the "Company") is an investment holding company. The principal activities of the Company and its subsidiaries (collectively the "Group"), and its associates and jointly controlled entities include the following logistic businesses:

– Toll Roads;

– Logistic Parks; and

– Provision of Logistic Service

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Bank of Bermuda Building, 6 Front Street, Hamilton HM11, Bermuda.

The Company has its listing on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). One of the major subsidiaries of the Company, Shenzhen Expressway Company Limited ("Shenzhen Expressway") is listed on Stock Exchange and Shanghai Stock Exchange.

Shenzhen Investment Holding Corporation ("SIHC") is the largest shareholder of the Company. SIHC is supervised and managed by Shenzhen Municipal State-owned Assets Supervision and Administration Bureau ("Shenzhen SASAB"), which is a state-owned authority of the People's Republic of China ("PRC"). SIHC owned approximately 40.59% interest of the Company as at 31 December 2009. As SIHC controls the financial and operating policies of the Company, the directors of the Company regard SIHC as the de facto controller of the Company. Since Shenzhen SASAB supervises and manages SIHC, it controls the financial and operating policies of SIHC. As a result, the Company is also de facto controlled by Shenzhen SASAB.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars ("HKD"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 23 March 2010.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of the available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, and investment properties, which are carried at fair value.

The Group reported net current liabilities of approximately HKD1,701 million as at 31 December 2009. On the basis that the Group has unutilised banking facilities of approximately HKD11,934 million as at 31 December 2009, including facilities of approximately HKD7,388 million expiring beyond one year, and has been generating positive operating cash flows, the directors of the Company believe that the Group operates as a going concern and is able to meet its financial obligations as and when they fall due. Consequently, the financial statements have been prepared by the directors of the Company on a going concern basis.

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

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended HKFRSs as of 1 January 2009, all of these have no impact on earnings per share.

- HKFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The change in accounting policy only results in additional disclosures.

- HKAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. The change in accounting policy only impacts presentation aspects.

- HKFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group and Company has adopted HKFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group or Company's financial statements.

- HKAS 23 (revised) 'Borrowing Costs', (effective 1 January 2009) requires capitalisation of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. As the Group previously applied a policy of capitalising borrowing costs which is similar to the requirements. This amendment does not have a material impact on the Group or Company's financial statements.

- HKFRS 8, 'Operating segments' (effective 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in the change of the reportable segments presented. The segments have already been reported in a manner that is consistent with the internal reporting provided to the chief operating decision-marker. The chief operating decision-maker has been identified as the board of directors that make strategic decisions.

  In addition, the Group also early adopted the amendment to HKFRS 8 in the annual improvement projects published in May 2009, which allows that the total segment assets are to be disclosed only when such information is regularly provided to the chief operation decision makers, like segment liabilities under current HKFRS 8. Since the segment assets and liabilities of the Group are not regularly provided to its chief operation decision makers, no such information has been disclosed in these consolidated financial statements.

- HKAS 24 (revised) 'Related party disclosures' (effective 1 January 2011). The amendment introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government.

  Those disclosures are replaced with a requirement to disclose:

  – the nature of the government and the nature of their relationship; and

  – the nature and amount of any individually – significant transactions; and

  – the extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party. Early adoption is permitted, for either the entire standard or the government-related entity exemption. The management has decided to early adopt HKAS 24 (revised) for the entire standard from 1 January 2009. The change in accounting policy only impacts presentation aspects.

- HKAS 36 (amendment) 'Impairment of assets' (effective 1 January 2009). The amendment requires enhance the disclosure of estimates used to determine recoverable amount. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The amendment only results in additional disclosures.

- HKAS 40 (amendment) 'Investment property' (effective 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of HKAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. Where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable. The amendment does not have a material impact on the Group or the Company's financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following new standards and amendments to existing standards have been published and mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- HKAS 27 (revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- HKFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- HKAS 38 (amendment), 'Intangible Assets'. The Group and Company will apply HKAS 38 (amendment) from the date HKFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- HKFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment provides clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group and Company will apply HKFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply HKAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions' (effective from 1 January 2010). In addition to incorporating HK(IFRIC)-Int 8, 'Scope of HKFRS 2', and HK(IFRIC)-Int 11, 'HKFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC)-Int 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the Group's or Company's financial statements.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Apart from the application of merger accounting on the common control business combinations, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Common control combination

Merger accounting is accounted for the acquisition of subsidiaries under common control by the Group.

Under merger accounting, the consolidated financial statements include the financial position, results and cash flows of the companies comprising the Group as if the current group structure had been in existence since their respective dates of under common control.

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

The adjustment to eliminate the share capital of entities combined and investment cost has been recorded as merger reserve in consolidated financial statements.

(c) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against 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 obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also 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.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

(e) Jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in jointly controlled entities include goodwill (net of accumulated impairment losses) identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 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 board of directors that makes strategic decisions.

2.4 Foreign currency translation

(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"). Functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in HKD as the Company is listed on Stock Exchange.

(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 remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other gains – net.

Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii) income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 in the income statement during the financial period in which they are incurred.

Depreciation of buildings and structures relating to the toll roads is calculated to write off their costs to their estimated residual values on a straight-line basis over the unexpired periods of the leases or toll road operating right, whichever is shorter.

Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	10-50 years or over the term of the unexpired leases, whichever is shorter
Leasehold improvements	4 years or over the term of the unexpired leases, whichever is shorter
Motor vehicles	5-8 years
Furniture, fixtures and equipment	3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 recognised within 'other gains – net', in the income statement.

2.6 Construction in progress

Construction in progress represents the direct costs of construction incurred plus interest capitalised up to the date of completion of the construction of property, plant and equipment less any impairment losses. No provision for depreciation is made on construction in progress until the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of property, plant and equipment and intangible assets when completed and ready for use.

2.7 Investment properties

Investment property, principally comprising commercial buildings and carpark spaces, is held for long-term rental yields and is not occupied by the Group. Investment property is measured initially at its cost, including related transaction costs. Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by valuers. Changes in fair values are recorded in the income statement as part of 'other gains – net'.

2.8 Leasehold land, land use rights and other leased assets

Leasehold land, land use rights and other leased assets are up-front payments to acquire long-term interests in the usage of land. They are stated at cost and charged to the income statement over the remaining period of the lease on a straight-line basis, net of any impairment losses.

2.9 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate and jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in investments in associates and jointly controlled entities and is tested for impairment as part of the overall balance. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(b) Concession intangible assets

Where the Group has entered into contractual service concession arrangements ("Service Concessions") with local government authorities for its participation in the development, financing, operation and maintenance of various toll road infrastructures, the Group carries out the construction or upgrade work of toll roads for the granting authorities and receives in exchange of a right to operate the toll roads concerned and the entitlement to the toll fees collected from users of the toll road services. Concession intangible assets correspond to the right granted by the respective concession grantors to the Group to charge users of the toll road services and the fact that the concession grantors (the respective local governments) have not provided any contractual guarantees in respect of the amounts of construction costs incurred to be recoverable.

For certain Service Concessions contracts, the Group receives from the concession grantors certain monetary grants (the "Grants") in addition to the entitlements and rights to receive the toll fees from users of the toll road services. The consideration receivable is divided into two components, financial assets recognised based on the amount of Grants payable by the concession grantors, and the residual balance is recognised as intangible assets.

Land use rights acquired in conjunction with the Service Concessions which the Group has no discretion or latitude to deploy for other services other than the use in the Service Concessions are treated as intangible assets acquired under the Service Concessions.

Amortisation of concession intangible assets is calculated to write off their costs on an units-of-usage basis according to the HK Int-1, 'The Appropriate Accounting Policies for Infrastructure Facilities', issued by the Hong Kong Institute of Certified Public Accountants, whereby amortisation is provided based on the proportion of actual traffic volume for a particular period over the total projected traffic volume throughout the periods within which the Group is granted the rights to operate those roads (the "Traffic Flow Amortisation Method"). It is the Group's policy to review regularly the total projected traffic volume throughout the operating periods of the respective toll roads. If it is considered appropriate, independent professional traffic studies will be performed. Appropriate adjustments will be made should there be a material change.

2.10 Impairment of non-financial assets

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

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

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition and re-evaluate their classification at each balance sheet date.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'bank deposits' and 'cash and cash equivalents' in the balance sheet.

(c) Available-for-sale financial assets

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

2.11.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. 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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other gains – net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of 'other income' when the Group's right to receive payments is established.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'other gains-net'.

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

The fair values of quoted investments are based on current bid prices. For unlisted equity investment, if there is no active market, the Group states these investments at cost less impairment provision when the unlisted equity investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

2.12 Offsetting financial instruments

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

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

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; or

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

The Group first assesses whether objective evidence of impairment exists.

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

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

(b) Assets classified as available for sale

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

2.14 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 22. Movements on the hedging reserve in shareholders' equity are shown in Note 20. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months. Trading derivatives are classified as a current asset or liability.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains – net'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains – net'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other gains – net'.

2.15 Trade and other receivables

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

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

2.16 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet date.

2.17 Share capital

Ordinary shares are classified as equity.

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

2.18 Trade payables

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

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

2.19 Borrowings

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

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

2.20 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

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

2.21 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed when incurred.

2.22 Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, jointly controlled entities 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 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 realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except 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.

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

2.23 Employee benefits

(a) Pension obligations

The Group operates a defined contribution retirement benefits scheme, Mandatory Provident Fund (the "MPF Scheme"), under the Mandatory Provident Fund Ordinance in Hong Kong for all Hong Kong employees who are eligible to participate in the MPF Scheme. Besides, the Group participates in defined contribution retirement schemes organised by the local government authorities in the PRC. Apart from these, the Group has no legal or constructive obligations for further payments.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate scheme. Contributions payable or paid by the Group and employees are calculated as a percentage of employees' basic salaries. The amounts of employee benefit expenses charged to the income statement represent the contribution payable or paid by the Group to the scheme during the year.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market service (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.24 Provisions

Provisions for environmental restoration, restructuring costs, legal claims and the resulting maintenance and resurfacing cost, except for upgrade services under the respective service concessions, 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. Restructuring provisions comprise lease termination penalties and employee termination payments. 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 that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.25 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Toll revenue

Toll revenue from operation of toll roads is recognised on a receipt basis.

(b) Construction revenue under Service Concessions

Revenue generated by construction and upgrade services rendered by the Group is measured at the fair value of the consideration received or receivable, where total income and expenses associated with the construction contract and the stage of completion can be determined reliably. The consideration may be rights to attain a financial asset or an intangible asset.

The Group uses the percentage of completion method to determine the appropriate amount of income and expenses to be recognised in a given period. The stage of completion is measured by reference to the construction costs of the related infrastructures incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

(c) Interest income

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

(d) Logistic service revenue

Revenue from the provision of logistic services is recognised when the services are rendered.

(e) Dividend income

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

2.26 Operating leases

(a) When a group company is the lessee

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

(b) When a group company is the lessor

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income from operating lease is recognised over the term of the lease on a straight-line basis.

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 the income statement 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 government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.28 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.29 Dividend distribution

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

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out under policies approved by the Board of Directors. The Group identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excessive liquidity.

(a) Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. As at 31 December 2009, the Group has cash and bank balances of HKD75,396,000 (2008: HKD241,481,000) and bank borrowings of HKD3,040,681,000 (2008: HKD625,614,000) denominated in HKD, and the Company has cash and bank balances of HKD48,094,000 (2008: HKD94,301,000), and bank borrowings of HKD1,684,375,000 (2008: HKD189,769,000) denominated in HKD. Apart from these, the Group and the Company did not have significant exposure to foreign exchange risk. Nevertheless, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2009, should RMB be weakened/strengthened by 5% against HKD, with all other factors remain unchanged, the profit after taxation for the year would be affected as follows:

	Change of profit after income tax – increase/(decrease)			
	Group		Company	
	2009	2008	2009	2008
RMB against HKD				
– Weakened by 5%	(118,492)	(15,597)	(68,246)	(3,900)
– Strengthened by 5%	118,492	15,597	68,246	3,900

(ii) Cash flow and fair value interest rate risk

Apart from cash and cash equivalents, the Group has no significant interest-bearing assets.

The Group's and Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. During 2009 and 2008, the Group's borrowings at variable rates were mainly denominated in HKD, RMB and USD. For bank borrowings in the PRC, the interest rate would be adjusted accordingly should the lending rate promulgated by the People's Bank of China be changed.

The Group manages its cash flow interest rate risk of long-term loans by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

As at 31 December 2009, the balance of bank borrowings of the Group which were issued at floating rates and not covered by the interest rate swaps, amounted to approximately HKD3,830,000,000 (2008: HKD3,017,000,000). As at 31 December 2009, should the interest rate be increased/decreased by 50 basis points, the financial cost of the Group would be increased/decreased by approximately HKD19,150,000 (2008: HKD15,085,000) respectively.

The Company's balances with subsidiaries are mainly interest-free or bear interest at market rates.

(iii) Price risk

The Group is exposed to equity securities price risk because of shares of CSG Holding Co, Ltd., ("CSG"), a company listed in the Shenzhen Stock Exchange held by the Group and classified as available for sale. The Group is not exposed to commodity price risk.

The table below summarises the impact of increases/decrease of share price of CSG on equity. The analysis is based on the assumptions that the share price of CSG had increased/decreased by 5% as of year end with all other factors remain unchanged:

	Impact on post-tax profit – increase/(decrease)		Impact on other reserves, net of tax – increase/(decrease)	
	2009	2008	2009	2008
Share price				
– Increased by 5%	–	6,143	92,459	46,520
– Decreased by 5%	–	(6,143)	(92,459)	(46,520)

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. Transactions are limited to high credit quality banks and financial institutions. No significant credit risk is expected as the banks in PRC, Hong Kong and other financial institutions are listed banks or large/medium sized commercial banks. Individual credit limits granted to customers would be set with reference to internal and external ratings as determined by the directors. The credit limits are reviewed periodically.

No credit limits were exceeded during the year. Management does not expect any losses from non-performance by these counterparties.

Both the Group and the Company does not have significant credit concentration risk. The carrying amounts of cash and cash equivalents and trade and other receivables, and amounts due from subsidiaries substantially represent the Group and the Company's maximum exposure to credit risk.

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group. The Company monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 21) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements – for example, currency restrictions.

The table below analyses the Group's and the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Group				
At 31 December 2009				
Bank borrowings	2,153,416	796,510	3,476,987	5,966,940
Other borrowings	–	41,105	–	–
Derivative financial instruments	2,693	6,068	45,540	–
Bonds	1,915,454	67,023	1,887,993	1,308,645
Trade and other payables	2,081,935	–	–	–
At 31 December 2008				
Bank borrowings	2,004,503	1,136,725	2,596,582	6,830,335
Derivative financial instruments	–	5,492	45,968	–
Bonds	66,977	1,915,408	1,903,735	1,357,702
Trade and other payables	3,233,979	–	–	–

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Company			
At 31 December 2009			
Bank borrowings	213,445	337,520	1,193,654
Derivative financial instruments	2,693	6,068	45,540
Convertible bonds	1,848,431	–	–
Other payables	10,070	–	–
Amounts due to subsidiaries	2,933	–	–
At 31 December 2008			
Bank borrowings	143,865	48,512	–
Derivative financial instruments	–	–	45,968
Convertible bonds	–	1,848,431	–
Other payables	2,458	–	–
Amounts due to subsidiaries	2,933	–	–

As at 31 December 2009, the Group and the Company have undrawn banking facilities of HKD11,933,567,000 (2008: HKD11,221,110,000) and HKD1,024,787,000 (2008: HKD1,640,000,000) respectively.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current, non-current borrowings and convertible bonds) less cash and bank balances. Total capital is calculated as 'equity', as shown in the consolidated balance sheet.

The Group maintained a consistent strategy to maintain the gearing ratio within 120%. The gearing ratios at 31 December 2009 and 2008 were as follows:

	2009	2008
Total borrowings	14,892,326	12,310,750
Less: cash and bank balances	(1,683,322)	(2,061,168)
Net debt	13,209,004	10,249,582
Total capital	12,719,690	9,882,605
Gearing ratio	104%	104%

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the 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).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009:

	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Equity securities	2,311,475	–	38,992	2,350,467
Liabilities				
Derivatives – interest rate swaps	–	54,301	–	54,301

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments which are included in level 1 comprise primarily shares of CSG classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Instruments included in level 2 comprise primarily interest rate swaps.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All the resulting fair value estimates are included in level 2 except for the unlisted equity investment as explained below.

The following table presents the changes in level 3 instruments for the year ended 31 December 2009.

	Unlisted equity investments
Opening balance	–
Transfers into level 3	38,992
Closing balance	38,992
Total gains or losses for the year including in profit or loss for assets held at the end of year	–

4. Critical accounting estimates and judgements

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

4.1 Critical accounting estimates and assumptions

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

(a) Construction revenue recognition relating to concession contracts

Income and expenses associated with construction services and upgrade services provided under the concession service arrangements are recognised in accordance with HKAS 11 using the percentage of completion method. Revenue generated by construction services rendered by the Group is measured at the fair value of the consideration received or receivable.

Due to the fact there was no real cash flow realised/realisable during the construction phase of the infrastructure during the Service Concessions, in order to determine the construction revenue to be recognised during the reporting period, the directors of the Company made estimates of the respective amounts by making reference to the provision of project management services by the Group for construction of toll roads for respective PRC local governments without the corresponding grants of the toll road operating rights and entitlement to future toll revenues in return for management service fees. The directors of the Company have drawn an analogy of the construction of toll roads under the Service Concessions as if the Group were providing construction and project management services. Accordingly, construction revenue under the respective Service Concessions is recognised at the total expected construction costs of the related toll roads plus management fees, computed at a percentage of the costs.

The directors of the Company estimated that the construction costs are close to the revenue, and gross profit derived from the construction activities was insignificant.

(b) Amortisation of concession intangible assets

The Group applied HK(IFRIC)-Int 12 'Service Concession arrangements' ("IFRIC 12") and recognised concession intangible assets under the service concession arrangements and provides amortisation thereon.

Amortisation of concession intangible assets is provided under the Traffic Flow Amortisation Method. Material adjustments may need to be made to the carrying amounts of concession intangible assets should there be a material difference between total projected traffic volume and the actual results.

The directors of the Company performed a periodic assessment of the total projected traffic volume. The Group will appoint an independent professional traffic consultant to perform independent professional traffic studies and make an appropriate adjustment if there is a material difference.

To facilitate the acquisition of Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Jihe East Company") during the year, the Group appointed an independent professional traffic consultant and reassessed its future traffic volume. The Group has adjusted the amortisation unit for concession intangible assets according to the revised total projected traffic volume since 1 October 2009 on prospective basis. Such change in accounting estimate has resulted in an increase of net profit for the period from 1 October 2009 to 31 December 2009 amounting to HKD1,703,000 and will impact the amortisation charges of Jihe East Company in the future periods.

Except the above change of the estimate of the total projected traffic volume for the concession intangible assets in Jihe East Company, there was no significant change in the directors' estimate of the total projected traffic volume for other concession intangible assets during the year.

(c) Provisions for maintenance/resurfacing obligations

The Group has contractual obligations under the Service Concessions to maintain the toll road infrastructure to a specified level of serviceability. These obligations to maintain or restore the infrastructure, except for upgrade services, are to be recognised and measured as a provision.

The expenditures expected to be required to settle the obligations at the balance sheet date is determined based on the number of major maintenance and resurfacing to be undertaken throughout the allowed operating periods of each toll roads operated by the Group under the Service Concessions and the expected costs to be incurred for each event.

The expected costs for maintenance and resurfacing and the timing of such events to take place involve estimates made by the directors of the Company, which were based on the Group's resurfacing plan and historical costs incurred for similar activities. The costs are then discounted to the present value based on a pre-tax discount rate estimated by the director which reflects the time value of money and the risks specific to the obligation.

If the expected expenditures, resurfacing plan and discount rate were different from management's current estimates, the change in provision for maintenance/resurfacing is required to be accounted for prospectively.

In the second quarter of 2009, the Group has reviewed the amounts and timing of expenditures expected to incur for the major maintenance and resurfacing to be undertaken throughout the allowed operating periods of certain principal toll roads operated by the Group. As affected by the downward trend of the market interest, the Group has adjusted the discount rate adopted in calculating provision for maintenance/resurfacing obligations from 10% to 6.62% in order to reflect the time value of the provision on a more reasonable basis. The provision for maintenance/resurfacing obligations has been adjusted prospectively based on the updated maintenance/resurfacing plans and updated discount rate since 1 April 2009. This change in accounting estimate resulted in an increase of net profit for the year ended 31 December 2009 amounting to HKD20,943,000.

(d) Fair value estimation of the identifiable assets and liabilities acquired

On the acquisition date on 30 September 2009, the Group completed the acquisition of the 45% equity interest in Jihe East Company at a purchase consideration of RMB1,068,800,000 (HKD1,213,443,000). Jihe East Company became a wholly-owned subsidiary of the Group. Details of the acquisition are specified in Note 41(b). In accordance with the accounting policy set out in Note 2.2(a), the net identifiable assets acquired in the business combination are recorded at fair value at the acquisition date.

As there is no active market existing for the net identifiable assets acquired in the business combination, the directors of the Company have considered a wide range of measures including engaging the independent professional traffic consultant to evaluate the fair value of the principal assets – concession intangible assets of Jihe East Company based on discounted cash flow method.

The fair value assessment process involves a number of key assumptions, including traffic volume, toll prices, applicable tax rates and the discount rate and so on. Please refer to Note 41(b) for detailed information.

4.2 Critical judgements in applying the entity's accounting policies

(a) Dividends policy of subsidiaries

On 16 March 2007, National People's Congress approved the Corporate Income Tax Laws of the PRC (hereinafter "the new CIT Laws") which was effective from 1 January 2008. According to the relevant regulations of the new CIT Laws, when a foreign investment enterprise distributed dividends out of the profits earned from 1 January 2008 onwards to its overseas investors, it is subject to corporate income tax. The applicable corporate income tax rate varies with the origin of the overseas investors.

The Group has significant amount of distributable profits prior to 31 December 2007. Therefore the directors of the Company believe that the Company will not require its PRC subsidiaries to declare dividends out of their profits earned from 1 January 2008 onwards in the foreseeable future. Accordingly, the Group has no need to provide tax liability for profits of its PRC subsidiaries earned for the years of 2008 and 2009. The directors of the Company will regularly review the liquidity position and dividend distribution policy of its subsidiaries from time to time.

(b) Impairment provision for the investment in a jointly controlled entity

In prior years, since there was indication that the toll road assets of Changsha Shenchang Expressway Company Limited ("Shenchang Company"), a jointly controlled entity of the Group, were subject to impairment losses, the Group performed impairment tests on the recoverable amount of the relevant assets. The Group had recognised its share of such impairment loss, amounting to RMB223,000,000 (HKD253,323,000) cumulatively up to 31 December 2009, and the amount was reflected in the Group's Investments in Shenchang Company.

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

5. Segment information

The Group reassessed its operations to be organised in 3 main business segments:

- Toll roads;
- Logistic parks; and
- Provision of logistic service.

Head office functions include corporate management functions and investment and financial activities of the Group.

The chief operating decision-maker has been identified as the board of directors. The board of directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The board of directors considers the business from a business activities perspective, and assesses the performance of toll roads, logistic parks and logistic services segments. Toll roads include development, operation and management of toll highway; logistic parks mainly include the construction, operation and management of logistic centres; logistic services include the provision of third party logistic and logistic information services to customers.

Substantial businesses of the Group are carried out in the PRC.

The segment revenue and results presented to the board of directors, the chief operating decision-maker are as follows:

For the year ended 31 December 2009

	Toll roads	Logistic parks	Logistic services	Head office functions	Total
Revenue	3,725,438[a]	176,761	178,173	577	4,080,949
Operating profit	1,241,899	51,336	7,437	387,137	1,687,809
Share of profit/(loss) of jointly controlled entities	202,971	2,399	(607)	–	204,763
Share of profit of associates	91,834	–	672	–	92,506
Finance income	16,398	1,548	1,676	8,330	27,952
Finance costs	(452,835)	(6)	(11)	(116,195)	(569,047)
Profit before tax	1,100,267	55,277	9,167	279,272	1,443,983
Income tax expense	(175,441)	(6,095)	(1,120)	(84,229)	(266,885)
Profit for the year	924,826	49,182	8,047	195,043	1,177,098
Minority interests	(310,722)	(34)	(1,566)	1,083	(311,239)
Profit attributable to equity holders of the Company	614,104	49,148	6,481	196,126	865,859
Depreciation and amortisation	512,253	35,400	12,115	1,780	561,548
Capital expenditure					
– Addition in property, plant and equipment, construction in progress , leasehold land, land use rights and other leased assets and intangible assets	1,458,610	326,217	40,760	461,981	2,287,568
– Addition in property, plant and equipment, construction in progress , leasehold land, land use rights and other leased assets and intangible assets arising from acquisition of subsidiaries	3,569,813	–	–	83,290	3,653,103
Investments in associates	51,119	–	–	–	51,119

For the year ended 31 December 2008

	Toll roads	Logistic parks	Logistic services	Head office functions	Total
Revenue	5,681,892[a]	147,441	122,281	–	5,951,614
Operating profit/(loss)	1,121,716	47,255	(1,450)	146,201	1,313,722
Share of profit/(loss) of jointly controlled entities	240,642	(1,098)	4,895	–	244,439
Share of profit/(loss) of associates	(19,255)	–	1,654	–	(17,601)
Finance income	28,861	1,328	1,431	30,246	61,866
Finance costs	(324,075)	(491)	(217)	(120,978)	(445,761)
Profit before tax	1,047,889	46,994	6,313	55,469	1,156,665
Income tax expense	(160,892)	(6,210)	(705)	(22,236)	(190,043)
Profit for the year	886,997	40,784	5,608	33,233	966,622
Minority interests	(292,051)	(3,895)	(502)	(95,188)	(391,636)
Profit/(loss) attributable to equity holders of the Company	594,946	36,889	5,106	(61,955)	574,986
Depreciation and amortisation	362,607	29,976	9,754	8,023	410,360
Capital expenditure					
– Addition in property, plant and equipment, construction in progress, leasehold land, land used rights and other leased assets and intangible assets	4,192,208	56,410	50,087	60,348	4,359,053
– Addition in property, plant and equipment, construction in progress, leasehold land, land used rights and other leased assets and intangible assets arising from acquisition of subsidiaries	–	–	62,407	–	62,407
Investments in associates	42,570	–	–	–	42,570
Investments in jointly controlled entities	–	1,628	–	–	1,628

(a) The revenue from toll roads includes construction revenue: for the year ended 31 December 2009: HKD1,211,696,000; for the year ended 31 December 2008: HKD3,644,727,000.

6. Property, plant and equipment – Group

	Buildings	Leasehold improvements	Motor vehicles	Furniture, fixtures, and equipment	Total
At 1 January 2008					
Cost	654,020	7,377	46,388	503,309	1,211,094
Accumulated depreciation and impairment	(101,774)	(5,778)	(24,539)	(209,500)	(341,591)
Net book amount	552,246	1,599	21,849	293,809	869,503
Year ended 31 December 2008					
Opening net book amount	552,246	1,599	21,849	293,809	869,503
Acquisition of a subsidiary	28,317	–	188	6,737	35,242
Additions	5,099	898	16,105	31,806	53,908
Transfer from construction in progress *(Note 9)*	482,017	–	–	255,321	737,338
Disposals	(4,652)	–	(740)	(5,847)	(11,239)
Impairment	(1,691)	–	–	–	(1,691)
Exchange difference	43,282	127	1,738	22,705	67,852
Depreciation	(32,583)	–	(10,757)	(71,437)	(114,777)
Closing net book amount	1,072,035	2,624	28,383	533,094	1,636,136
At 31 December 2008					
Cost	1,209,557	6,873	59,953	828,678	2,105,061
Accumulated depreciation and impairment	(137,522)	(4,249)	(31,570)	(295,584)	(468,925)
Net book amount	1,072,035	2,624	28,383	533,094	1,636,136
Year ended 31 December 2009					
Opening net book amount	1,072,035	2,624	28,383	533,094	1,636,136
Acquisition of subsidiaries *(Note 41)*	33,651	–	1,689	20,120	55,460
Additions	11,513	4,244	10,724	30,567	57,048
Transfer from construction in progress *(Note 9)*	242,231	52,271	325	312,895	607,722
Disposals	(3,608)	(179)	(361)	(2,984)	(7,132)
Exchange difference	711	2	12	277	1,002
Reversal of impairment	660	–	–	–	660
Depreciation	(36,457)	(14)	(8,414)	(91,652)	(136,537)
Closing net book amount	1,320,736	58,948	32,358	802,317	2,214,359
At 31 December 2009					
Cost	1,507,502	62,163	69,032	1,188,685	2,827,382
Accumulated depreciation and impairment	(186,766)	(3,215)	(36,674)	(386,368)	(613,023)
Net book amount	1,320,736	58,948	32,358	802,317	2,214,359

Property ownership certificates for buildings and structures with net book amount of HKD441,402,000 (2008: HKD275,264,000) are not procured. Due to the unique feature of the Group's operation of toll roads, the affiliated buildings and structures should be reverted to the government when the approved operating periods expire. Thus, the Group does not work out a related plan of procuring the property ownership certificates.

7. Investment properties – Group

At fair value, outside Hong Kong with remaining lease periods over 50 years:

	2009	**2008**
Beginning of year	49,183	32,580
Fair value gains/(losses)	347	(4,035)
Disposals	(5,100)	–
Exchange differences	13	–
Transfer from construction in progress *(Note 9)*	–	20,638
End of year	44,443	49,183

(a) Amounts recognised in profit and loss for investments properties

	2009	**2008**
Rental income	1,302	1,525
Direct operating expenses arising from investment properties that generate rental income	(276)	(296)
	1,026	1,229

(b) Valuation basis

The basis of the valuations of investment properties is the fair amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties.

(c) Leasing arrangements

The investment properties are leased to tenants under operating leases ranges from 1 to 15 years with rental payable monthly. Minimum lease payments under noncancellable operating leases of investment properties are receivable as follows:

	2009	**2008**
Within one year	1,576	1,389
Later than one year but not later than 5 years	7,308	5,558
Later than 5 years	2,109	2,779
	10,993	9,726

8. Leasehold land, land use rights and other leased assets – Group

	2009	**2008**
Beginning of year	509,656	433,502
Additions	195,122	59,661
Acquisition of subsidiaries	–	25,311
Impairment	–	(6,766)
Transfer from construction in progress *(Note 9)*	1,853	–
Reversal of impairment	2,640	–
Disposals	(16,370)	(19,530)
Amortisation	(22,924)	(12,672)
Exchange difference	285	30,150
End of year	670,262	509,656

The amounts represent prepaid operating lease payments and their net book values are analysed as follows:

	2009	2008
In Hong Kong held on:		
Leases of between 10 to 50 years	63,231	67,347
Leases of over 50 years	3,019	3,043
	66,250	70,390
Outside Hong Kong – PRC, held on:		
Leases of less than 10 years	13,757	18,062
Leases of between 10 to 50 years	515,797	344,653
Leases of more than 50 years	70,550	72,505
Leases with unspecified periods*	3,908	4,046
	604,012	439,266
	670,262	509,656

* *As at 31 December 2008 and 2009, legal procedures for procuring certificates of these land use rights are not yet completed.*

9. Construction in progress – Group

	2009	2008
Beginning of year	341,542	584,228
Additions	822,478	563,190
Acquisition of a subsidiary *(Note 41)*	83,820	466
Transfer to property, plant and equipment *(Note 6)*	(607,722)	(737,338)
Transfer to leasehold land, land use rights and other leased assets *(Note 8)*	(1,853)	–
Transfer to investment properties *(Note 7)*	–	(20,638)
Other transfers	(2,218)	(90,353)
Exchange difference	409	41,987
End of year	636,456	341,542

10. Intangible assets – Group

	Concession intangible assets	Goodwill	Total
At 1 January 2008			
Cost	14,343,059	–	14,343,059
Accumulated amortisation	(626,990)	–	(626,990)
Net book amount	13,716,069	–	13,716,069
Year ended 31 December 2008			
Opening net book amount	13,716,069	–	13,716,069
Additions	3,682,294	–	3,682,294
Acquisition of a subsidiary	–	1,388	1,388
Exchange difference	1,010,247	–	1,010,247
Amortisation	(282,911)	–	(282,911)
Write-off	–	(1,388)	(1,388)
Closing net book amount	18,125,699	–	18,125,699
At 31 December 2008			
Cost	19,152,980	–	19,152,980
Accumulated amortisation	(1,027,281)	–	(1,027,281)
Net book amount	18,125,699	–	18,125,699
Year ended 31 December 2009			
Opening net book amount	18,125,699	–	18,125,699
Additions	1,212,920	–	1,212,920
Acquisition of a subsidiary *(Note 41(b))*	3,513,823	–	3,513,823
Exchange difference	13,339	–	13,339
Amortisation	(402,087)	–	(402,087)
Closing net book amount	22,463,694	–	22,463,694
At 31 December 2009			
Cost	23,915,344	–	23,915,344
Accumulated amortisation	(1,451,650)	–	(1,451,650)
Net book amount	22,463,694	–	22,463,694

Concession intangible assets represent the rights to operate the respective toll roads granted by the relevant local government authorities in the PRC to the Group. According to the relevant governments' approval documents and the relevant regulations, the Group is responsible for the construction of the toll roads and the acquisition of the related facilities and equipment. It is also responsible for the operations and management, maintenance and overhaul of the toll roads during the approved operating periods. The toll fees collected and collectible during the operating periods are attributable to the Group. The relevant toll roads assets are required to be returned to the local government authorities when the operating rights periods expire without any considerations payable to the Group. According to the relevant regulations, these operating rights are not renewable and the Group does not have any termination options.

Included in the concession intangible assets were the operating rights of Qinglian Class I Highway, Qinglian Class II Highway and Qinglian Expressway (upon completion of its reconstruction) with net book value of HKD9,796,280,000 (2008: HKD8,921,675,000)of Guangdong Qianlian Highway Development Company Limited ("Qinglian Company"), a subsidiary of the Group, pledged for the secured bank borrowings totaling to HKD4,685,085,000 (RMB4,124,280,000) (2008: HKD3,706,824,000 (RMB3,265,240,000)) *(Note 21(a))*.

Amortisation of HKD402,087,000 (2008: HKD282,911,000) has all been charged in 'cost of sales' in 2009.

11. Investments in and due from/to subsidiaries – Company

	2009	2008
Non-current assets		
Unlisted investments, at cost	98,515	98,515
Amounts due from subsidiaries	6,049,428	4,683,219
	6,147,943	4,781,734
Current assets		
Dividends due from subsidiaries	2,842,923	2,842,923
Current liabilities		
Amount due to a subsidiary	2,933	2,933
Market value of listed shares	7,360,974	5,404,435

Particulars of the principal subsidiaries are set out in Note 44.

Balances with subsidiaries are unsecured and have no fixed repayment term. Except for a receivable amount of HKD414,195,000 (2008: HKD153,734,000) which bears interest at prevailing borrowing rates in Hong Kong, the remaining balances are interest-free.

12. Investments in associates – Group

	2009	**2008**
Beginning of year	1,441,731	1,423,285
Transfer from jointly controlled entities *(Note 13)*	–	141,026
Additions *(Note (b))*	51,119	42,570
Disposals	–	(241,950)
Share of profit/(loss) of associates	92,506	(17,601)
Dividends received	(131,217)	(25,491)
Exchange difference	1,077	119,892
End of year	1,455,216	1,441,731

The year end balance comprises the following:

	2009	**2008**
Unlisted investments, at cost		
Share of net assets other than goodwill	1,367,819	1,354,393
Goodwill on acquisition *(Note(c))*	87,397	87,338
	1,455,216	1,441,731

(a) All associates have 31 December as year end. The Group's share of results and aggregated assets (including goodwill) and liabilities of its principal associates, all of which are limited liability companies incorporated in the PRC, are as follows:

Name	Assets	Liabilities	Revenue	Profit/(Loss)	% Interest indirectly held
2009					
Shenzhen Qinglong Expressway Company Limited ("Qinglong Company")	582,146	452,105	180,367	91,196	40%
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company")	866,227	574,739	76,216	(2,917)	25%
Guangzhou Western Second Ring Expressway Company Limited ("GZ W2 Company") *(Note (b))*	772,701	557,718	48,773	(15,103)	25%
Shenzhen Huayu Expressway Investment Company Limited	251,219	180,376	34,079	5,401	40%
Shenzhen Expressway Engineering Consulting Company Limited ("Consulting Company")	24,935	15,709	35,598	2,207	30%
Nanjing Yangzi River Third Bridge Company Limited ("Nanjing Third Bridge Company")	955,964	683,230	69,596	(3,160)	25%
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	658,170	387,851	101,196	14,115	25%
Yunfu Guangyun Expressway Company Limited	469,422	280,579	38,013	95	30%
Other associate	7,673	934	8,763	672	
Total	4,588,457	3,133,241	592,601	92,506	

Name	Assets	Liabilities	Revenue	Profit/(Loss)	% Interest indirectly held
2008					
Qinglong Company	446,287	305,261	–	–	40%
Jiangzhong Company	833,576	539,369	67,049	(6,969)	25%
GZ W2 Company	810,880	632,020	32,003	(24,472)	25%
Shenzhen Huayu Expressway Investment Company Limited	260,722	187,085	29,727	288	40%
Consulting Company	17,276	9,549	22,675	1,713	30%
Nanjing Third Bridge Company	966,069	690,358	65,850	(7,609)	25%
Yangmao Company	690,082	414,200	93,813	21,636	25%
Yunfu Guangyun Expressway Company Limited	485,908	297,289	32,710	(3,843)	30%
Other associate	7,200	1,138	11,983	1,655	
Total	4,518,000	3,076,269	355,810	(17,601)	

(b) According to the provisions of the investment agreements of GZ W2 Company, the Group has made further capital contributions amounting to HKD51,119,000 (2008: HKD42,570,000) to this associate based on the funding requirements determined based on the progress of construction of the toll road projects undertaken by the associate.

(c) The balance represents the goodwill arising from the acquisition of equity interests in Jiangzhong Company, Yangmao Company and Qinglong Company amounting to RMB30,135,000 (HKD34,233,000), RMB45,165,000 (HKD51,306,000) and RMB1,636,000 (HKD1,858,000), respectively. After the assessment made by the directors of the Company, there was no impairment loss incurred as at 31 December 2009.

13. Investments in jointly controlled entities – Group

	2009	**2008**
Beginning of year	773,559	923,679
Additions	–	1,628
Share of profit of jointly controlled entities	204,763	244,439
Dividends declared and appropriation made by jointly controlled entities	(161,165)	(328,961)
Transfer to associates *(Note 12)*	–	(141,026)
Transfer to investment in subsidiaries	(517,711)	–
Exchange difference	904	73,800
End of year	300,350	773,559

The year end balance comprises the following:

	2009	2008
Unlisted investments, at cost		
Share of net assets	11,671	316,891
Advances to jointly controlled entities *(Note (c))*	288,679	456,668
	300,350	773,559

(a) The following is a list of all jointly controlled entities of the Group at 31 December 2009, all of which are limited liability companies incorporated in the PRC:

Name	Interest indirectly held
Shenzhen Airport International Express Supervision Center Co., Ltd. ("SZ Airport Express Center")	50%
Citic Logistics Fritz Co., Ltd. ("Citic Logistics Fritz")	43%
Shenzhen Longzhuo Logistics Co., Ltd. ("Longzhuo Logistics")	50%
Shenchang Company	51%

(b) The Group's share of results and aggregated assets (including goodwill) and liabilities of its jointly controlled entities are as follows:

	2009					
	SZ Airport Express Center	Citic Logistics Fritz	Longzhuo Logistics	Jihe East Company *(Note 41(b))*	Shenchang Company	Total
Non-current assets	23,748	15,831	60	–	219,161	258,800
Current assets	31,311	18,627	2,156	–	4,072	56,166
Total assets	55,059	34,458	2,216	–	223,233	314,966
Non-current liabilities	–	675	–	–	288,679	289,354
Current liabilities	4,793	3,665	1,153	–	4,330	13,941
Total liabilities	4,793	4,340	1,153	–	293,009	303,295
Revenue	15,730	39,573	6,351	208,090	14,165	283,909
Cost and expenses	(14,103)	(40,180)	(5,579)	(8,625)	(10,659)	(79,146)
Profit/(loss) after income tax	1,627	(607)	772	199,465	3,506	204,763

	2008						
	SZ Airport Express Center	Citic Logistics Fritz	Longzhuo Logistics	Jihe East Company	Shenchang Company	Qinglong Company	Total
Non-current assets	28,487	20,630	58	719,901	224,108	–	993,184
Current assets	29,139	12,252	1,153	56,366	3,158	–	102,068
Total assets	57,626	32,882	1,211	776,267	227,266	–	1,095,252
Non-current liabilities	–	1,413	–	433,839	296,345	–	731,597
Current liabilities	5,982	2,708	921	32,996	4,157	–	46,764
Total liabilities	5,982	4,121	921	466,835	300,502	–	778,361
Revenue	14,775	44,590	2,450	278,309	13,590	166,808	520,522
Cost and expenses	(14,473)	(39,695)	(3,850)	(134,219)	(10,986)	(72,860)	(276,083)
Profit/(loss) after income tax	302	4,895	(1,400)	144,090	2,604	93,948	244,439

(c) The amounts represented advances made to Shenchang Company (2008: advance made to Jihe East Company of RMB141,229,000 (HKD160,323,000) and to Shenchang Company of RMB261,050,000 (HKD296,345,000)). The advances were made by the Shenzhen Expressway as part of its investment commitments in these jointly controlled entities as stipulated in the provisions under the relevant investment agreements. In the opinion of the directors of the Company, these advances are investment in nature and are therefore stated at cost.

The advances are unsecured, non-interest bearing and are repayable out of the funds to be generated from the operations of the respective toll road projects. The directors of the Company considered that there was no recoverability problem associated with the amount as at 31 December 2009.

14. Available-for-sale financial assets – Group

	2009	**2008**
Beginning of year	1,230,364	1,076,880
Additions	46,564	–
Net fair value gains	1,309,157	67,751
Disposals	(133,094)	–
Exchange difference	850	85,733
End of year	2,453,841	1,230,364
Less: non-current portion	(142,366)	(95,726)
Current portion	2,311,475	1,134,638

Available-for-sale financial assets, all denominated in RMB, include the following:

Listed securities in PRC, at fair value (a) *(Note 3.3)*:		
– Freely tradeable	2,311,475	979,843
– With lock-up period	–	154,795
	2,311,475	1,134,638
Unlisted equity investments:		
at fair value *(Note 3.3)*	38,992	–
at cost less impairment *(Note (b))*		
– Cost	127,469	119,821
– Provision for impairment	(24,095)	(24,095)
	142,366	95,726
	2,453,841	1,230,364

During the year, the Group removed profit of HKD102,662,000 (2008: Nil) from equity into the income statement.

(a) As at 31 December 2009, listed equity investments stated at market price represent 8.48% interest (equivalent to 103,815,881 shares) in CSG.

(b) The unlisted equity investments stated at cost less impairment comprise passive investments by the Group in entities operating in various industries. In light of the minority shareholdings held by the Group, there exists a wide range of possible discounts arising from potential disposals of the investments. Moreover, there is no open market for these instruments and the directors consider that the marketability of the Group's shareholdings is low. The probabilities of the range of possible fair values of these investments cannot be reliably assessed. These investments are therefore stated at cost less impairment. The Group assessed where there is objective evidence that the available-for-sale financial assets are impaired in accordance with the guidelines in HKAS 39. The assessment requires the directors of the Company to make these judgements. In making these judgements, the Group has assessed various factors, including financial operation of the investees, prospect of their operations in short to medium terms, etc; and consideration of the prospect of the industries the investees operate, their performance and change in their operating environment.

15. Other non-current assets – Group

As at 31 December 2009, the other non-current assets represent the prepayment for construction in progress (2008: Nil).

16. Assets held for sale – Group

Assets held for sale as at 31 December 2009 mainly represented equity investments held for sale after the management approved the disposal plan of such equity investments.

17. Trade and other receivables

	Group		Company	
	2009	2008	2009	2008
Trade receivables	315,849	259,182	–	–
Less: Provision for impairment of receivables	(195)	(194)	–	–
Trade receivables – net	315,654	258,988	–	–
Other receivables and prepayments	96,767	314,911	1,019	1,265
	412,421	573,899	1,019	1,265

The income from toll road operations is mainly received in cash and it usually does not maintain any trade receivable balances related to toll road operations. Accordingly, the Group does not have any specified credit period for its customers related to toll road operations. Trade receivables other than toll road income generally have credit terms of 30 to 120 days. As at 31 December 2009 and 2008, the ageing analysis of the trade receivables of the Group based on invoice date or the time from the initial recognition of receivables is as follows:

	2009	**2008**
0-90 days	127,903	102,534
91-180 days	16,751	3,954
181-365 days	13,889	727
Over 365 days*	157,306	151,967
	315,849	259,182

* *Trade receivables due over 365 days mainly comprised the amount of HKD156,293,000 (2008:HKD151,821,000) arising from the development and management of certain toll road projects administrated for Shenzhen Communications Bureau.*

As of 31 December 2009, trade receivables of HKD21,325,000 (2008:HKD1,197,000) were past due but not impaired. There is no recent history of default for these balances. The ageing analysis of these trade receivables is as follows:

	2009	**2008**
121-180 days	7,167	516
181-365 days	13,888	596
Over 365 days	270	85
	21,325	1,197

As at 31 December 2009, trade receivables of HKD195,000 (2008: HKD194,000) were fully impaired. These individually impaired trade receivables mainly relate to customers which are under unexpected difficult economic situations. For other overdue trade receivables, the directors of the Company consider that they are not impaired, after assessing those customers' repayment history.

There is no significant change in impairment provision during the year. The other classes within trade and other receivables do not contain impaired assets. There is no material default history for amounts not past due.

The creation and release of provision for impaired receivables has been included in administrative expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recoveries of additional cash.

The carrying amounts of the Group's trade and other receivables are mainly denominated in RMB. As at 31 December 2009, the fair value of the trade and other receivables approximates their carrying values.

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

Credit quality of trade receivables neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

	2009	**2008**
Counterparty		
– Government authorities in the PRC	162,226	169,304
– Existing customers with no defaults in the past	116,398	75,684
– New customers	15,705	12,803
	294,329	257,791

18. Cash and cash equivalents

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
Cash at bank and in hand (i)	1,683,322	2,061,168	48,136	94,872
Less: Restricted bank deposits (ii)	(556,920)	(160,168)	–	–
	1,126,402	1,901,000	48,136	94,872

(i) As at 31 December 2009 and 2008, the effective interest rates on bank balances are 0.91% per annum and 2.03% per annum respectively. The balances are denominated in the following currencies:

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
RMB	1,607,058	1,818,075	–	–
HKD	75,396	241,481	48,094	94,301
Other currencies	868	1,612	42	571
	1,683,322	2,061,168	48,136	94,872

(ii) Restricted bank deposits are as follows:

	Group 2009	2008
Bank fixed deposit denominated in RMB with a maturity of one year *(Note 21(e))*	511,189	131,992
Project funds retained for construction management contracts	45,731	27,595
Other pledged deposits	–	581
	556,920	160,168

(iii) As at 31 December 2009, the maximum exposure of the Group's and the Company's cash and cash equivalent to credit risk is the carrying value.

19. Share capital and premium – Group and Company

	Number of issued shares (thousands)	Ordinary share capital	Share premium	Total
At 1 January 2008	14,218,183	1,421,818	1,621,286	3,043,104
Repurchase and cancellation of shares	(196,763)	(19,676)	(83,713)	(103,389)
Employee share option scheme – proceeds from share issued	6,000	600	1,092	1,692
At 31 December 2008	14,027,420	1,402,742	1,538,665	2,941,407
Employee share option scheme – proceeds from share issued	114,510	11,451	20,840	32,291
At 31 December 2009	14,141,930	1,414,193	1,559,505	2,973,698

The total authorised number of ordinary shares is 20,000 million shares (2008: 20,000 million shares) with par value of HKD0.1 per share (2008: HKD0.1 per share). All issued shares are fully paid.

The share options granted to certain directors and employees are unconditional and vested immediately.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2009		2008	
	Average exercise price (HKD per share)	**Number of share options (thousands)**	**Average exercise price (HKD per share)**	**Number of share options (thousands)**
At 1 January	0.335	165,010	0.333	171,010
Exercised	0.282	(114,510)	0.282	(6,000)
At 31 December	0.455	50,500	0.335	165,010

All share options outstanding as at 31 December 2009 are exercisable. 15,500,000 share options will be expired on 11 January 2010 and 35,000,000 share options will be expired on 5 February 2012.

20. Other reserves

(a) Group

	Equity component of convertible bonds	Fair value reserve	Reserve funds *(Note (ii))*	Capital reserve	Goodwill reserve	Hedging reserve	Merger reserves	Revaluation surplus	Other reserves *(Note (iii))*	Currency translation reserve	Contributed surplus *(Note (i))*	Total
At 1 January 2008	343,501	586,870	1,123,221	59,723	(159,583)	(1,869)	(1,864,636)	–	(119,879)	388,236	13,005	368,589
Merger reserve arising from common control combinations	–	–	–	–	–	–	(2,181,643)	–	–	–	–	(2,181,643)
Transfer from retained earnings to reserve funds	–	–	66,221	–	–	–	–	–	–	–	–	66,221
Changes in fair value of available-for-sale financial assets, net of tax	–	28,391	–	–	–	–	–	–	–	–	–	28,391
Acquisition of minority interests	–	–	–	–	–	–	–	–	(64,977)	–	–	(64,977)
Changes in fair value of derivative financial instruments, net of tax	–	–	–	–	–	(49,211)	–	–	–	–	–	(49,211)
Currency translation difference	–	78,677	–	–	–	–	–	–	–	379,140	–	457,817
At 31 December 2008	343,501	693,938	1,189,442	59,723	(159,583)	(51,080)	(4,046,279)	–	(184,856)	767,376	13,005	(1,374,813)
At 1 January 2009	343,501	693,938	1,189,442	59,723	(159,583)	(51,080)	(4,046,279)	–	(184,856)	767,376	13,005	(1,374,813)
Injection by minority shareholders	–	–	–	–	–	–	–	–	497	–	–	497
Transfer from retained earnings to reserve funds	–	–	206,786	–	–	–	–	–	–	–	–	206,786
Fair value gains on available-for-sale financial assets, net of tax	–	1,005,013	–	–	–	–	–	–	–	–	–	1,005,013
Transfer of fair value gain to income statement upon disposal of available-for-sale financial assets, net of tax	–	(81,410)	–	–	–	–	–	–	–	–	–	(81,410)
Fair value losses on derivative financial instruments, net of tax	–	–	–	–	–	(5,640)	–	–	–	–	–	(5,640)
Derecognition of cash flow hedge, net of tax	–	–	–	–	–	5,210	–	–	–	–	–	5,210
Acquisition of minority interests	–	–	–	–	–	–	–	–	19,316	–	–	19,316
Revaluation surplus arising from business combination, net of tax *(Note 41)*	–	–	–	–	–	–	(35,831)	507,216	–	–	–	471,385
Currency translation difference	–	–	–	–	–	–	–	–	–	6,103	–	6,103
At 31 December 2009	343,501	1,617,541	1,396,228	59,723	(159,583)	(51,510)	(4,082,110)	507,216	(165,043)	773,479	13,005	252,447

(b) Company

	Equity component of convertible bonds	Contributed surplus *(Note (i))*	Hedging reserve	Currency translation reserve	Total
At 1 January 2008	209,523	58,515	–	–	268,038
Fair value losses on derivative financial instruments	–	–	(45,870)	–	(45,870)
Currency translation difference	–	–	–	435,162	435,162
At 31 December 2008	209,523	58,515	(45,870)	435,162	657,330
Fair value losses on derivative financial instruments	–	–	(5,640)	–	(5,640)
At 31 December 2009	209,523	58,515	(51,510)	435,162	651,690

(i) The contributed surplus of the Group represents the difference between the nominal value of the shares of the former group holding company, acquired pursuant to the Group reorganisation on 9 January 1990, over the nominal value of the Company's shares issued in exchange thereof.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same group reorganisation, over the nominal value of the Company's shares issued in exchange thereform.

(ii) In accordance with the PRC regulations, certain companies of the Group in the PRC are required to transfer part of their profits after taxation to various reserve funds, which are non-distributable, before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of directors of these companies, in accordance with their joint venture agreements and/or articles of association.

(iii) Other reserves mainly represent the differences between the considerations paid/received and the relevant carrying value of net assets of the subsidiaries acquired/disposed of for the transactions with minority interests.

(iv) Distributable reserve of the Company at 31 December 2009 amounted to HKD 2,157,255,000 (2008: HKD2,442,291,000)

21. Borrowings

	Group 2009	Group 2008	Company 2009	Company 2008
Non-current				
Long-term bank borrowings				
– Secured (a)	5,820,844	4,009,308	–	–
– Unsecured	3,301,392	3,029,546	1,684,375	89,769
Other borrowings				
– Secured (b)	5,199	11,556	–	–
– Unsecured (c)	38,999	–	–	–
Bonds (d)	899,230	897,859	–	–
Less: Current portion	(460,999)	(646,052)	(205,625)	(41,875)
	9,604,665	7,302,217	1,478,750	47,894
Current				
Short-term bank borrowings				
– Secured (e)	510,116	133,246	–	–
– Unsecured	1,113,714	1,162,550	–	100,000
Current portion of long-term borrowings				
Bank borrowings				
– Secured	–	73,500	–	–
– Unsecured	457,534	566,196	205,625	41,875
Other borrowings – secured (b)	3,465	6,356	–	–
	2,084,829	1,941,848	205,625	141,875
Total borrowings	11,689,494	9,244,065	1,684,375	189,769

(a) For the secured bank borrowings, HKD102,000,000 (2008: HKD302,484,000) are secured by the Group's equity interest in Jade Emperor Limited ("JEL"), a wholly owned subsidiary. In addition, borrowing of HKD4,685,085,000 (RMB4,124,280,000) (2008: HKD3,706,824,000 (RMB3,265,240,000)) is secured by a pledge of the operating rights of Qinglian Class I Highway, Qinglian Class II Highway and Qinglian Expressway (upon completion of its reconstruction) of Qinglian Company , and HKD1,033,759,000 (RMB910,000,000) is secured by a pledge of the 40% equity rights of Qinglong Company, a subsidiary of the Group.

(b) Other borrowings totalling USD670,000 (HKD5,199,000) (2008: USD1,489,000 (HKD11,556,000)) were extended by the Spanish Government through the China Construction Bank Corporation with interest-bearing of 1.8% per annum.

(c) Other unsecured borrowings of the Group included an amount of HKD38,999,000 (2008: Nil) being advances from a minority shareholder of a subsidiary, bearing prevailing market interest rate.

(d) Shenzhen Expressway issued long-term corporate bonds of RMB800 million for a term of 15 years bearing interest at 5.5% per annum in August 2007. Interest is payable annually and the principal is repayable in full upon maturity. The full amount of principal and interest of the bonds is unconditionally and irrevocably guaranteed by China Construction Bank Corporation, which is in turn secured by the Shenzhen Expressway's 100% equity interest in Shenzhen Meiguan Expressway Company Limited ("Meiguan Company").

(e) The bank loan was secured by a fixed deposit of RMB450,000,000 (HKD511,189,000) (2008: RMB116,272,000 (HKD131,992,000)) with a maturity of one year *(Note 18(ii))*.

At 31 December 2009, the borrowings were repayable as follows:

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
Within 1 year	2,084,829	1,941,848	205,625	141,875
Between 1 and 2 years	916,883	761,170	329,375	47,894
Between 2 and 5 years	3,044,922	1,626,728	1,149,375	–
Wholly repayable within 5 years	6,046,634	4,329,746	1,684,375	189,769
Over 5 years	5,642,860	4,914,319	–	–
	11,689,494	9,244,065	1,684,375	189,769

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
HKD	3,040,681	625,614	1,684,375	189,769
RMB	8,640,466	8,601,618	–	–
USD	8,347	16,833	–	–
	11,689,494	9,244,065	1,684,375	189,769

The ranges of interest rates at the balance sheet date were as follows:

	2009			**2008**		
	HKD	*RMB*	*USD*	*HKD*	*RMB*	*USD*
Bank borrowings and other borrowings	1.7%-4.3%	4.4%-6.12%	1.5%-7.17%	1.3%-4.2%	4.5%-7.0%	1.5%-7.17%

The undrawn banking facilities are as follows:

	Group		Company	
	2009	2008	2009	2008
Floating rate				
– Expiring within one year	4,545,177	3,542,967	400,000	–
– Expiring beyond one year	7,093,036	7,382,990	624,787	1,640,000
	11,638,213	10,925,957	1,024,787	1,640,000
Fixed rate				
– Expiring beyond one year	295,354	295,153	–	–
	11,933,567	11,221,110	1,024,787	1,640,000

The carrying amounts and fair values of the non-current borrowings are as follows:

	Group				Company			
	Carrying amounts		Fair values		Carrying amounts		Fair values	
	2009	2008	2009	2008	2009	2008	2009	2008
Bank borrowings	8,664,702	6,399,161	8,634,371	6,485,620	1,478,750	47,894	1,478,750	47,894
Other borrowings	40,733	5,197	40,699	5,002	–	–	–	–
Corporate bonds	899,230	897,859	904,412	897,859	–	–	–	–
	9,604,665	7,302,217	9,579,482	7,388,481	1,478,750	47,894	1,478,750	47,894

The fair values of bank borrowings and other borrowings are determined based on cash flows discounted using effective interest rates ascertained based on the rates of general bank borrowings at 1.50% to 5.94% (2008: 1.50% to 5.94%) per annum.

The fair value of the corporate bonds is calculated using cash flows discounted at a rate based on a market interest rate of a comparable corporate bond at 5.21% (2008: 5.50%) per annum.

The fair values of current borrowings approximate their respective carrying amounts as the effect of discounting is not significant.

The exposure of the borrowings to interest rate changes and the contractual repricing dates at the end balance sheet date are as follows:

	Group		Company	
	2009	2008	2009	2008
Borrowings with fixed rate subject to repricing date as:				
6 months or less	713,251	759,227	–	–
6 months to 12 months	581,479	3,181	–	–
1 to 5 years	1,104,856	342,009	–	–
Over 5 years	4,067,582	4,826,428	–	–
	6,467,168	5,930,845	–	–
Borrowings with floating rate as:				
6 months or less	5,222,326	3,313,220	1,684,375	189,769
	11,689,494	9,244,065	1,684,375	189,769

22. Derivative financial instruments

	Group		Company	
	2009	2008	2009	2008
Interest rate swaps				
– non-current liabilities – cash flow hedges (a)	(51,608)	(51,460)	(51,608)	(45,968)
– current assets – held for trading	–	1,374	–	–
– current liabilities – held for trading	(2,693)	–	–	–
Foreign exchange forward contract				
– current assets – held for trading	–	5,769	–	–

For the year ended 31 December 2009, the fair value change of derivative financial instruments recognised in the equity and income statement amounted to HKD430,000 (2008: HKD49,211,000) and HKD5,057,000 (2008: HKD7,143,000) respectively.

At 31 December 2009, the fixed interest rates vary from 1.8% to 2.9% (2008: 2.7% to 2.9%), and the main floating rates are Hong Kong Interbank Offer Rate. Gains and losses recognised in the hedging reserve in equity (Note 20) on interest rate swap contracts as of 31 December 2009 will be continuously released to the income statement until the repayment of the bank borrowings.

(a) As at 31 December 2009, the aggregate notional amount of the interest rate swaps for cash flow hedge purpose amounted to HKD3,396,250,000 (2008: HKD1,841,500,000).

Outstanding notional principal amount *HKD*	**31 December 2009 balance of the derivative financial instruments** *HKD*	**Maturity date**
200,000,000	6,157,000	28 November 2011
100,000,000	1,001,000	30 March 2012
1,298,125,000	41,964,000	31 July 2013
100,000,000	2,450,000	30 March 2012
1,298,125,000	(21,000)	29 July 2011
200,000,000	(68,000)	31 August 2011
200,000,000	125,000	30 March 2012
3,396,250,000	51,608,000	

23. Provision for maintenance/resurfacing obligations – Group

	2009	**2008**
Opening net book amount	366,426	261,855
Acquisition of a subsidiary *(Note 41(b))*	285,809	–
Charged to the income statement:		
Additions *(Note 31)*	143,706	54,929
Increase due to passage of time *(Note 33)*	32,648	27,997
Exchange difference	591	21,645
Closing net book amount	829,180	366,426

As part of its obligations under the Service Concessions, the Group assumes responsibility for maintenance and resurfacing of the toll roads it manages.

Provision for maintenance/resurfacing obligations are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax 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 an interest expense.

No provision is expected to be utilised in the next year.

24. Convertible bonds

		Group		Company	
		2009	2008	2009	2008
Issuer					
The Company	(i)	1,776,430	1,706,676	1,776,430	1,706,676
Shenzhen Expressway	(ii)	1,426,402	1,360,009	–	–
		3,202,832	3,066,685	1,776,430	1,706,676
Less: current portion	(i)	(1,776,430)	–	(1,776,430)	–
Non-current portion		1,426,402	3,066,685	–	1,706,676

(i) The movement of convertible bonds of the Company during the year is as follows:

		2009		
	Face value	Liability component	Equity component	Total
Beginning of year	1,727,500	1,706,676	209,523	1,916,199
Interest expense *(Note 33)*	–	69,754	–	69,754
End of year	1,727,500	1,776,430	209,523	1,985,953

		2008		
	Face value	Liability component	Equity component	Total
Beginning of year	1,727,500	1,517,977	209,523	1,727,500
Interest expense *(Note 33)*	–	67,352	–	67,352
Exchange difference	–	121,347	–	121,347
End of year	1,727,500	1,706,676	209,523	1,916,199

On 29 December 2007, the Company issued zero coupon convertible bond of HKD1,727,500,000 to Shenzhen Investment Holdings Company Limited ("SIHCL"), a wholly owned subsidiary of Shenzhen SASAB as the consideration for acquisition of 100% equity interest in Shenzhen Bao Tong Highway Construction and Development Limited ("Baotong Company"). SIHCL can convert the bonds from 29 December 2007 for a period of 3 years up to 29 December 2010 (the "maturity date") into ordinary shares with a par value of HKD0.1 each of the Company at an initial conversion price of HKD1.2 per share. If the convertible bond will not be converted at the maturity date, the Company shall repay the remaining principals at a predetermined fixed amount of RMB.

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest of 4.40% to the liability component. The fair values of liability component of convertible bonds approximate their carrying values.

(ii) The movement of convertible bonds of Shenzhen Expressway during the year is as follows:

		2009		
	Face value	**Liability component**	**Equity component**	**Total**
Beginning of year	1,702,804	1,360,009	344,810	1,704,819
Interest expense *(Note 33)*	–	65,399	–	65,399
Exchange difference	–	994	–	994
End of year	1,702,804	1,426,402	344,810	1,771,212

		2008		
	Face value	**Liability component**	**Equity component**	**Total**
Beginning of year	1,577,287	1,202,028	344,810	1,546,838
Interest expense *(Note 33)*	–	61,725	–	61,725
Exchange difference	125,517	96,256	–	96,256
End of year	1,702,804	1,360,009	344,810	1,704,819

On 9 October 2007, Shenzhen Expressway issued 15,000,000 convertible bonds at a par value of RMB1,500,000,000. The bonds bear face interest of 1% per annum and mature in 6 years from the issue date. Interest is paid annually and the principal is repayable in full upon maturity. The bonds are attached with warrants subscription rights which entitle the holders of the bonds subscribe newly issued A shares of the Shenzhen Expressway at the rate of 7.2 shares per bond. The fair values of the liability component and the equity conversion component embedded in the bond were determined at the date of issuance of the bonds.

The fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate for a non-convertible bond in the market with equivalent terms. The residual amount, representing the carrying value of the bonds after deduction of the fair value of the liability component, represents fair value of the equity conversion option, was included in shareholders' equity under other reserves, net of the attributable transaction costs. The full amount of the principal and related interests of the bonds is guaranteed by the Shenzhen Branch of the Agricultural Bank of China, which is in turn secured by the 47.30% of the operating rights of Nanguang Expressway.

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest of 5.50% to the liability components. The fair value of liability components of convertible bonds is HKD1,426,402,000 (2008: HKD1,360,009,000) as at 31 December 2009. The fair value of the convertible bonds is calculated using cash flows discounted at a rate based on a market interest rate for an equivalent bond at 4.55% (2008: 5.50%) per annum.

The warrants subscription rights attached to the convertible bonds issued by Shenzhen Expressway matured on 29 October 2009. Up to 29 October 2009, there were totally 70,326 warrants successfully exercised, with an exercise price of RMB13.23 per share. Shenzhen Expressway received RMB930,000 for warrant exercise.

25. Deferred income tax – Group

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

	2009	**2008**
Deferred tax assets		
– to be recovered after more than 12 months	235,052	118,527
– to be recovered within 12 months	14,340	1,813
	249,392	120,340
Offset within the same tax jurisdiction	(203,469)	(120,340)
Net deferred tax assets	45,923	–
Deferred tax liabilities		
– to be settled after more than 12 months	1,283,171	978,299
– to be settled within 12 months	604,917	17,962
	1,888,088	996,261
Offset within the same tax jurisdiction	(203,469)	(120,340)
Net deferred tax liabilities	1,684,619	875,921

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

	2009	2008
At 1 January	875,921	937,783
Tax charge relating to components of other comprehensive income	282,892	39,360
Income statement credit *(Note 34)*	(119,578)	(137,461)
Acquisition of subsidiary *(Note 41(b))*	598,461	–
Exchange difference	1,000	36,239
At 31 December	1,638,696	875,921

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

	Deferred tax assets			
	Provision for maintenance/ resurfacing obligations	Taxable financial subsidies *(Note (a))*	Payroll accrued but not paid	Total
Balance at 1 January 2008	65,463	–	–	65,463
Credited to the income statement	20,413	28,458	–	48,871
Exchange differences	5,729	277	–	6,006
Balance at 31 December 2008	91,605	28,735	–	120,340
Balance at 1 January 2009	91,605	28,735	–	120,340
Credited/(charged) to the income statement	44,556	(487)	13,361	57,430
Acquisition of subsidiary	71,452	–	–	71,452
Exchange differences	140	19	11	170
Balance at 31 December 2009	207,753	28,267	13,372	249,392

	Deferred tax liabilities					
	Fair value gains/(losses) of financial assets at fair value through profit or loss	Fair value gains of available-for sale financial assets	Concession intangible assets	Convertible bonds	Others	Total
Balance at 1 January 2008	97,856	141,984	686,440	76,966	–	1,003,246
Charged to equity						
– Change of fair value of available-for-sale financial assets	–	39,360	–	–	–	39,360
Charged to/(credited in) income statement						
– Change of fair value of financial assets at fair value through profit or loss	(73,915)	–	–	–	–	(73,915)
– Others	–	–	(8,921)	–	4,277	(4,644)
Convertible bonds	–	–	–	(10,031)	–	(10,031)
Exchange differences	–	–	36,217	6,028	–	42,245
Balance at 31 December 2008	23,941	181,344	713,736	72,963	4,277	996,261
Balance at 1 January 2009	23,941	181,344	713,736	72,963	4,277	996,261
Charged to equity						
– Change of fair value of available-for-sale financial assets	–	304,144	–	–	–	304,144
– Transfer out upon disposal of available-for-sale financial assets	–	(21,252)	–	–	–	(21,252)
Charged to/(credited in) income statement						
– Change of fair value of financial assets at fair value through profit or loss	(23,941)	–	–	–	–	(23,941)
– Others	–	–	(56,323)	–	29,984	(26,339)
Convertible bonds	–	–	–	(11,868)	–	(11,868)
Acquisition of a subsidiary	–	–	669,913	–	–	669,913
Exchange differences	–	–	663	38	469	1,170
Balance at 31 December 2009	–	464,236	1,327,989	61,133	34,730	1,888,088

The tax charge relating to components of other comprehensive income is as follows:

	2009			2008		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Fair value gains on available-for-sale financial assets	1,309,157	(304,144)	1,005,013	67,751	(39,360)	28,391
Transfer of fair value gain to income statement upon disposal of available-for-sale financial assets	(102,662)	21,252	(81,410)	–	–	–
Fair value losses on derivative financial instruments	(5,640)	–	(5,640)	(49,211)	–	(49,211)
Derecognition of cash flow hedge	5,210	–	5,210	–	–	–
Revaluation surplus arising from business combination	1,316,175	(338,005)	978,170	–	–	–
Currency translation differences	10,013	–	10,013	643,845	–	643,845
	2,532,253	(620,897)	1,911,356	662,385	(39,360)	623,025

(a) As explained in further details in Note 34(a), Shenzhen Expressway, Meiguan Company and Jihe East Company became liable to pay PRC corporate income tax of RMB39,236,000 (HKD44,541,000) during 2008 for certain financial subsidies and incentives granted by local governments and received by the Group in prior years. They were initially exempt from taxation according to the provisions of certain policies promulgated by the local government authorities. The Group was advised by the relevant local tax authorities that after settlement of these tax charges, any future amortisation of the related financial subsidies, which have been deferred on the balance sheet of the Group, would be allowed to claim tax deductions for income tax reporting purposes in the future.

Accordingly, deferred tax assets of RMB24,884,000 (HKD28,267,000) (2008:RMB25,313,000 (HKD28,458,000)) had been recognised on such deductible temporary differences originating from the accounting base and tax base of these subsidies based on a tax rate of 25%, which is the tax rate expected to enact when a substantial portion of such temporary differences reverse.

26. Deferred income – Group

	2009	2008
Opening net book amount	33,608	65,805
Recognised in the income statement *(Note 30)*	(33,575)	(31,886)
Exchange difference	(33)	(311)
Closing net book amount	–	33,608

Deferred income represents the amounts granted by the PRC local government authorities, which are applied to designated logistic projects and recognised in the income statement on a systematic basis over the period to match with the cost being subsidised.

27. Trade and other payables

	Group 2009	Group 2008	Company 2009	Company 2008
Trade payables (a)	110,162	45,592	–	–
Payables for construction projects and quality deposits	1,218,891	1,109,237	–	–
Guaranteed deposits for construction projects contracts	160,613	230,514	–	–
Project funds retained for construction management contracts	35,081	27,595	–	–
Accrued expenses	4,206	9,477	–	–
Payable for the acquisition (b)	–	979,631	–	–
Advance from an associate (c)	52,823	52,787	–	–
Payables relating to Guangshen Yanjiang Expressway (Shenzhen Section) Project ("Yanjiang Project") (d)	10,650	340,561	–	–
Other payables	493,715	438,585	10,070	2,458
	2,086,141	3,233,979	10,070	2,458

(a) The ageing analysis of the trade payables was follows:

	Group 2009	Group 2008
0-90 days	99,300	39,434
91-180 days	444	344
181-365 days	9,415	5,144
Over 365 days	1,003	670
	110,162	45,592

(b) The balance at 31 December 2008 represented the remaining acquisition consideration owed to Shenzhen SASAB for the acquisition of 100% equity interest in Shen Guang Hui Highway Development Company ("Shen Guang Hui Company"). The amount was settled in 2009.

(c) These represent the interest-free advance from Nanjing Third Bridge Company, an associate of the Group.

(d) The balances related to the Yanjiang Project managed by Shenzhen Expressway under a management service contract (the "Contract"). Under the Contract, Shenzhen Expressway provides project management services for the construction, operation and maintenance of the Yanjiang Project to the government authority.

At 31 December 2008, the balance represented 6-month loan of RMB300,000,000 (HKD340,561,000) received from SIHCL, which acts on behalf of the government authority. After Shenzhen Expressway entered into the Contract with SIHCL in November 2009, Shenzhen Expressway offset the loans received against the construction advances made for the Yanjiang Project. As at 31 December 2009, the balance represented the net payable relating to the Yanjiang Project. The management service revenue of Yanjiang Project is 1.5% of the construction budget.

28. Revenue

	2009	2008
Toll Road		
– Toll revenue	2,513,742	2,037,165
– Construction revenue under Service Concession	1,211,696	3,644,727
Logistic Parks	176,761	147,441
Logistic Service	178,173	122,281
Head Office	577	–
	4,080,949	5,951,614

29. Other gains – net

	2009	2008
Gain on disposals of financial assets at fair value through profit or loss	96,578	34,080
Fair value losses on financial assets at fair value through profit or loss	–	(197,946)
Fair value losses on derivative financial instruments	(5,057)	–
Gain on disposals of investments in associates	–	290,210
Reversal of impairment of property, plant and equipment, leasehold land, land use rights and other leased assets	3,300	–
Gain on disposals of available-for-sale financial assets	258,245	–
Gain on disposals of property, plant and equipment	4,511	18,681
Loss on disposals of investment properties	(1,060)	–
Net compensation on land resumption	21,177	–
Others	14,146	15,125
	391,840	160,150

30. Other income

	2009	2008
Government grants *(Note 26)*	33,575	31,886
Rental income	18,352	31,114
Dividend income	17,899	26,920
Others	16,233	14,862
	86,059	104,782

31. Expenses by nature

Expenses included in cost of sales, distribution costs, administrative expenses and other operating expenses are analysed as follows:

	2009	2008
Construction cost under Service Concession	1,210,811	3,643,105
Provision for maintenance/resurfacing obligations	143,706	54,929
Depreciation, amortisation and impairment losses	561,548	422,852
Employee benefit expenses *(Note 32)*	239,342	182,502
Transportation expenses	169,479	115,942
Rental charges	26,507	15,400
Other tax expenses	92,749	76,347
Commission and management fee for toll roads	222,294	196,911
Auditors' remuneration	8,048	8,718
Legal and consultancy fees	12,757	27,537
Others	183,798	158,581
	2,871,039	4,902,824

32. Employee benefit expenses

	2009	2008
Wages and salaries	201,270	141,693
Pension costs – defined contribution plans	13,420	12,531
Others	24,652	28,278
	239,342	182,502

From 1 December 2000, a MPF scheme is set up for eligible employees in Hong Kong of the Group. Contributions to the MPF Scheme by the Group and employees are calculated at rates specified in the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group by an independently administered fund.

The Group also contributes to employee retirement schemes established by the PRC local governments in respect of certain subsidiaries in the PRC. The PRC local governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the consolidated income statement as incurred.

No forfeited contributions (2008: Nil) were utilised during the year and none is available at the year-end to reduce future contribution.

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2009 is set out below:

Name of director	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
Guo Yuan	–	272	636	–	90	–	998
Li Jing Qi	–	272	604	–	90	–	966
Liu Jun	–	693	124	12	75	–	904
Yang Hai	–	861	226	17	59	–	1,163
To Chi Keung, Simon	–	–	–	–	–	–	–
Wang Dao Hai	–	–	–	–	–	–	–
Leung Ming Yuen, Simon	300	–	–	–	–	–	300
Ding Xun	300	–	–	–	–	–	300
Nip Yun Wing	300	–	–	–	–	–	300
							4,931

The remuneration of every Director for the year ended 31 December 2008 is set out below:

Name of director	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
Guo Yuan	–	276	529	–	89	–	894
Li Jing Qi	–	276	489	–	89	–	854
Liu Jun	–	703	22	13	74	–	812
Yang Hai	–	811	205	17	61	–	1,094
To Chi Keung, Simon	–	–	–	–	–	–	–
Wang Dao Hai	–	–	–	–	–	–	–
Zhang Hua Qiao	–	–	–	–	–	–	–
Wang Hang Jun	–	–	–	–	–	–	–
Leung Ming Yuen, Simon	300	–	–	–	–	–	300
Ding Xun	300	–	–	–	–	–	300
Nip Yun Wing	300	–	–	–	–	–	300
							4,554

During the year ended 31 December 2009, Messrs Guo Yuan, Li Jing Qi and Liu Jun have waived directors' emoluments of HKD442,500 (2008: HKD545,000), HKD474,300 (2008: HKD586,000) and HKD295,500 (2008: HKD388,000) respectively.

During the years ended 31 December 2009 and 2008, no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2008: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2008: four) individuals during the year are as follows:

	2009	2008
Basic salaries and allowances	4,502	4,376
Bonuses	1,715	1,615
Contributions to the retirement scheme	142	146
Other benefits	82	83
	6,441	6,220

The emoluments fell within the following bands:

	Number of individuals	
	2009	2008
Emolument band		
HKD1,000,001 – HKD1,500,000	3	3
HKD2,500,001 – HKD3,000,000	–	1
HKD3,000,001 – HKD3,500,000	1	–

33. Finance income and costs

	2009	2008
Interest expense		
– Bank borrowings and other borrowings	500,482	437,121
– Convertible bonds *(Note 24)*	135,153	129,077
– Bonds	66,538	66,194
– Other interest expense *(Note 23)*	32,648	27,997
Less: interest expenses capitalised in construction in progress	(165,774)	(214,628)
	569,047	445,761
Interest income from bank deposits	(27,952)	(61,866)
Net finance costs	541,095	383,895

Borrowing costs of HKD165,774,000 (2008: HKD214,628,000) have been capitalised for the construction of toll roads and related facilities and other construction in progress in 2009. Borrowing costs arising on financing specifically arranged for the construction of toll roads and related facilities were capitalised using the rates ranged from 5.35 % to 6.12% (2008: 5.93% to 7.05%) per annum, and other borrowing costs were capitalised using an average interest rate of 3.63% (2008: Nil) per annum.

34. Income tax expense

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year. Taxes on overseas profits have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The PRC corporate income tax charged to the income statement was calculated based on the assessable profits of the Company's subsidiaries located in the PRC of the year at a rate of 20% (2008: 18%) applicable to the respective companies.

	2009	**2008**
Current income tax		
PRC corporate income tax	386,463	327,504
Deferred income tax *(Note 25)*	(119,578)	(137,461)
	266,885	190,043

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the preferential tax rate in Shenzhen, the PRC, the location in which the Group's major subsidiaries operate as follows:

	2009	**2008**
Profit before income tax	1,443,983	1,156,665
Tax calculated at a tax rate of 20% (2008: 18%)	288,797	208,200
Tax impact of:		
– Different tax rates in other locations	4,487	10,638
– Profit earned during tax holidays	(2,267)	(2,438)
– Income not subject to tax	(37,936)	(49,945)
– Expenses not deductible for tax purposes	37,174	27,706
– Unrecognised tax loss	14,358	9,063
– Share of profit of jointly controlled entities and associates	(59,454)	(40,831)
– Share of losses of jointly controlled entities and associates	–	7,720
– Withholding tax on dividend	21,726	4,277
– Additional levies on certain local financial subsidies received in previous years	–	44,111
– Deferred income tax asset arising from PRC corporate income tax paid on local financial subsidies received in previous years	–	(28,458)
Income tax expense	266,885	190,043

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2009, the Group did not recognise deferred income tax assets of HKD14,358,000 (2008: HKD9,063,000) in respect of losses amounting to HKD71,789,000 (2008:HKD39,936,000) that can be carried forward against future taxable income.

(a) Pursuant to the results of a special examination performed on the local tax bureau of Shenzhen, which was conducted by the Shenzhen Finance Supervision Commissioner's Office of the Ministry of Finance in 2008, Shenzhen Expressway, Meiguan Company and Jihe East Company were collectively demanded by the Futian Tax Bureau in the Notice to pay PRC corporate income tax amounting to approximately RMB60,472,000 (HKD67,986,000). The amount attributable to the Group is RMB57,986,000 (HKD65,192,000) (the "Back Taxes"). The Back Taxes were levied on certain local financial subsidies and incentives granted by local government authorities, obtained and received by the Group in previous years, which were initially exempt from income taxes according to the provisions of certain policies promulgated by the local government authorities. Such exemptions were revoked by the authorities as a result of the examination.

    The Group had lodged an application to the Futian Tax Bureau for a reassessment of the computation basis of the Back Taxes, a waiver of the related penalty, as well as a deferral of the payment. Subsequently, several rounds of discussion were held between the Group and the Futian Tax Bureau. According to these communications, the Group consider that the final amount of the Back Taxes would highly probable be reduced by RMB18,750,000 (HKD21,080,000). Accordingly, the Group had recognised a provision for the Back Taxes as current year income tax expense in the consolidated income statement for the year ended 31 December 2008 *(Note 25(a))*.

    As at the date of approval of these financial statements, the amount of the Back Taxes, the related penalty and the exact settlement arrangements had not yet been finalised. The directors of the Company considered that the amount of provision for the Back Taxes recognised was sufficient and thus no additional provision has been made during 2009.

35. Profit attributable to equity holders of the Company

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HKD 81,627,000 (2008: profit HKD 17,525,000). As described in Note 4.2(a), the Group has significant amount of distributable profits from its PRC subsidiaries prior to 31 December 2007. The directors of the Company do not require its PRC subsidiaries to declare dividends in the year. Distributable reserve of the Company at 31 December 2009 amounted to HKD2,157,255,000 (2008: HKD2,442,291,000) *(Note 20(iv))*.

The movement of the retained earnings of the Company is as below:

	Company	
	2009	**2008**
Beginning of year	2,174,253	2,796,816
(Loss)/profit for the year	(81,627)	17,525
Dividends	(203,409)	(640,088)
End of year	1,889,217	2,174,253

36. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2009	**2008**
Profit attributable to equity holders of the Company	865,859	574,986
Weighted average number of ordinary shares in issue *(thousands)*	14,037,374	14,154,014
Basic earnings per share *(HK cents per share)*	6.17	4.06

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2009	2008
Profit attributable to equity holders of the Company	865,859	574,986
Interest expense on convertible bonds	69,754	–
Profit used to determine diluted earnings per share	935,613	574,986
Weighted average number of ordinary shares in issue *(thousands)*	14,037,374	14,154,014
Adjustments – share options *(thousands)*	51,586	69,954
Adjustments – conversion of convertible bonds *(thousands)*	1,439,583	–
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	15,528,543	14,223,968
Diluted earnings per share *(HK cents per share)*	6.03	4.04

The impact of conversion of convertible bonds to earnings per share is anti-dilutive for the year ended 31 December 2008.

37. Dividends

The year of 2008 final dividend paid in 2009 amounted to HKD203,398,000 (HKD0.0145 per share). The year of 2007 final dividend and special dividend paid in 2008 were HKD142,182,000 (HKD0.01 per share) and HKD497,636,000 (HKD0.035 per share), respectively. At the meeting dated 23 March 2010, the directors recommend the payment of the year of 2009 final dividend of HKD0.0146 per ordinary share and special dividend of HKD0.0071 per ordinary share, totalling HKD306,880,000. Such dividends are to be approved by the shareholders at the forthcoming Annual General Meeting. These financial statements do not reflect this as dividend payable.

	2009	2008
Proposed final dividend of HKD0.0146 (2008: HKD0.0145) per ordinary share	206,472	203,398
Proposed special dividend of HKD0.0071 (2008: Nil) per ordinary share	100,408	–
	306,880	203,398

38. Cash generated from operations

(a) Reconciliation of profit before income tax to cash used in operations is set out as below:

	2009	2008
Profit before income tax	1,443,983	1,156,665
Adjustments for:		
– Depreciation *(Note 6)*	136,537	114,777
– Amortisation of leasehold land, land use rights and other leased assets *(Note 8)*	22,924	12,672
– Amortisation of intangible assets *(Note 10)*	402,087	282,911
– (Reversal of impairment)/impairment of property, plant and equipment *(Note 6)*	(660)	1,691
– Write off intangible assets *(Note 10)*	–	1,388
– (Reversal of impairment)/impairment of leasehold land, land use rights and other leased assets *(Note 8)*	(2,640)	6,766
– Deferred income recognised in the income statement *(Note 26)*	(33,575)	(31,886)
– Provision for maintenance/resurfacing obligations *(Note 23)*	143,706	54,929
– Provision for impairment of trade receivables *(Note 17)*	–	158
– Gain on disposals of available-for-sale financial assets *(Note 29)*	(258,245)	–
– Loss on disposals of investment properties *(Note 29)*	1,060	–
– Gain on disposals of property, plant and equipment *(Note 29)*	(4,511)	(18,681)
– Gain on disposals of investments in associates *(Note 29)*	–	(290,210)
– Gain on net compensation on land resumption *(Note 29)*	(21,177)	–
– Gain on disposals of financial assets at fair value through profit or loss *(Note 29)*	(96,578)	(34,080)
– Fair value losses on financial assets at fair value through profit or loss *(Note 29)*	–	197,946
– Fair value (gains)/losses on investment properties *(Note 7)*	(347)	4,035
– Interest income *(Note 33)*	(27,952)	(61,866)
– Interest expense *(Note 33)*	569,047	445,761
– Fair value losses/(gains) of derivative financial instruments *(Note 22)*	5,057	(7,143)
– Share of profit of associates/jointly controlled entities *(Note 12 and Note 13)*	(297,269)	(226,838)
– Dividend received	(17,899)	–
Changes in working capital (excluding the effect of exchange differences on consolidation):		
– Trade and other receivables	259,375	(155,398)
– Trade and other payables	(388,423)	(76,650)
Cash generated from operations	1,834,500	1,376,947

(b) In the cash flow statement, proceeds from disposals of property, plant and equipment comprise:

	2009	**2008**
Net book amount *(Note 6)*	7,132	11,239
Gain on disposal *(Note 29)*	4,511	18,681
Proceeds from disposal	11,643	29,920

(c) The amount represented net cash outflows on the acquisitions of Shenzhen International Huatongyuan Logistics Co., Ltd. ("Huatongyuan"), of HKD22,767,000 *(Note 41(a))* and Jihe East Company of HKD1,124,286,000 *(Note 41(b))* and the settlements of outstanding considerations arising from the acquisition of Shen Guang Hui Company of HKD979,631,000 and the acquisition of Qinglian Company of HKD4,837,000 which both were completed in 2008.

39. Financial guarantees and contingencies

(a) As at 31 December 2009, the Group has the following financial guarantees:

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
Irrevocable banking guarantee:				
– Related parties (i)	57,935	74,923	–	–

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
Corporate guarantees for bank facilities utilised by:				
– Subsidiaries	–	–	–	200,484

(i) Project Construction Management Contracts

In associated with Nanping (Phase II) Project and the renovation project of the Shenyun-North Ring Interchange in Shenzhen, Shenzhen Expressway had arranged with banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Communications Bureau amounting to RMB50,000,000 (HKD56,799,000) and RMB1,000,000 (HKD1,136,000) respectively.

(b) At 8 December 2004, the Shenzhen Expressway signed a construction contract with Shenzhen Pengcheng Construction Company Limited ("Shenzhen Pengcheng") for Nanping (Phase I) Project. As disputes concerning the unit prices of some items under the construction contract arose that were not resolved by mutual agreement, Shenzhen Pengcheng applied for arbitration to Shenzhen Arbitration Commission against the Shenzhen Expressway in 2007. As at the date of approval of these financial statements, the arbitration process was still in progress. The directors of the Company had sought advice from the legal counsel and concluded that the result of the arbitration would not lead to any significant adverse impact on the Group's operating results.

On 1 June 2004, Shenzhen Expressway signed a construction contract with Jilin Great Wall Construction Company Limited ("Great Wall") for Nanping (Phase I) Project. As disputes concerning construction volume and the unit prices of some items under the contract arose that were not resolved by mutual agreement, Great Wall applied for arbitration to Shenzhen Arbitration Commission against Shenzhen Expressway in December 2009. As at the date of approval of these financial statements, the arbitration process was still in progress. The directors had sought advice from the legal counsel and concluded that the result of the arbitration would not lead to any significant adverse impact on the Group's operating results.

(c) Penalty on Back Taxes

As mentioned in Note 25(a), the Group had made a provision for the Back Taxes liabilities in the amount of RMB39,236,000 (HKD44,571,000) as at 31 December 2009. As at the date of approval of these financial statements, the amount of the Back Taxes, the related penalty and the exact settlement arrangements had not yet been finalised.

40. Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2009	**2008**
Capital commitments – expenditure of property, plant and equipment and concession intangible assets		
– Contracted but not provided for	904,848	560,181
– Authorised but not contracted for	2,162,894	2,395,499
	3,067,742	2,955,680
Investment commitments		
– Contracted but not provided for	–	318,970
– Authorised but not contracted for	149,949	–
	3,217,691	3,274,650

(b) Operating lease commitments – the Group as the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2009	2008
Land and buildings:		
Not later than 1 year	4,592	2,956
Later than 1 year and not later than 5 years	3,294	479
Over 5 years	1,325	13
	9,211	3,448

(c) Operating lease commitments – the Group as the lessor

The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	2009	2008
Land and buildings:		
Not later than 1 year	51,505	26,274
Later than 1 year and not later than 5 years	20,600	27,092
Over 5 years	3,136	7,508
	75,241	60,874

41. Business combinations

(a) Acquisition of 51% equity interest in Huatongyuan

On 9 January 2009, the Group completed the acquisition of 51% equity interest in Huatongyuan for a cash consideration of HKD50,949,000. As Huatongyuan has not commenced its operation as at 31 December 2009, the business acquired has not contributed any revenue or net profit from the date of acquisition to 31 December 2009.

(i) Details of net assets acquired are as follows:

Purchase consideration:	
– Cash paid in 2009	50,949
– Direct cost relating to acquisition	828
Fair value of 51% net assets acquired	(52,079)
Negative goodwill credited to income statement	(302)

(ii) The fair value and carrying amount of the assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	29,010	29,010
Property, plant and equipment	444	444
Construction in progress	82,846	69,505
Other non-current assets	464	464
Prepayment for construction	34,243	34,243
Payables for construction and other payables	(44,892)	(44,892)
Net assets	102,115	88,774
Less: 49% minority interests	(50,036)	
51% of net assets acquired	52,079	

(iii) Cash outflow on acquisition

Direct cost relating to acquisition	(828)
Purchase consideration settled in cash in 2009	(50,949)
Cash and cash equivalents in the subsidiary acquired	29,010
	(22,767)

(b) Acquisition of 45% equity interest in Jihe East Company

Jihe East Company was a jointly controlled entity of the Group, which the Group owned 55% equity interest before 30 September 2009. During this year, the Group acquired the remaining 45% equity interest in Jihe East Company. The acquired business contributed revenue of HKD136,770,000 and net profit of HKD64,214,000 to the Group from the acquisition date to 31 December 2009. If the acquisition occurred on 1 January 2009, the Group's share of revenue and net profit would have been increased by HKD208,090,000 and HKD89,759,000, respectively for the year ended 31 December 2009. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2009, together with the consequential tax effects.

(i) Details of net assets acquired are as follows:

– Purchase consideration as specified in equity transfer agreement	1,213,443
– Distribution derived from Jihe East Company originally attributable to the seller	(82,288)
– Direct cost relating to acquisition	92,747
Total cost of acquisition	1,223,902
Fair value of net assets acquired	(1,223,902)
Goodwill	–

In accordance with the equity transfer agreement, the Group is entitled to all cash distribution derived from Jihe East Company since 1 April 2009 when the acquisition is completed. Since the acquisition was completed on 30 September 2009, the proportion of cash distribution generated from 1 April to 30 September, which is originally attributable to the seller is entitled owned by the Group. Therefore, it has been treated as a deduction item to the cost of acquisition.

(ii) The revaluation surplus of original 55% equity interest owned by the Group amounting to HKD1,014,001,000 was credited to the other reserve on the date of acquisition.

On 30 September 2009, the acquisition date

Fair value of net assets and shareholders' loan of Jihe East Company	2,719,783
The fair value of original 55% equity interest and shareholders' loan	1,495,881
Less: the carrying value of original 55% equity interest and shareholders' loan	(481,880)
Revaluation surplus arising from the business combination	1,014,001

(iii) The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
Cash and cash equivalents	181,694	181,694
Trade and other receivables	15,068	15,068
Inventory	259	259
Deferred tax assets	16,094	16,094
Other current assets	794	794
Property, plant and equipment	55,016	55,016
Construction in progress	974	974
Concession intangible assets	3,513,823	1,055,601
Trade and other payables	(140,585)	(140,585)
Provision for maintenance/resurfacing obligations	(285,809)	(285,809)
Current income tax liabilities	(22,990)	(22,990)
Deferred tax liabilities	(614,555)	–
Net assets	2,719,783	876,116
Net assets acquired	1,223,902	

(iv) The Group adopted valuation technique to assess the fair value of net assets of Jihe East Company on the acquisition date. Main assets of Jihe East Company are cash and cash equivalents and concession intangible assets. The fair value of cash and cash equivalents is equal to its carrying amount, while concession intangible assets are assessed using "Present Earning Value Method" based on the following key estimations:

- Assume that the toll rate of Jihe East Company would increase 20% from 2015;
- In order to realise the growth potential of the business and maintain the competitive edge, additional manpower, equipment and facilities are necessary to be employed. For this valuation exercise, the Group has assumed that the facilities and systems proposed are sufficient for future expansion;
- The Group has assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Jihe East Company;
- The Group has assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be complied;
- The Group has assumed that no flooding and other types of scurvy weather will occur which may extend closure of the expressway;
- Based on tax regulations applicable to the Jihe East Company, the Group has assumed the tax rate over the concession period of the expressway as follows:

(1) Turnover tax and surtax

Tax item	Tax base	Tax rate
Business Tax -Toll Road	Toll road's revenue	3%
Business Tax -Rental Income	Rental income	5%
Urban Maintenance and Construction Tax	Business tax amount	1%
Educational Surtax and Surcharge	Business tax amount	3%

(2) Income tax

Year	2009	2010	2011	2012 – 2027
Income tax rate	20%	22%	24%	25%

In determining the discount rate for the operation adopted in the valuation, the Group has taken into account a number of factors including the current market condition and the underlying risks inherent in the business, such as uncertainty risk, etc. These risk factors have been considered in determining the appropriate discount rate, 13.2%, for the valuation.

(v) Cash outflow on acquisition

Purchase consideration settled in cash in 2009	(1,213,443)
Transaction costs	(92,537)
Cash and cash equivalents in the subsidiary company acquired	181,694
	(1,124,286)

42. Related-party transactions

As described in Note 1, the Company is de facto controlled by SIHC. The transactions as mentioned in Notes 17, 24, 27(b), 27(c) and 39(a) are related party transactions of the Group. Save as disclosed above, the Group has the following significant transactions with related parties during the year:

(a) During the year 2008 and 2009, the Group has bank deposits in and obtained borrowings from state-owned banks in normal commercial terms. Interests are earned and incurred on these deposits and borrowings respectively.

(b) The Group has capital expenditure incurred for service concession projects and construction in progress with state-owned contractors both in 2008 and 2009 and payable balances due to state-owned contractors for construction projects and guaranteed deposits as of 31 December 2009.

(c) Payment of project management service fee

Shenzhen Expressway entered into project management service contracts with Consulting Company, another associate of Shenzhen Expressway, under which Consulting Company assumes the management of the reconstruction project of Shenzhen Expressway. The value of the management service contract is approximately HKD107,071,000. During the year, Shenzhen Expressway paid a management fee of approximately HKD27,445,000 (2008: HKD19,944,000) to Consulting Company. The cumulative management fee paid by Shenzhen Expressway to Consulting Company amounted to approximately HKD82,755,000 up to 31 December 2009.

(d) Toll income collection

Due to the geographical layout of the toll roads operated by Shenzhen Expressway, certain toll gates of the toll roads of Shenzhen Expressway and Jihe East Company are overlapping. As a result, Shenzhen Expressway and Jihe East Company collect toll income for each other. During the year, the aggregate toll income collected by Shenzhen Expressway on behalf of Jihe East Company was HKD88,209,000 (2008: HKD155,399,000), while the aggregate toll income collected by Jihe East Company on behalf of the Group was HKD79,021,000 (2008: HKD141,949,000). All toll revenue collected was paid back to the counterparties within three days after collection without charging any handling fees.

(e) Key management compensation

Details of key management compensation are set out in Note 32.

43. Events after the balance sheet date

(a) Disposal of CSG A shares

From 1 January 2010 to the date of this report, the Group has disposed of a total of 4,706,833 CSG A shares via Shenzhen Stock Exchange. The average selling price was RMB19.97 per share, giving a total consideration of approximately RMB94 million. As at the date of this report, the Group beneficially owned 99,109,048 CSG A shares, representing approximately 8.11% shares in the total issued share capital of CSG. All CSG A shares held by the group are freely tradeable on the Shenzhen Stock Exchange.

(b) Capital Injection to Shenzhen Airlines Limited ("Shenzhen Airlines")

On 21 March 2010, the Company, through its wholly-owned subsidiary, Shenzhen International Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics"), entered into a capital increase agreement with Air China Limited ("Air China") and Shenzhen Huirun Investment Co., Ltd. ("Huirun"), pursuant to which Total Logistics and Air China have conditionally agreed to make a capital contribution totaling RMB1,030,125,000 to Shenzhen Airlines, of which, Total Logistics will contribute RMB347,981,250 and Air China will contribute RMB682,143,750 to subscribe for additional registered capital of Shenzhen Airlines (the "Capital Injection"). Upon completion of such capital increase, Total Logistics will increase its equity interest in Shenzhen Airlines from 10% to 25%, and Air China and Huirun will own 51% and 24% equity interests in Shenzhen Airlines, respectively.

The Capital Injection constitutes a major transaction of the Company under the Rules Governing Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and is therefore subject to the approval by the shareholders of the Company at a general meeting. For details of the Capital Injection, please refer to the announcement of the Company dated 21 March 2010.

(c) Issuance of medium term notes

Shenzhen Expressway's application for the issuance of medium term notes (the "Notes") with principal amount of RMB700 million has been approved by the National Association of Financial Market Institutional Investors. The Notes would be issued in two phases, of which the first phase with principal amount of RMB400 million has been successfully issued on 15 March 2010. The Notes have terms of three years and bear floating interest rate. The applicable interest rate of the first phase notes is 3.72% per annum.

44. Particulars of principal subsidiaries

Name	Nominal value of issued ordinary/ registered share capital	Interest held by the Company Direct	Interest held by the Company Indirect	Principal activities
Subsidiaries:				
深科實業發展(深圳)有限公司△	HKD10,000,000	–	100	Investment holding
Shenzhen International Total Logistics (Shenzhen) Co., Ltd. (formerly known as Total Logistics (Shenzhen) Co., Ltd.) ◇	RMB200,000,000	–	100	Provision of total logistics and transportation ancillary services
Xin Tong Chan Development (Shenzhen) Co., Ltd.△	RMB200,000,000	–	100	Investment holding
Shenzhen International South-China Logistics Co., Ltd. (formerly known as Shenzhen South-China International Logistics Co., Ltd.) @	RMB240,000,000	–	100	Development, construction, operation and management of South China Logistic Park
Shenzhen International Holdings (SZ) Limited (formerly known as Yiwan Industry Development (Shenzhen) Co., Ltd.) △	HKD2,180,000,000	–	100	Investment holding
Nanjing UT Logistics Co., Ltd. @	RMB88,000,000	–	100	Logistic services and related warehouse facilities
Shenzhen EDI Co., Ltd. @	RMB22,760,000	–	68.54	Provision of electronic information exchange, transmission and value-added information sharing services

Name	Nominal value of issued ordinary/ registered share capital	Interest held by the Company Direct	Interest held by the Company Indirect	Principal activities
Shenzhen International Western Logistics Co., Ltd. (formerly known as Shenzhen Western Logistics Co, Ltd.) @*	RMB450,000,000	–	100	Development, construction, operation and management of Western Logistic Park
Shenzhen Bao Tong Highway Construction and Development Limited@*	RMB1,533,800,000	–	100	Development, construction, investment, operation and management of toll highway
Shenzhen Longda Expressway Company Limited@*	RMB5,000,000	–	89.93	Operation and management of Longda Expressway
Shenzhen Expressway Company Limited^	RMB2,180,770,326	–	50.89	Investment, construction, operation and management of toll highways and roads
Hubei Magerk Expressway Management Private Limited △*	USD28,000,000	–	100	Operation and management of highways and expressways
Shandong Booming Logistics Co., Ltd. (formerly known as Yantai Beiming Logistics Co. Ltd.) @*	RMB90,000,000	–	55.39	Logistic services and related warehouse facilities
Shenzhen Shen Guang Hui Highway Development Company@*	RMB105,600,000	–	100	Investment holding
Nanjing Xiba Wharf Co., Ltd.@*	RMB455,000,000	–	70	Construction, operation and management of Warf and Logistics Centres at Xiba Port of Nanjing

Name	Nominal value of issued ordinary/ registered share capital	Interest held by the Company Direct	Indirect	Principal activities
Shenzhen Meiguan Expressway Company Limited@	RMB332,400,000	–	100	Construction, operation and management of an expressway
Shenzhen Expressway Advertising Company Limited@	RMB2,000,000	–	100	Advertising agency in the PRC
Guangdong Qinglian Highway Development Company Limited◇	RMB1,200,000,000	–	76.37	Development, operation and management of highways
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited @	RMB440,000,000	–	100	Construction, operation and management of an expressway
Shenzhen International Huatongyuan Logistics Co., Ltd. (formerly known as Shenzhen Huatongyuan Logistics Co., Ltd.) @*	RMB 60,000,000	–	51	Logistic services and related warehouse facilities

△ *Foreign-owned enterprise*

◇ *Sino-foreign Joint Venture*

@ *Domestic enterprise*

^ *Foreign invested joint stock limited company*

* *For identification purpose only*

The above table lists the subsidiaries of the Group which, in opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the net assets of the Group. These subsidiaries are incorporated and operating in the PRC. To give details of other subsidiaries would result in particulars of excessive length.

FINANCIAL AND TRADING PROSPECTS

It is expected that China's economy will see moderate growth in 2010, with previous economic stimulus policies staying effective while focusing more on transformation of the economic development mode and its structural adjustments. However, uncertainties still exist in the macro-economy as the impact from the financial crisis will still remain for a short period. It will take a longer time for foreign demands to recover which will impose certain restrictions on the development of the logistics and highway industries.

Looking into 2010, relevant revitalization and support will be reinforced. Six special plans under the Adjustment and Revitalization Plan for the Logistics Industry (including coal, grain, agricultural product cold chain, logistic park, emergency logistics and trade logistics) are set to be promulgated with other detailed rules expected to be successively announced. This will offer a good assurance and opportunity for the development of the logistics industry.

As regards the highway industry, it is expected that traffic volume will gradually grow in 2010 as the country's economy recovers and regional economies become increasingly active. Meanwhile, with the gradual implementation of national or regional policies such as the Guiding Opinions on Further Promotion of Stable and Rapid Development of the Road and Waterway Transportation Industry, the Planning Outline on Reform and Development in the Pearl River Delta Region and the Overall Plan on Comprehensive Ancillary Reforms in Shenzhen, positive stimulus will be provided to the development of the highway industry.

With a gradual recovery of the overall macro-economy, a gradual release of production capacity formed from the Group's investments in the logistics business at its early stage and its improved capabilities in logistic service and customer marketing, the Group's logistics business is expected to achieve a faster growth in 2010. The Group will redouble its efforts in respect of innovation of business mode, improvement of project construction quality, and promotion of integration of brands with information resources, with a view to making the logistics business become another major source of profit contribution for the Group.

As to the toll road operation, the Group will, as always, give its support to the management and operation of Shenzhen Expressway Company Limited ("Shenzhen Expressway"), assist in improving its financing structure and reducing finance costs, coordinate the arrangement of renovation plans, reasonably enhance finance management and operation management, and enhance efforts on new projects expansion and implementation, thereby maintaining stable operation and appropriate expansion of the toll road operation.

INDEBTEDNESS OF THE GROUP

At the close of business on 28 February 2010, being the latest practicable date for the purpose of this indebtedness statement, the Group had the following indebtedness:

(1) secured bank borrowings of approximately HK$6,006,469,000, which were secured by the toll collection rights of Qinglian Project as to HK$4,869,684,000, the Group's 40% equity interest of Shenzhen Qinglong Expressway Company Limited, an associate of the Group, as to HK$1,034,796,000 and the Group's 55% equity interest in Jade Emperor Limited, a subsidiary of the Company, as to HK$101,989,000;

(2) unsecured bank borrowings of approximately HK$4,585,003,000;

(3) secured bank borrowings of approximately HK$509,942,000 which was secured by a one-year fixed deposit of HK$511,713,000;

(4) unsecured loans from a minority shareholder of a subsidiary of the Group with an amount of HK$35,497,000;

(5) zero coupon convertible bonds due 2010 with carrying value of approximately HK$1,666,644,000 and a principal amount of HK$1,727,500,000;

(6) secured convertible bonds (in which bonds and subscription warrants are tradable separately) for a term of 6 years with carrying value of approximately RMB1,265,265,000 (equivalent to HK$1,438,782,000) and a nominal value of RMB1,500,000,000 (equivalent to HK$1,705,708,000) which were guaranteed by Agricultural Bank of China, Shenzhen Branch with a pledge of the 47.3% toll collection rights of Nanguang Expressway by Shenzhen Expressway, a subsidiary of the Company, as counter-guarantee;

(7) secured corporate bonds with carrying value of approximately RMB791,704,000 (equivalent to HK$900,277,000) and a nominal value of RMB800,000,000 (equivalent to HK$909,711,000) for a term of 15 years which were guaranteed by China Construction Bank, Shenzhen Branch with a pledge of Shenzhen Expressway's 100% equity interest in Shenzhen Meiguan Expressway Company Limited as counter-guarantee; and

(8) unsecured and unguaranteed notes payable of HK$83,518,000.

At the close of business on 28 February 2010, contingent liabilities of the Group comprised the following:

(1) In association with Nanping (Phase II) Project and the renovation project of the Shenyun-North Ring Interchange in Shenzhen, Shenzhen Expressway had arranged with banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Communications Bureau amounting to RMB50,000,000 (equivalent to HK$56,857,000) and RMB1,000,000 (equivalent to HK$1,137,000) respectively.

(2) Pursuant to the results of a special examination performed on the local tax bureau of Shenzhen, which was conducted by the Shenzhen Finance Supervision Commissioner's Office of the Ministry of Finance in 2008, Shenzhen Expressway, Meiguan Company and Jihe East Company were collectively demanded by the Futian Tax Bureau in the Notice to pay PRC enterprise income tax back taxes amounting to approximately RMB60,472,000 (equivalent to HK$68,765,000). The amount attributable to the Group is RMB57,986,000 (equivalent to HK$65,938,000) (the "Back Taxes"). The Back Taxes were levied on certain local financial subsidies and incentives granted by local government authorities, obtained and received by the Group in previous years, which were initially exempt from income taxes according to the provisions of certain policies promulgated by the local government authorities. Such exemptions were revoked by the authorities as a result of the examination.

The Group had lodged an application to the Futian Tax Bureau for a reassessment of the computation basis of the Back Taxes, waiver of the related penalty, as well as a deferral of the payment. Subsequently, several rounds of discussion were held between the Group and the Futian Tax Bureau. According to these communications, the Directors considered that the final amount of the Back Taxes would highly probable be reduced by RMB18,750,000 (equivalent to HK$21,321,000). Accordingly, the Group had recognised a provision for the Back Taxes amounting to RMB39,236,000 (equivalent to HK$44,617,000) as current year income tax expense in the consolidated income statement for the year ended 31 December 2008, based on the best estimate made by the Directors.

As at 28 February 2010, the amount of the Back Taxes, the related penalty and the exact settlement arrangements had not yet been finalised. The Directors considered that the amount of provision for the Back Taxes recognised was sufficient and thus no additional provision has been made during 2009.

(3) On 8 December 2004, Shenzhen Expressway signed a construction contract with Shenzhen Pengcheng Construction Company Limited ("Shenzhen Pengcheng") for Nanping (Phase I) Project. As disputes concerning the unit prices of some items under the contract arose that were not resolved by mutual agreement, Shenzhen Pengcheng applied for arbitration to Shenzhen Arbitration Commission against Shenzhen Expressway in 2007. As at 28 February 2010, the arbitration process was still in progress. The Directors had sought advice from the legal counsel and concluded that the result of the arbitration would not lead to any significant adverse impact on the Group's operating results.

On 1 June 2004, Shenzhen Expressway signed a construction contract with Jilin Great Wall Construction Company Limited ("Great Wall") for Nanping (Phase I) Project. As disputes concerning construction volume and the unit prices of some items under the contract arose that were not resolved by mutual agreement, Great Wall applied for arbitration to Shenzhen Arbitration Commission against Shenzhen Expressway in December 2009. As at 28 February 2010, the arbitration processes was still in progress. The Directors had sought advice from the legal counsel and concluded that the result of the arbitration would not lead to any significant adverse impact on the Group's operating results.

Subsequent event

Shenzhen Expressway's application for the issuance of medium term notes (the "Notes") with principal amount of RMB700 million has been approved by the National Association of Financial Market Institutional Investors. The Notes would be issued in two phases, of which the first phase with principal amount of RMB400 million has been successfully issued on 15 March 2010. The Notes have terms of three years and bear floating interest rate. The applicable interest rate of the first phase notes is 3.72% per annum.

For the purpose of preparing the indebtedness of the Group, translation of amounts in RMB into HKD has been made at the exchange rate of HKD1 = RMB0.8794, the closing rate as at 28 February 2010.

Save as aforesaid, and apart from the intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital or overdrafts, or other similar indebtedness, finance leases or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at the close of business on 28 February 2010.

WORKING CAPITAL SUFFICIENCY OF THE GROUP

Taking into account the expected completion of the Capital Injection, the financial resources available to the Group, including internally generated funds and available banking facilities, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Shenzhen Airlines's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

29 March 2010

The Directors
Shenzhen International Holdings Limited

Dear Sirs

INTRODUCTION

We set out below our report on the financial information relating to Shenzhen Airlines Limited ("Shenzhen Airlines") and its subsidiaries (hereinafter collectively referred to as the ("Shenzhen Airlines Group")) including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of Shenzhen Airlines Group, for each of the years ended 31 December 2007, 2008 and 2009 (the "Relevant Period"), and the consolidated balance sheets of Shenzhen Airlines Group and the balance sheets of Shenzhen Airlines as at 31 December 2007, 2008 and 2009, together with the notes thereto (the "Financial Information"), for inclusion in the circular of Shenzhen International Holdings Limited (the "Company") dated 29 March 2010 (the "Circular") in connection with the proposed capital injection to Shenzhen Airlines by Shenzhen International Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics"), a wholly owned subsidiary of the Company, pursuant to the agreement dated 21 March 2010 entered into between Total Logistics, Air China Limited and Shenzhen Huirun Investment Co., Ltd. ("Capital Increase Agreement").

Shenzhen Airlines was established in the People's Republic of China (the "PRC") as a limited liability company on 25 November 1992 under an approval document Shen Fu Ban Fu [1992] No. 159.

Shenzhen Airlines is principally engaged in airline operations in the PRC. As of the date of this report, Shenzhen Airlines has direct and indirect interests in subsidiaries, jointly controlled entities and associated companies as set out in Notes 13, 15 and 14 of Section B below.

The statutory consolidated financial statements of Shenzhen Airlines were prepared in accordance with the Accounting Standards for Business Enterprise (2006) issued by the Ministry of Finance of the PRC and were audited during the Relevant Period by its statutory auditors Shenzhen Pengcheng Certified Public Accountants Co., Ltd. for the years ended 31 December 2007 and 2008 and KPMG Huazhen for the year ended 31 December 2009.

For the purpose of this report, the directors of Shenzhen Airlines have prepared the consolidated financial statements of Shenzhen Airlines Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have audited the Underlying Financial Statements for each of the years ended 31 December 2007, 2008 and 2009 in accordance with Hong Kong Standards on Auditing.

The Financial Information has been prepared based on the Underlying Financial Statements of Shenzhen Airlines Group with no adjustment made thereon and on the basis as set out in Note 1 of Section B below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of Shenzhen Airlines are responsible for the preparation and true and fair presentation of the Financial Information in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

OPINION

In our opinion, for the purpose of this report, the Financial Information, in accordance with the basis of preparation and the accounting policies set out in Note 1 of section B below, gives a true and fair view of Shenzhen Airlines Group's consolidated results and cash flows for the Relevant Period, and the state of affairs of Shenzhen Airlines Group and Shenzhen Airlines as at 31 December 2007, 2008 and 2009.

EMPHASIS OF MATTERS

Without qualifying our opinion, we draw attention to Notes 1(c), 14 and 21(b) to the Financial Information.

As at 31 December 2007, 2008 and 2009, Shenzhen Airlines Group had net current liabilities of RMB4,893,427,890, RMB6,109,883,546 and RMB18,853,530,263 and net liabilities of RMB979,454,356, RMB955,970,802 and RMB1,781,605,710 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on Shenzhen Airlines Group's ability to continue as a going concern. As disclosed in Note 1(c) to the Financial Information, the Financial Information has been prepared on the going concern basis, the validity of which depends upon the ongoing support from Shenzhen Airlines Group's bankers and Shenzhen Airlines Group's ability to generate sufficient cash flows from future operations to cover Shenzhen Airlines Group's operating costs and meet its obligations as and when they are fall due. The Financial Information does not include any adjustments that would result from the failure of such measures.

As disclosed in Notes 14 and 21(b) of the Financial Information, the net book value of Shenzhen Airlines's investment in Shenzhen Airlines Property Development Co., Ltd.(深圳市深航房地產開發有限責任公司)("SZ Property") as at 31 December 2008 was RMB27,031,628. As at 31 December 2009, the gross receivables due from SZ Property and its subsidiaries were RMB1,049,672,017. On 30 November 2009, police authorities seized all the books and records, minutes to the board of directors' meetings, contracts and other records of SZ Property for the period from its date of inception (October 2006) to June 2009, as well as freezing all bank accounts of SZ Property and one of its subsidiaries. After assessing the situation of SZ Property and its subsidiaries as at 31 December 2009, the directors of Shenzhen Airlines are currently unable to estimate the effects of matters described above, but consider the prospect of recovery of the investment in and receivables from SZ Property and its subsidiaries to be remote. As such full impairment allowance was recorded against these amounts in 2009. Should the police authorities relieve the above measures and SZ Property be able to repay the receivables partially or entirely, the provision for impairment loss on the receivables from and investment in SZ Property and its subsidiaries will be partially or wholly reversed and affect the Financial Information accordingly.

A FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

(Expressed in Renminbi)

	Note	2007 RMB	2008 RMB	2009 RMB
		Years ended 31 December		
Operating revenue				
Traffic revenue		7,707,971,204	9,610,974,315	11,133,342,779
Other operating revenue		540,887,429	878,484,377	912,538,222
Total operating revenue		8,248,858,633	10,489,458,692	12,045,881,001
Operating expenses				
Jet fuel costs		(2,701,446,727)	(4,178,290,182)	(3,526,507,963)
Take-off, landing and depot charges		(784,747,986)	(1,029,326,020)	(1,432,421,043)
Depreciation and amortisation	*3*	(547,553,750)	(658,711,032)	(981,939,926)
Impairment losses	*3*	(2,134,304,696)	(1,179,477)	(1,099,523,247)
Aircraft maintenance, repairs and overhaul costs		(432,521,972)	(442,123,703)	(646,042,623)
Staff costs	*3*	(782,325,194)	(1,061,198,686)	(1,239,003,517)
Air catering charges		(156,151,972)	(196,518,958)	(244,140,716)
Aircraft and engine operating lease expenses		(696,568,143)	(996,621,216)	(1,030,512,788)
Other flight operation expenses		(621,141,956)	(797,941,181)	(787,233,395)
Other operating expenses		(826,457,035)	(1,045,130,334)	(1,211,477,725)
Total operating expenses		(9,683,219,431)	(10,407,040,789)	(12,198,802,943)
Other income/(loss), net	*5*	50,569,702	136,063,795	(57,492,404)
Operating (loss)/profit	*3*	(1,383,791,096)	218,481,698	(210,414,346)
Interest income		14,934,248	35,817,317	7,047,424
Interest expense	*4*	(451,976,206)	(533,374,757)	(498,078,078)
Share of associates' results	*14*	(3,634,204)	(2,674,408)	(2,161,091)
Share of jointly controlled entities' results	*15*	(83,616,249)	(25,739,656)	(32,246,737)
Loss on derivative financial instruments, net		(103,680,848)	(66,200,256)	(43,892,884)
Exchange gains, net		373,322,690	438,086,673	3,430,517
(Loss)/profit before taxation		(1,638,441,665)	64,396,611	(776,315,195)
Income tax (expense)/credit	*7(a)*	(179,614,073)	8,929,580	(92,319,579)
(Loss)/profit for the year		(1,818,055,738)	73,326,191	(868,634,774)
Attributable to:				
Equity holders of Shenzhen Airlines		(1,820,035,768)	70,314,660	(869,063,982)
Minority interests		1,980,030	3,011,531	429,208
(Loss)/profit for the year		(1,818,055,738)	73,326,191	(868,634,774)

The accompanying notes form part of the Financial Information.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in Renminbi)

		Years ended 31 December		
		2007	**2008**	**2009**
	Note	*RMB*	*RMB*	*RMB*
(Loss)/profit for the years		(1,818,055,738)	73,326,191	(868,634,774)
Other comprehensive income for the years (after tax)				
Exchange differences on translation of financial statements of overseas subsidiaries		–	(8)	(245)
Available-for-sale securities: net movement in the fair value reserve	*9*	24,448,241	(65,108,604)	53,345,385
Total comprehensive income for the years		(1,793,607,497)	8,217,579	(815,289,634)
Attributable to:				
Equity holders of Shenzhen Airlines		(1,795,587,527)	5,206,048	(815,718,842)
Minority interests		1,980,030	3,011,531	429,208
Total comprehensive income for the years		(1,793,607,497)	8,217,579	(815,289,634)

The accompanying notes form part of the Financial Information.

CONSOLIDATED BALANCE SHEETS

(Expressed in Renminbi)

		At 31 December		
		2007	**2008**	**2009**
	Note	*RMB*	*RMB*	*RMB*
Non-current assets				
Property, plant and equipment, net	*11*	6,486,097,694	10,572,720,706	14,359,508,893
Construction in progress	*12*	3,517,002,518	4,120,139,754	4,089,150,102
Interests in leasehold land held for own use under operating leases		186,203,806	98,691,509	34,368,272
Interest in associates	*14*	72,380,338	69,705,930	10,000,000
Interest in jointly controlled entities	*15*	36,348,749	10,609,093	–
Other investments in equity securities	*16*	158,739,448	70,927,976	141,455,157
Deferred tax assets	*17*	265,375	477,727	7,088,013
Other non-current assets	*18*	213,515,150	324,530,688	450,418,629
		10,670,553,078	15,267,803,383	19,091,989,066
Current assets				
Financial assets	*19(a)*	50,502,448	12,483,291	30,079,351
Inventories	*20*	156,278,106	178,118,934	181,721,952
Trade and other receivables	*21*	1,025,408,053	1,956,409,496	1,111,842,238
Income tax recoverable		15,767,731	29,701,545	–
Pledged bank deposits	*22*	457,059,548	269,859,985	1,741,648,928
Cash and cash equivalents	*23*	376,992,528	266,617,603	616,505,655
		2,082,008,414	2,713,190,854	3,681,798,124
Current liabilities				
Financial liabilities	*19(b)*	21,198,894	45,652,676	92,683,305
Bank and other loans	*24*	4,290,834,888	3,865,450,389	16,532,952,203
Obligations under finance leases	*25*	–	118,272,000	118,272,000
Trade and other payables	*26*	2,662,619,945	4,792,667,891	5,680,562,901
Income tax payable		782,577	1,031,444	110,857,978
		6,975,436,304	8,823,074,400	22,535,328,387
Net current liabilities		(4,893,427,890)	(6,109,883,546)	(18,853,530,263)
Total assets less current liabilities		5,777,125,188	9,157,919,837	238,458,803

		At 31 December		
		2007	2008	2009
	Note	*RMB*	*RMB*	*RMB*
Non-current liabilities				
Bank and other loans	*24*	5,655,866,887	8,179,592,168	22,000,000
Obligations under finance leases	*25*	–	384,384,000	266,112,000
Provision for major overhauls	*27*	596,173,913	810,784,807	854,045,167
Deferred tax liabilities	*17*	282,857,294	248,620,488	222,109,088
Other non-current liabilities	*28*	221,681,450	490,509,176	655,798,258
		6,756,579,544	10,113,890,639	2,020,064,513
Net liabilities		(979,454,356)	(955,970,802)	(1,781,605,710)
Capital and reserves	*29*			
Paid-in capital		300,000,000	300,000,000	300,000,000
Reserves		(1,292,980,173)	(1,287,774,125)	(2,103,492,967)
Total deficit in equity attributable to equity holders of Shenzhen Airlines		(992,980,173)	(987,774,125)	(1,803,492,967)
Minority interests		13,525,817	31,803,323	21,887,257
Total deficit in equity		(979,454,356)	(955,970,802)	(1,781,605,710)

The accompany notes form part of the Financial Information.

BALANCE SHEETS
(Expressed in Renminbi)

		At 31 December		
		2007	**2008**	**2009**
	Note	*RMB*	*RMB*	*RMB*
Non-current assets				
Property, plant and equipment, net	*11*	6,395,630,399	10,426,828,073	14,216,367,208
Construction in progress	*12*	3,426,436,652	4,094,759,467	4,065,389,927
Interests in leasehold land held for own use under operating leases		14,713,363	98,691,509	34,368,272
Investment in subsidiaries	*13*	192,153,334	112,823,142	160,492,961
Interest in associates	*14*	75,470,973	73,017,084	–
Interest in jointly controlled entities	*15*	36,348,749	10,609,093	–
Other investments in equity securities	*16*	157,139,448	70,327,976	141,455,157
Other non-current assets	*18*	212,768,030	323,119,497	449,627,227
		10,510,660,948	15,210,175,841	19,067,700,752
Current assets				
Financial assets	*19(a)*	47,318,363	6,547,559	12,756,823
Inventories	*20*	155,215,746	174,838,921	178,709,811
Trade and other receivables	*21*	1,145,797,271	1,899,870,663	1,022,451,918
Tax recoverable		15,207,957	29,605,693	–
Pledged bank deposits	*22*	457,059,548	269,859,985	1,741,648,928
Cash and cash equivalents	*23*	277,408,868	166,781,988	470,181,828
		2,098,007,753	2,547,504,809	3,425,749,308
Current liabilities				
Financial liabilities	*19(b)*	21,198,894	45,652,676	92,683,305
Bank and other loans	*24*	4,290,834,888	3,865,450,389	16,524,952,203
Obligations under finance leases	*25*	–	118,272,000	118,272,000
Trade and other payables	*26*	2,602,094,172	4,681,983,765	5,425,985,355
Income tax payable		–	–	102,470,704
		6,914,127,954	8,711,358,830	22,264,363,567
Net current liabilities		(4,816,120,201)	(6,163,854,021)	(18,838,614,259)
Total assets less current liabilities		5,694,540,747	9,046,321,820	229,086,493

		At 31 December		
		2007	2008	2009
	Note	*RMB*	*RMB*	*RMB*
Non-current liabilities and deferred items				
Bank and other loans	*24*	5,655,866,887	8,179,592,168	–
Obligations under finance leases	*25*	–	384,384,000	266,112,000
Provision for major overhauls	*27*	596,173,913	810,784,807	850,839,436
Deferred tax liabilities	*17*	282,857,294	248,620,488	222,109,088
Other non-current liabilities	*28*	218,345,700	484,712,176	655,798,258
		6,753,243,794	10,108,093,639	1,994,858,782
Net liabilities		(1,058,703,047)	(1,061,771,819)	(1,765,772,289)
Capital and reserves	*29*			
Paid-up capital		300,000,000	300,000,000	300,000,000
Reserves		(1,358,703,047)	(1,361,771,819)	(2,065,772,289)
Total deficit in equity		(1,058,703,047)	(1,061,771,819)	(1,765,772,289)

The accompany notes form part of the Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Renminbi)

		Attributable to equity holders of Shenzhen Airlines							
	Note	Paid-in capital RMB	Surplus reserve RMB (Note 28 (c)(i))	Fair value reserve RMB (Note 28 (c)(ii))	Exchange reserve RMB (Note 28 (c)(iii))	Retained earnings/ (accumulated losses) RMB	Total RMB	Minority interests RMB	Total equity RMB
Balance at 1 January 2007		300,000,000	221,453,604	74,517,848	–	553,908,702	1,149,880,154	12,384,778	1,162,264,932
Changes in equity for 2007:									
Dividends approved and paid in respect of the previous year	29(d)	–	–	–	–	(347,272,800)	(347,272,800)	(1,168,991)	(348,441,791)
Addition through establishment of subsidiary		–	–	–	–	–	–	330,000	330,000
Total comprehensive income for the year		–	–	24,448,241	–	(1,820,035,768)	(1,795,587,527)	1,980,030	(1,793,607,497)
Transfer to reserve		–	42,831,800	–	–	(42,831,800)	–	–	–
Balance at 31 December 2007 and 1 January 2008		300,000,000	264,285,404	98,966,089	–	(1,656,231,666)	(992,980,173)	13,525,817	(979,454,356)
Changes in equity for 2008:									
Dividend paid to minority shareholders		–	–	–	–	–	–	(1,028,025)	(1,028,025)
Addition through establishment of subsidiaries		–	–	–	–	–	–	16,294,000	16,294,000
Total comprehensive income for the year		–	–	(65,108,604)	(8)	70,314,660	5,206,048	3,011,531	8,217,579
Balance at 31 December 2008 and 1 January 2009		300,000,000	264,285,404	33,857,485	(8)	(1,585,917,006)	(987,774,125)	31,803,323	(955,970,802)
Changes in equity for 2009:									
Deconsolidation of a subsidiary held for sale		–	–	–	–	–	–	(9,724,243)	(9,724,243)
Dividend paid to minority shareholders		–	–	–	–	–	–	(621,031)	(621,031)
Total comprehensive income for the year		–	–	53,345,385	(245)	(869,063,982)	(815,718,842)	429,208	(815,289,634)
Balance at 31 December 2009		300,000,000	264,285,404	87,202,870	(253)	(2,454,980,988)	(1,803,492,967)	21,887,257	(1,781,605,710)

The accompanying notes form part of the Financial Information.

CONSOLIDATED CASH FLOW STATEMENTS

(Expressed in Renminbi)

		Years ended 31 December		
		2007	**2008**	**2009**
	Note	*RMB*	*RMB*	*RMB*
Operating activities				
Cash generated from operations	*23(b)*	757,168,056	2,762,045,752	2,804,367,858
Income tax paid		(36,742,512)	(17,501,657)	(3,260,373)
Net cash generated from operating activities		720,425,544	2,744,544,095	2,801,107,485
Investing activities				
Proceeds from sale of property, plant and equipment and lease prepayments		139,816,561	55,614,322	76,589,572
Proceeds from sale of an associate		–	572,445	66,000,000
Net cash disposed upon disposal of subsidiary	*2*	–	(872,602)	–
Net cash disposed of on deconsolidation of a subsidiary		–	–	(42,632,466)
Net cash settlement of trading securities		–	(881,810)	8,122,033
Interest received		14,934,248	35,817,317	7,047,424
Dividends received from other investments		1,938,492	1,846,000	2,544,880
Payments for purchase of property, plant and equipment and land use rights		(2,373,638,190)	(5,285,796,674)	(4,918,306,485)
(Decrease)/increase in pledged bank deposits		(282,578,463)	187,199,563	(1,471,788,943)
Payment for the investment in equity securities		(15,600,000)	–	–
Payment for the investment in associate and jointly controlled entities		(97,000,000)	–	(10,000,000)
Net cash used in investing activities		(2,612,127,352)	(5,006,501,439)	(6,282,423,985)
Financing activities				
Proceeds from bank and other loans		6,868,628,059	4,838,112,555	10,181,257,726
Capital injection by minority shareholder		330,000	16,294,000	–
Repayment of bank and other loans		(4,857,773,745)	(2,059,782,370)	(5,788,524,482)
Interest paid		(517,381,367)	(542,013,741)	(505,907,661)
Dividends paid to equity holders		(94,727,300)	(100,000,000)	(55,000,000)
Dividends paid to minority shareholders		(1,168,991)	(1,028,025)	(621,031)
Net cash from financing activities		1,397,906,656	2,151,582,419	3,831,204,552
Net (decrease)/increase in cash and cash equivalents		(493,795,152)	(110,374,925)	349,888,052
Cash and cash equivalents at 1 January		870,787,680	376,992,528	266,617,603
Cash and cash equivalents at 31 December	*23(a)*	376,992,528	266,617,603	616,505,655

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by Shenzhen Airlines Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, Shenzhen Airlines Group has adopted all these new and revised HKFRSs applicable to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2009. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 31 December 2009 are set out in Note 38.

(b) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"). It is prepared on the historical cost basis, except for the following assets and liabilities that are stated at their fair value as explained in the accounting policies set out below:

– Trading securities *(Note 1(g))*;

– Derivative financial instruments *(Note 1(h))*; and

– Available-for-sale equity securities *(Note 1(g))*.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell *(Note 1(aa))*.

(c) Going concern

The Financial Information set out in this report is prepared on a going concern basis.

Shenzhen Airlines's senior consultant (concurrently the controlling shareholder of Shenzhen Huirun Investment Co., Ltd. (深圳市匯潤投資有限公司) ("Huirun") which is the ultimate holding company of Shenzhen Airlines) has been under investigation by police authorities since 30 November 2009 for his alleged involvement in economic crimes. Shenzhen Airlines's former President has also been under investigation by police authorities since 6 March 2010 due to his alleged involvement in economic crimes (the "Investigations"). Shenzhen Airlines's management believes that Shenzhen Airlines has been affected by the Investigations, although Shenzhen Airlines may not reliably ascertain the impact of the final outcome of the Investigations. With the support of the Central Committee of the Chinese Communist Party, State Council of the People's Republic of China ("PRC"), Civil Aviation Administration of China, Guangdong provincial government and Shenzhen municipal government and the guidance and support of related government working groups, Shenzhen Airlines has determined the Investigations will not have a significant effect on its normal operating activities. Shenzhen Airlines has also assessed the likelihood of taking on additional material contingent liabilities arising from therefrom to be low, as such no provision has been made in this respect.

As at 31 December 2007, 2008 and 2009, Shenzhen Airlines Group had net current liabilities of RMB4,893,427,890, RMB6,109,883,546 and RMB18,853,530,263 and net liabilities of RMB979,454,356, RMB955,970,802 and RMB1,781,605,710 respectively. As a result of the investigation of Shenzhen Airlines's senior consultant by police authorities, Shenzhen Airlines is in breach of the terms of certain bank loans contracts, giving banks the right to demand early repayment. As such, bank loans totalling RMB10,874,408,232 have been re-classified from non-current liabilities to current liabilities as at 31 December 2009. However, Shenzhen Airlines's management has discussed the repayment schedule with the relevant banks, and do not expect the banks will request Shenzhen Airlines to repay the loans during the year ending 31 December 2010. Also, Shenzhen Airlines's board of directors have agreed to implement the following measures to obtain the necessary operating capital and improve Shenzhen Airlines's financial situation:

(a) Shenzhen Airlines has entered into loan agreements with several domestic banks and obtained revolving loan facilities and specific loan facilities totalling RMB3,869,000,000. Although Shenzhen Airlines has breached the terms of certain bank loans contracts for the reasons stated above, Shenzhen Airlines's board of directors believes that the revolving loan facilities and specific loan facilities could still be drawn down;

(b) In December 2009, a major bank in the PRC signed a memorandum of understanding with Shenzhen Airlines, whereby the bank will provide Shenzhen Airlines with financial support up to RMB4,500,000,000 to acquire aircraft;

(c) Certain banks have approached Shenzhen Airlines to express their intention to co-operate, with ongoing discussions on extension of credit terms; and

(d) Implementing comprehensive management policies and improving Shenzhen Airlines's profitability, including reducing operating costs and opening new routes.

In view of the above mentioned measures and according to Shenzhen Airlines's cash flow forecast for the year ending 31 December 2010, the board of directors considers that Shenzhen Airlines will be able to obtain the necessary funding to support the operations of Shenzhen Airlines for the foreseeable future, as such, the Financial Information has been prepared on a going concern basis. However, uncertainties which could cast significant doubt on Shenzhen Airlines's ability to operate as a going concern still exist. Should Shenzhen Airlines Group be unable to continue as a going concern, adjustments would be made to restate the values of assets to their net recoverable values, and to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect of these potential adjustments have not been reflected in the Financial Information.

(d) Use of estimates and judgments

The preparation of Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 37.

(e) Subsidiaries and minority interests

Subsidiaries are entities controlled by Shenzhen Airlines Group. Control exists when Shenzhen Airlines Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by Shenzhen Airlines, whether directly or indirectly through subsidiaries, and in respect of which Shenzhen Airlines Group has not agreed any additional terms with the holders of those interests which would result in Shenzhen Airlines Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of Shenzhen Airlines. Minority interests in the results of Shenzhen Airlines Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of Shenzhen Airlines.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against Shenzhen Airlines Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, Shenzhen Airlines Group's interest is allocated all such profits until the minority's share of losses previously absorbed by Shenzhen Airlines Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Notes 1(o) and 1(p) depending on the nature of the liability.

In Shenzhen Airlines's balance sheet, an investment in a subsidiary is stated at cost less impairment losses *(see Note 1(l))*, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) *(see Note 1(aa))*.

(f) Associates and jointly controlled entities

An associate is an entity in which Shenzhen Airlines Group or Shenzhen Airlines has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between Shenzhen Airlines Group or Shenzhen Airlines and other parties, where the contractual arrangement establishes that Shenzhen Airlines Group or Shenzhen Airlines and one or more of the other parties share joint control over the economic activities of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the Financial Information under the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) *(Note 1(aa))*. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in Shenzhen Airlines Group's share of the investee's net assets and any impairment loss relating to the investment *(Note 1(l))*. Shenzhen Airlines Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas Shenzhen Airlines Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When Shenzhen Airlines Group's share of losses exceeds its interest in the associate or the jointly controlled entity, Shenzhen Airlines Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that Shenzhen Airlines Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, Shenzhen Airlines Group's interest is the carrying amount of the investment under the equity method together with Shenzhen Airlines Group's long-term interests that in substance form part of Shenzhen Airlines Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses arising from transactions between Shenzhen Airlines Group and its associates and jointly controlled entities are eliminated to the extent of Shenzhen Airlines Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In Shenzhen Airlines's balance sheet, investments in associates and jointly controlled entities are stated at cost less impairment losses *(Note 1(l))*, unless classified as held for sale (or included in a disposal group that is classified as held for sale) *(Note 1(aa))*.

(g) Other investments in equity securities

Shenzhen Airlines Group's and Shenzhen Airlines's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Available-for-sale equity securities are those non-derivative financial assets that are designated as available for sale. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in Note 1(t)(iv). When these investments are derecognised or impaired *(Note 1(l))*, the cumulative gain or loss is reclassified from equity to profit or loss.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is re-measured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as there are recognised in accordance with the policies set out in Notes 1(t)(iv) and 1(t)(vi).

Shenzhen Airlines Group's other investments in equity securities represent unlisted equity securities of companies established in the PRC. They do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Accordingly, they are recognised in the balance sheet at cost less impairment losses *(Note 1(l))*.

Investments are recognised/derecognised on the date Shenzhen Airlines Group commits to purchase/sell the investments.

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(i) Property, plant and equipment

Items of property, plant and equipment are initially stated at cost.

The property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses *(Note 1(l))*.

Cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use and the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful life	**Residual value**
Buildings	20 years	5%
Owned and leased aircraft and jet engines	8 to 20 years	0 – 3%
Machinery and equipment, including rotable spares	4 to 15 years	5%
Vehicles and others	5 to 8 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Construction in progress

Construction in progress represents prepayments for aircraft, office buildings and various infrastructure projects under construction, and is stated at cost less impairment losses *(Note 1(l))*. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delay in the issue of the relevant commissioning certificates by the relevant PRC authorities.

No depreciation is provided in respect of construction in progress.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if Shenzhen Airlines Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to Shenzhen Airlines Group

Assets that are held by Shenzhen Airlines Group under leases which transfer to Shenzhen Airlines Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to Shenzhen Airlines Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where Shenzhen Airlines Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely Shenzhen Airlines Group will obtain ownership of the asset, the life of the asset, as set out in Note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

Where Shenzhen Airlines Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

The cost of acquiring land held under operating lease is amortised on a straight-line basis over the respective periods of lease terms.

(iv) Sale and leaseback transactions

Gains or losses on sale and leaseback transactions which result in finance leases are deferred and amortised over the terms of the related leases. Gains or losses on other aircraft sale and leaseback transactions which result in operating leases are recognised immediately if the transactions are established at fair value. Any difference between the sales price and the fair value is deferred and amortised over the period the assets are expected to be used.

(l) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries) *(Note 1(g))* and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of Shenzhen Airlines Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged declined in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates and jointly controlled entities recognised using the equity method *(Note 1(f))*, the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note 1(l). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 1(l).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale equity securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

  Impairment losses are written off against the corresponding asset directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When Shenzhen Airlines Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– Property, plant and equipment;

– Construction in progress;

– Lease prepayments;

– Interest in associates and jointly controlled entities; and

– Investments in subsidiaries (except for those classified as held for sale) *(see Note 1(aa)).*

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(m) Inventories

Inventories, which consist primarily of expendable spare parts and supplies, are at cost, and are charged to profit or loss when used in operations. Cost represents the average unit cost.

Inventories held for disposal are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of bad and doubtful debts *(Note 1(l))*, except where the receivables are interest free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of bad and doubtful debts.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of Shenzhen Airlines Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if Shenzhen Airlines or Shenzhen Airlines Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, Shenzhen Airlines or Shenzhen Airlines Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where Shenzhen Airlines Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognized as deferred income within trade and other payables. Where consideration is received or receivable of the issuance of the guarantee, the consideration is recognized in accordance with Shenzhen Airlines Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon Shenzhen Airlines Group under the guarantee, and (ii) the amount of that claim on Shenzhen Airlines Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when Shenzhen Airlines Group or Shenzhen Airlines has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to Shenzhen Airlines Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Passenger, cargo and mail revenues

Passenger, cargo and mail revenues are recognised at the fair value of the consideration received when the transportation is provided. Ticket sales for transportation not yet provided are included in current liabilities as sales in advance of carriage. Revenues from airline-related business are recognised when services are rendered. Revenue is stated net of sales tax.

(ii) Frequent flyer revenue

Shenzhen Airlines Group maintains a frequent flyer award programme, Kingclub, which provides travel and other awards to members based on accumulated mileage points.

Revenue received in relation to mileage earning flights is allocated, based on fair value, between the flight and mileage points earned by members of Shenzhen Airlines Group's frequent flyer award programme. The value attributed to the awarded mileage points is deferred as a liability, within deferred revenue, until the mileage points are ultimately utilised.

Revenue received from third parties for the issue of mileage points under the frequent flyer award programme is also deferred as a liability, within deferred revenue.

As members of the frequent flyer award programme redeem mileage points for an award, revenue is recorded in profit or loss.

Revenue in relation to flight awards is recognised when the transportation is provided.

Revenue in connection with non-flight rewards is recognised at the point of redemption.

The value attributed to mileage points that are expected to expire is recognised as revenue, based on the number of mileages that have been redeemed relative to the total number expected to be redeemed.

(iii) Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivables.

(iv) Dividend income is recognised when the shareholder's right to receive payment is established.

(v) Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that Shenzhen Airlines Group will comply with the conditions attaching to them. Grants that compensate Shenzhen Airlines Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate Shenzhen Airlines Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(vi) Interest income is recognised as it accrues using the effective interest method.

(u) Traffic commissions

Traffic commissions are expensed in profit or loss when the transportation is provided and the related revenue is recognised. Traffic commissions for transportation not yet provided are recorded on the balance sheet as a prepaid expense.

(v) Maintenance and overhaul costs

Routine maintenance, repairs and overhauls are charged to profit or loss as and when incurred.

In respect of owned and finance leased aircraft, components within the aircraft subject to replacement during major overhauls are depreciated over the average expected life between major overhauls. When each major overhaul is performed, its cost is recognised in the carrying amount of property, plant and equipment and is depreciated over the estimated period between major overhauls. Any remaining carrying amount of cost of previous major overhaul is derecognised and charged to the income statement.

In respect of aircraft held under operating leases, Shenzhen Airlines Group has responsibility to fulfil certain return conditions under relevant lease agreements. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, estimated costs of major overhauls are accrued and charged to profit or loss over the estimated period between overhauls. After the aircraft has completed its last overhaul cycle prior to being returned, the expected cost of overhaul to be incurred at the end of the lease is estimated and accrued over the remaining period of the lease. Differences between the estimated costs and the actual costs of overhauls are charged to profit or loss in the period when the overhaul is performed.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(x) Short term employee benefits and contributions to defined contribution retirement schemes

Salaries, annual bonuses and contributions to defined contribution retirement schemes are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(y) Termination benefits

Termination benefits are recognised when, and only when, Shenzhen Airlines Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(z) Translation of foreign currencies

Foreign currencies transactions during the year are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the PBOC exchange rates prevailing on the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Renminbi at the PBOC exchange rates prevailing on the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Renminbi at the PBOC exchange rates prevailing on the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items are translated into Renminbi at foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the consolidated income statement when the profit or loss on disposal is recognised.

(aa) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of Shenzhen Airlines Group and Shenzhen Airlines are concerned are deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ab) Related parties

For the purposes of this Financial Information, a party is considered to be related to Shenzhen Airlines Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control Shenzhen Airlines Group or exercise significant influence over Shenzhen Airlines Group in making financial and operating policy decisions, or has joint control over Shenzhen Airlines Group;

(ii) Shenzhen Airlines Group and the party are subject to common control;

(iii) the party is an associate of Shenzhen Airlines Group or a joint venture in which Shenzhen Airlines Group is a venturer;

(iv) the party is a member of key management personnel of Shenzhen Airlines Group or Shenzhen Airlines Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of Shenzhen Airlines Group or of any entity that is a related party of Shenzhen Airlines Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(ac) Segmental reporting

Operating segments are identified based on the financial information provided regularly to Shenzhen Airlines Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, Shenzhen Airlines Group's various lines of business and geographical locations.

2 Disposal of a subsidiary

In 2008, Shenzhen Airlines Group disposed of its entire equity interest in Beijing Heng Shan Property Company Limited (北京横山置地房地產開發有限公司) ("Heng Shan Property") to Shenzhen Airlines Property Development Co., Ltd. (深圳市深航房地產開發有限責任公司) ("SZ Property"), an associate of Shenzhen Airlines, at a consideration of RMB150,000,000. The effect of disposal on individual assets and liabilities of Shenzhen Airlines Group is as follows:

	2008
	RMB
Property, plant and equipment	94,873
Construction in progress	78,605,631
Interests in leasehold land	173,755,478
Inventories	41,317
Trade and other receivables	3,332,521
Cash and cash equivalents	872,602
Trade and other payables	(1,986,510)
Amount due to Shenzhen Airlines	(180,755,112)
	73,960,800
Gain on disposal of a subsidiary	76,039,200
Total consideration	150,000,000

3 Operating (loss)/profit

Operating (loss)/profit is arrived at after charging/(crediting):

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	Years ended 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Auditors' remuneration	2,772,570	1,145,057	9,073,058
Depreciation:			
– Owned assets	543,758,993	627,977,387	927,094,242
– Assets acquired under finance leases	–	32,968,772	70,009,108
– Amortisation of deferred benefits and revenue	–	(7,767,624)	(15,535,244)
Amortisation of lease prepayments	3,794,757	5,532,497	371,820
Minimum lease payments under operating leases:			
– Aircraft and related equipment	696,568,143	996,621,216	1,030,512,788
– Land and buildings	39,334,885	47,704,587	69,859,423
Impairment:			
– Construction in progress	–	–	10,595,851
– Available-for-sale investment	14,000,000	–	–
– Trade and other receivables	2,120,304,696	1,179,477	1,061,895,768
– Investment in an associate	–	–	27,031,628
Staff costs:			
– Salaries, wages, bonuses and other benefit	770,401,423	1,040,577,371	1,214,582,259
– Contribution to defined contribution retirement schemes *(Note)*	11,923,771	20,621,315	24,421,258

Note:

Employees of Shenzhen Airlines Group participate in several defined contribution retirement schemes organised separately by the PRC municipal governments in regions where the major operations of Shenzhen Airlines Group are located. Shenzhen Airlines Group is required to contribute to these schemes at the rates ranging from 9% to 24% for the years 2007, 2008 and 2009 respectively of salary costs or standard salary determined by the relevant authorities including certain allowances. A member of the retirement schemes is entitled to pension benefits from the Local Labour and Social Security Bureau upon his/her retirement. The retirement benefit obligations of all retired staff of Shenzhen Airlines Group are assumed by these schemes.

In addition, Shenzhen Airlines Group has established a supplementary defined contribution retirement scheme managed by a financial institution in the PRC for the benefit of employees in accordance with relevant regulations in the PRC. In this connection, employees of Shenzhen Airlines Group participate in a supplementary defined contribution retirement scheme whereby Shenzhen Airlines Group is required to make contributions not exceeding one-twelfth of the current year's total salaries.

4 Interest expense

	Years ended 31 December		
	2007	2008	2009
	RMB	*RMB*	*RMB*
Interest on bank and other loans wholly repayable within five years	225,752,855	241,836,487	247,343,837
Interest on other loans	298,479,707	394,916,371	322,666,688
Finance charges on obligations under finance leases	–	21,594,000	27,148,800
Less: borrowing costs capitalised	(72,256,356)	(124,972,101)	(99,081,247)
	451,976,206	533,374,757	498,078,078

Borrowing costs have been capitalised at rates ranging from 5.56% to 7%, 2.44% to 8.73% and 1.23% to 8.22% per annum for the years ended 31 December 2007, 2008 and 2009 respectively.

5 Other income/(loss), net

	Years ended 31 December		
	2007	2008	2009
	RMB	*RMB*	*RMB*
Gain on sale of property, plant and equipment and lease prepayments, net	48,516,435	55,614,322	3,836,836
Gain on disposal of available-for-sale securities	534,521	–	–
Gain on disposal of an associate	–	–	25,486,789
Gain on disposal of a subsidiary *(Note 2)*	–	76,039,200	–
Loss on deconsolidation of a subsidiary *(Note 19(a))*	–	–	(77,518,182)
Others	1,518,746	4,410,273	(9,297,847)
	50,569,702	136,063,795	(57,492,404)

6 Emoluments of directors, supervisors and five highest paid employees

(a) Directors' and supervisors' emoluments

Details of directors' and supervisors' emoluments are set out below:

	Year ended 31 December 2007				
	Directors' fees *RMB*	Salaries, allowances and benefits in kind *RMB*	Discretionary bonuses *RMB*	Retirement scheme contributions *RMB*	Total *RMB*
Directors					
Chen Xin	–	–	–	–	–
Fan Cheng	–	–	–	–	–
Li Jing	–	–	–	–	–
Li Kun	–	4,284,991	500,000	9,808	4,794,799
Li You Qiang	–	–	–	–	–
Liu Jun	–	–	–	–	–
Liu Wen Biao	–	–	–	–	–
Liu Xue Mei	–	–	–	–	–
Qin Wan Jiang	–	–	–	–	–
Song Zu Yu	–	–	–	–	–
Wang Xin	–	–	–	–	–
Zhao Jian	–	825,000	–	–	825,000
Zhao Jun Rong	–	–	–	–	–
Zhao Xiang	–	4,284,991	500,000	–	4,784,991
Directors total	–	9,394,982	1,000,000	9,808	10,404,790
Supervisors					
Guo Ying Jun	–	–	–	–	–
Liu Wang Xin	–	–	–	–	–
Yuan Mian	–	–	–	–	–
Zheng Bao An	–	–	–	–	–
Supervisors total	–	–	–	–	–
	–	9,394,982	1,000,000	9,808	10,404,790

	Year ended 31 December 2008				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Directors					
Fan Cheng	–	–	–	–	–
Li Jing	–	270,641	–	–	270,641
Li Kun	–	4,405,910	–	17,656	4,423,566
Li Mo	–	–	–	–	–
Li Wei	–	–	–	–	–
Li You Qiang	–	–	–	–	–
Liu Jian Ping	–	526,000	–	67,237	593,237
Liu Jun	–	–	–	–	–
Liu Wen Biao	–	–	–	–	–
Qin Wan Jiang	–	–	–	–	–
Song Zu Yu	–	–	–	–	–
Zhang Hui Lan	–	–	–	–	–
Zhang Yang	–	–	–	–	–
Zhao Jian	–	526,000	–	–	526,000
Zhao Jun Rong	–	–	–	–	–
Zhao Xiang	–	4,405,910	–	–	4,405,910
Directors total	–	10,134,461	–	84,893	10,219,354
Supervisors					
Guo Ying Jun	–	262,490	–	–	262,490
Liu Wang Xin	–	–	–	–	–
Xu Hai Wei	–	200,000	–	–	200,000
Zheng Bao An	–	–	–	–	–
Supervisors total	–	462,490	–	–	462,490
	–	10,596,951	–	84,893	10,681,844

	Year ended 31 December 2009				
	Directors' fees *RMB*	Salaries, allowances and benefits in kind *RMB*	Discretionary bonuses *RMB*	Retirement scheme contributions *RMB*	Total *RMB*
Directors					
Fan Cheng	100,000	–	–	–	100,000
Li Jing	100,000	309,338	–	–	409,338
Li Kun	100,000	4,611,203	300,000	22,175	5,033,378
Li Mo	100,000	1,338,148	–	12,486	1,450,634
Li Wei	100,000	–	–	–	100,000
Li You Qiang	100,000	–	–	–	100,000
Liu Jian Ping	100,000	522,100	200,000	12,963	835,063
Liu Jun	100,000	–	–	–	100,000
Liu Wen Biao	100,000	–	–	–	100,000
Qin Wan Jiang	100,000	–	–	–	100,000
Song Zu Yu	100,000	–	–	–	100,000
Wu Wei	–	522,100	–	11,785	533,885
Zhang Hui Lan	100,000	–	–	–	100,000
Zhang Yang	100,000	–	–	–	100,000
Zhao Jian	100,000	652,100	–	–	752,100
Zhao Jun Rong	100,000	–	–	–	100,000
Zhu Xin Min	–	–	–	–	–
Directors total	1,500,000	7,954,989	500,000	59,409	10,014,398
Supervisors					
Guo Ying Jun	100,000	–	–	–	100,000
Liu Wang Xin	100,000	–	–	–	100,000
Xu Hai Wei	100,000	352,000	–	–	452,000
Zheng Bao An	100,000	–	–	–	100,000
Supervisors total	400,000	352,000	–	–	752,000
	1,900,000	8,306,989	500,000	59,409	10,766,398

(b) Individuals with highest emoluments

In 2007, 2008 and 2009, two, three and four of the five individuals with the highest emoluments are directors respectively. The aggregate emoluments in respect of the three, two and one individuals who were not directors during the years ended 31 December 2007, 2008 and 2009 are as follows:

	Years ended 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Salaries, allowances and benefits in kind	2,532,806	1,120,000	722,100
Retirement scheme contributions	199,316	21,243	12,963
	2,732,122	1,141,243	735,063

The emoluments of the three, two and one individuals with the highest emoluments during the years ended 31 December 2007, 2008 and 2009 are within the following band:

	Years ended 31 December		
	2007	**2008**	**2009**
	Number of individuals	*Number of individuals*	*Number of individuals*
Nil to HKD1,000,000	3	2	1

7 Income tax expense/(credit)

(a) Income tax expense/(credit) in the consolidated income statements

	Years ended 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
PRC income tax			
– Provision for the year	1,892,293	3,816,710	143,223,061
Deferred tax			
– Origination and reversal of temporary differences *(Note 17)*	177,721,780	(12,746,290)	(50,903,482)
Income tax expense/(credit)	179,614,073	(8,929,580)	92,319,579

Shenzhen Airlines is taxed at an income tax rate of 7.5%, 18% and 20% during the years ended 31 December 2007, 2008 and 2009. It's branches and subsidiaries are taxed at rates ranging from 7.5% to 33%, 18% to 25% and 20% to 25% for the years ended 31 December 2007, 2008 and 2009 respectively.

Pursuant to approval documents issued by the relevant tax authorities, starting from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, Shenzhen Airlines was entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in the income tax rate for the third to fifth years. Year 2007 was the fifth year in which a 50% reduction in the tax rate was applicable.

On 16 March 2007, the National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which took effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate adopted by Shenzhen Airlines and its subsidiaries has been changed from 15% and 33% to 25% with effect from 1 January 2008.

Pursuant to the new tax law, the income tax rates of entities that previously enjoyed preferential tax rates have been revised to: 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards respectively.

(b) Reconciliation between actual tax expense/(credit) and calculated tax based on accounting (loss)/profit at applicable tax rates

	Years ended 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
(Loss)/profit before taxation	(1,638,441,665)	64,396,611	(776,315,195)
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (loss)/profit in the tax jurisdictions concerned	(244,240,120)	11,338,227	(155,910,810)
Adjustments for tax effect of:			
Non-deductible expenses	341,040,496	20,271,136	254,331,786
Non-taxable income	(2,977,647)	(53,321,029)	(507,572)
Tax losses not recognised	–	3,612,750	10,112,321
Effect on deferred tax balance resulting from a change in the tax rate effective in the year of expected realisation	87,186,179	9,626,979	(13,847,206)
Others	(1,394,835)	(457,643)	(1,858,940)
Actual tax expense/(credit)	179,614,073	(8,929,580)	92,319,579

8 (Loss)/profit attributable to equity holders of Shenzhen Airlines

The (loss)/profit attributable to equity holders of Shenzhen Airlines for the years ended 31 December 2007, 2008 and 2009 includes a loss of RMB1,819,045,010, a profit of RMB62,039,832 and a loss of RMB757,345,855 respectively which has been dealt with in the financial statements of Shenzhen Airlines.

9 Other comprehensive income

Tax effects relating to each component of other comprehensive income

	Yeas ended 31 December 2007		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax
	RMB	*RMB*	*RMB*
Change in fair value of available-for-sale securities	32,597,654	(8,149,413)	24,448,241

	Yeas ended 31 December 2008		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax
	RMB	*RMB*	*RMB*
Change in fair value of available-for-sale securities	(86,811,472)	21,702,868	(65,108,604)

	Yeas ended 31 December 2009		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax
	RMB	*RMB*	*RMB*
Change in fair value of available-for-sale securities	71,127,181	(17,781,796)	53,345,385

10 Loss/earnings per share

Shenzhen Airlines is established in the PRC with registered and paid-up capital. No loss/earnings per share information is presented as Shenzhen Airlines is not a company limited by number of shares.

11 Property, plant and equipment, net

(a) Shenzhen Airlines Group

	Buildings	Aircraft: Owned	Aircraft: Acquired under finance leases	Machinery and equipment, including rotable spares	Vehicles and others	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost:						
At 1 January 2007	932,692,406	7,410,078,152	–	687,876,694	141,311,304	9,171,958,556
Additions	3,399,824	46,875,790	–	71,081,906	21,113,049	142,470,569
Transfer from construction in progress *(Note 12)*	–	–	–	1,579,136	–	1,579,136
Disposals	(14,509,296)	(7,620,132)	–	(12,701,835)	(1,096,433)	(35,927,696)
At 31 December 2007	921,582,934	7,449,333,810	–	747,835,901	161,327,920	9,280,080,565
At 1 January 2008	921,582,934	7,449,333,810	–	747,835,901	161,327,920	9,280,080,565
Additions	22,797,519	33,591,057	600,156,204	107,842,066	32,616,324	797,003,170
Transfer from construction in progress *(Note 12)*	2,966,022	4,286,011,369	–	149,846,871	–	4,438,824,262
Disposals	(8,928,422)	(1,253,536,646)	–	(21,811,362)	(1,207,433)	(1,285,483,863)
Disposal of subsidiary *(Note 2)*	–	–	–	(159,074)	–	(159,074)
At 31 December 2008	938,418,053	10,515,399,590	600,156,204	983,554,402	192,736,811	13,230,265,060
At 1 January 2009	938,418,053	10,515,399,590	600,156,204	983,554,402	192,736,811	13,230,265,060
Additions	37,013,971	179,224,706	–	92,757,124	30,568,767	339,564,568
Transfer from construction in progress *(Note 12)*	57,138,009	4,442,168,012	–	–	–	4,499,306,021
Disposals	(9,174,730)	(95,056,851)	–	(7,133,534)	(1,247,544)	(112,612,659)
Deconsolidation of subsidiary held for sale *(Note 19(a))*	(45,011,680)	–	–	(22,415,767)	(19,985,757)	(87,413,204)
At 31 December 2009	978,383,623	15,041,735,457	600,156,204	1,046,762,225	202,072,277	17,869,109,786

	Buildings	Aircraft: Owned	Aircraft: Acquired under finance leases	Machinery and equipment, including rotable spares	Vehicles and others	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Accumulated depreciation:						
At 1 January 2007	153,615,193	1,836,539,824	–	197,632,451	70,056,410	2,257,843,878
Charge for the year	43,535,813	409,415,710	–	74,675,284	16,132,186	543,758,993
Disposals	(3,705,097)	–	–	(2,879,329)	(1,035,574)	(7,620,000)
At 31 December 2007	193,445,909	2,245,955,534	–	269,428,406	85,153,022	2,793,982,871
At 1 January 2008	193,445,909	2,245,955,534	–	269,428,406	85,153,022	2,793,982,871
Charge for the year	43,001,401	479,497,127	32,968,772	83,467,134	22,011,725	660,946,159
Disposals	(3,596,620)	(782,025,776)	–	(10,865,710)	(832,369)	(797,320,475)
Disposal of subsidiary *(Note 2)*	–	–	–	(64,201)	–	(64,201)
At 31 December 2008	232,850,690	1,943,426,885	32,968,772	341,965,629	106,332,378	2,657,544,354
At 1 January 2009	232,850,690	1,943,426,885	32,968,772	341,965,629	106,332,378	2,657,544,354
Charge for the year	50,279,048	757,140,205	70,009,108	92,929,153	26,745,836	997,103,350
Disposals	(6,256,346)	(93,169,557)	–	(3,157,364)	(1,228,073)	(103,811,340)
Deconsolidation of subsidiary held for sale *(Note 19(a))*	(15,971,630)	–	–	(11,224,212)	(14,039,629)	(41,235,471)
At 31 December 2009	260,901,762	2,607,397,533	102,977,880	420,513,206	117,810,512	3,509,600,893
Net book value:						
At 31 December 2009	717,481,861	12,434,337,924	497,178,324	626,249,019	84,261,765	14,359,508,893
At 31 December 2008	705,567,363	8,571,972,705	567,187,432	641,588,773	86,404,433	10,572,720,706
At 31 December 2007	728,137,025	5,203,378,276	–	478,407,495	76,174,898	6,486,097,694

(b) Shenzhen Airlines

	Buildings	Aircraft – Owned	Aircraft – Acquired under finance leases	Machinery equipment including rotable spares	Vehicles and others	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost:						
At 1 January 2007	883,850,840	7,410,078,152	–	649,717,619	102,101,133	9,045,747,744
Additions	3,399,824	31,471,567	–	61,118,207	18,320,841	114,310,439
Disposals	(14,509,296)	(7,620,132)	–	(12,212,467)	(474,627)	(34,816,522)
At 31 December 2007	872,741,368	7,433,929,587	–	698,623,359	119,947,347	9,125,241,661
At 1 January 2008	872,741,368	7,433,929,587	–	698,623,359	119,947,347	9,125,241,661
Additions	18,161,530	32,723,951	600,156,204	96,107,825	25,934,867	773,084,377
Transfer from construction in progress *(Note 12)*	2,966,022	4,237,662,998	–	149,641,871	–	4,390,270,891
Disposals	(7,062,889)	(1,253,536,646)	–	(13,618,459)	(875,809)	(1,275,093,803)
At 31 December 2008	886,806,031	10,450,779,890	600,156,204	930,754,596	145,006,405	13,013,503,126
At 1 January 2009	886,806,031	10,450,779,890	600,156,204	930,754,596	145,006,405	13,013,503,126
Additions	36,737,022	130,507,829	–	86,405,185	24,821,875	278,471,911
Transfer from construction in progress *(Note 12)*	57,138,009	4,435,206,093	–	–	–	4,492,344,102
Disposals	(7,210,377)	(93,015,240)	–	(3,369,225)	(554,544)	(104,149,386)
At 31 December 2009	973,470,685	14,923,478,572	600,156,204	1,013,790,556	169,273,736	17,680,169,753

	Buildings	Aircraft Owned	Aircraft Acquired under finance leases	Machinery equipment including rotable spares	Vehicles and others	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Accumulated depreciation:						
At 1 January 2007	137,653,029	1,836,539,824	–	177,234,276	49,535,188	2,200,962,317
Charge for the year	42,349,979	409,083,664	–	73,768,325	10,032,139	535,234,107
Disposals	(3,705,097)	–	–	(2,429,169)	(450,896)	(6,585,162)
At 31 December 2007	176,297,911	2,245,623,488	–	248,573,432	59,116,431	2,729,611,262
At 1 January 2008	176,297,911	2,245,623,488	–	248,573,432	59,116,431	2,729,611,262
Charge for the year	42,601,770	476,713,711	32,968,772	77,788,001	17,349,685	647,421,939
Disposals	(2,364,070)	(782,025,776)	–	(5,209,705)	(758,597)	(790,358,148)
At 31 December 2008	216,535,611	1,940,311,423	32,968,772	321,151,728	75,707,519	2,586,675,053
At 1 January 2009	216,535,611	1,940,311,423	32,968,772	321,151,728	75,707,519	2,586,675,053
Charge for the year	46,480,352	747,798,613	70,009,108	88,441,916	22,552,875	975,282,864
Disposals	(2,471,959)	(93,015,240)	–	(2,138,639)	(529,534)	(98,155,372)
At 31 December 2009	260,544,004	2,595,094,796	102,977,880	407,455,005	97,730,860	3,463,802,545
Net book value:						
At 31 December 2009	712,926,681	12,328,383,776	497,178,324	606,335,551	71,542,876	14,216,367,208
At 31 December 2008	670,270,420	8,510,468,467	567,187,432	609,602,868	69,298,886	10,426,828,073
At 31 December 2007	696,443,457	5,188,306,099	–	450,049,927	60,830,916	6,395,630,399

(c) All buildings are located in the PRC.

(d) As at 31 December 2007, 2008 and 2009, certain aircraft of Shenzhen Airlines Group and Shenzhen Airlines with an aggregate carrying value of approximately RMB4,408,024,446, RMB8,680,619,731 and RMB12,356,171,636 respectively were mortgaged under certain loan and finance lease agreements *(Notes 24 and 25)*.

(e) Shenzhen Airlines entered into arrangements (the "Arrangements") with certain independent third parties during 2008. Under the Arrangements, Shenzhen Airlines sold four aircraft and immediately leased back the aircraft for an agreed period. Shenzhen Airlines has an option to purchase the aircraft at a pre-determined date. In the event that the lease agreement is early terminated by Shenzhen Airlines, Shenzhen Airlines is liable to pay a pre-determined penalty to the lessor.

(f) As at 31 December 2007, 2008 and 2009, Shenzhen Airlines Group is in the process of applying for property title certificates in respect of the properties located in the PRC, in which Shenzhen Airlines Group has interests and for which such certificates have not been granted. As at 31 December 2007, 2008 and 2009, carrying value of such properties of Shenzhen Airlines Group and Shenzhen Airlines amounting to RMB648,935,980, RMB514,604,742 and RMB512,674,207 respectively. The directors of Shenzhen Airlines are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by fact that Shenzhen Airlines Group has not yet obtained the relevant property title certificates.

12 Construction in progress

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
At 1 January	1,032,127,159	3,517,002,518	4,120,139,754	1,031,490,136	3,426,436,652	4,094,759,467
Additions	2,487,310,428	5,123,198,669	4,486,573,128	2,395,802,449	5,059,568,091	4,476,939,801
Transfer to property, plant and equipment *(Note 11)*	(1,579,136)	(4,438,824,262)	(4,499,306,021)	–	(4,390,270,891)	(4,492,344,102)
Disposal through sale of subsidiary *(Note 2)*	–	(78,605,631)	–	–	–	–
Other decrease	(855,933)	(2,631,540)	(18,256,759)	(855,933)	(974,385)	(13,965,239)
At 31 December	3,517,002,518	4,120,139,754	4,089,150,102	3,426,436,652	4,094,759,467	4,065,389,927

The construction in progress mainly related to advance payments for acquisition of aircraft and flight equipment, and progress payments for other construction projects.

As at 31 December 2007, 2008 and 2009, advance payments for acquisition of aircraft of Shenzhen Airlines Group and Shenzhen Airlines of RMB3,105,321,230, RMB3,143,816,399 and RMB3,274,947,497 respectively were pledged under certain loan agreements *(Note 24(d))*.

13 Interests in subsidiaries

	Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Unlisted shares/capital contributions, at cost	192,153,334	119,615,508	182,615,508
Less: impairment loss	–	(6,792,366)	(22,122,547)
	192,153,334	112,823,142	160,492,961

During the years ended 31 December 2007, 2008 and 2009, the management assessed the recoverability of investments in subsidiaries and concluded that the carrying amounts of certain investments exceeded their recoverable amounts by approximately RMB Nil, RMB6,792,366 and RMB22,122,547 respectively. Accordingly, provisions for impairment loss of RMB6,792,366 and RMB15,330,181 were recorded in profit or loss for the years ended 31 December 2008 and 2009 respectively.

Details of Shenzhen Airlines Group's subsidiaries are set out in Note 39.

14 Interest in associates

	Shenzhen Airlines Group At 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Share of net assets	72,380,338	69,705,930	37,031,628
Less: impairment loss	–	–	(27,031,628)
	72,380,338	69,705,930	10,000,000

	Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Unlisted shares, at cost	76,000,000	76,000,000	30,000,000
Less: impairment loss	(529,027)	(2,982,916)	(30,000,000)
	75,470,973	73,017,084	–

A provision for impairment loss of RMB27,031,628 was recorded at 31 December 2009 in respect of the investment in SZ Property *(see Note 21(b))*.

Details of Shenzhen Airlines Group's associates as of 31 December 2009 are as follows:

Name of associate	**Place of establishment/ operation**	**Registered capital** *RMB*	**Shenzhen Airlines Group's effective interest**	**Principal activities**
SZ Property	PRC	100,000,000	30%	Property development
Zhengzhou Aircraft Maintenance Engineering Co., Ltd 鄭州飛機維修工程有限公司	PRC	150,000,000	30%	Aircraft maintenance and repairs

Summary of financial information on associates:

	100 Percent At 31 December			Shenzhen Airlines Group's effective interest At 31 December		
	2007 *RMB*	**2008** *RMB*	**2009** *RMB*	**2007** *RMB*	**2008** *RMB*	**2009** *RMB*
Assets	497,015,165	512,671,774	33,631,601	165,717,333	171,435,908	10,089,480
Liabilities	(305,480,497)	(329,499,827)	(298,269)	(93,336,995)	(101,729,978)	(89,480)
Equity	191,534,668	183,171,947	33,333,332	72,380,338	69,705,930	10,000,000
Revenue	7,426,889	52,219,245	13,884,543	3,416,369	24,020,853	6,386,890
Loss for the year	(8,513,809)	(8,659,023)	(4,698,024)	(3,634,204)	(2,674,408)	(2,161,091)

On 29 April 2009, Shenzhen Airlines entered into a share transfer agreement with an independent third party to dispose all its equity interest in Asia United Business Aviation Company Limited（亞聯公務機有限公司）at a consideration of RMB66,000,000.

As disclosed in Note 21(b), Shenzhen Airlines has not obtained the financial information of SZ Property and its subsidiaries. The results of SZ Property for the year ended 31 December 2009 are not disclosed in the above summary of financial information accordingly.

15 Interest in jointly controlled entities

	Shenzhen Airlines Group At 31 December		
	2007	2008	2009
	RMB	*RMB*	*RMB*
Share of net assets	36,348,749	10,609,093	–

	Shenzhen Airlines At 31 December		
	2007	2008	2009
	RMB	*RMB*	*RMB*
Unlisted capital contribution, at cost	176,307,929	176,307,929	176,307,929
Less: impairment loss	(139,959,180)	(165,698,836)	(176,307,929)
	36,348,749	10,609,093	–

In Shenzhen Airlines's balance sheet, a provision for impairment loss of RMB139,959,180, RMB165,698,836 and RMB176,307,929 was recorded as at 31 December 2007, 2008 and 2009 respectively in respect of investments in certain jointly controlled entities in which the carrying amounts were determined not to be fully recoverable.

Details of Shenzhen Airlines Group's interest in jointly controlled entities as at 31 December 2009 are as follows:

Name of jointly controlled entities	Place of establishment/ operation	Registered capital *RMB*	Shenzhen Airlines Group's effective interest	Principal activities
Jade Cargo International Company Limited ("Jade Cargo") *(Note (i))*	PRC	245,662,126	51%	Cargo transportation
Henan Airlines Company Limited ("Henan Airlines") *(Notes (ii) and (iii))*	PRC	500,000,000	51%	Airline operations

Notes:

(i) Pursuant to the article of association of Jade Cargo, all decisions (including participation in the financial and operating policies decisions) should be unanimously passed by all of the board members. Shenzhen Airlines is able to exercise 50% voting rights in the board of directors. The remaining voting rights are held by the other two equity holders. Accordingly, Shenzhen Airlines Group is unable to control Jade Cargo.

(ii) Henan Airlines was formerly known as Kunpeng Airlines Company Limited. Pursuant to the articles of association of Henan Airlines, all decisions (including participation in the financial and operating policies decisions) should be unanimously passed by all of the board members. Shenzhen Airlines is able to exercise 50% voting rights in the board of directors. The remaining voting rights are held by the other two equity holders. Accordingly, Shenzhen Airlines Group is unable to control Henan Airlines.

(iii) The registered capital of Henan Airlines is RMB500,000,000. Up to 31 December 2009, Shenzhen Airlines Group has invested RMB51,000,000 into Henan Airlines and is required to further invest RMB204,000,000 in the future years. Henan Airlines reported net liabilities of RMB42,426,753 as at 31 December 2009. As Shenzhen Airlines did not fully contribute its capital into Henan Airlines, Shenzhen Airlines Group and Shenzhen Airlines has recognised a provision of RMB21,637,644 as at 31 December 2009 according to its proportion of capital commitment. As at 31 December 2009, Shenzhen Airlines has provided financial guarantee over bank loans obtained by Henan Airlines amounting to RMB50,000,000. The financial guarantee is valid from 6 May 2009 to 19 February 2012.

Summary of financial information on jointly controlled entities:

	Shenzhen Airlines Group's effective interest At 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Non-current assets	1,624,650,592	1,754,992,521	1,696,764,232
Current assets	121,956,248	271,428,660	285,024,774
Non-current liabilities	(1,453,958,415)	(1,665,996,324)	(1,484,707,293)
Current liabilities	(408,619,194)	(698,988,725)	(862,265,951)
Net liabilities	(115,970,769)	(338,563,868)	(365,184,238)
Revenue	484,071,920	1,261,996,392	1,267,398,456
Expenses	(720,007,687)	(1,484,589,492)	(1,294,018,826)
Loss for the year	(235,935,767)	(222,593,100)	(26,620,370)

As at 31 December 2007, 2008 and 2009, Jade Cargo reported net liabilities. As Shenzhen Airlines does not have any legal or constructive obligations to provide further capital or financing to Jade Cargo, no further loss or liability has been recognised after Shenzhen Airlines' interest in Jade Cargo was reduced to zero.

16 Other investments in equity securities

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Available-for-sale equity securities						
– unlisted equity securities, at cost less impairment	17,184,663	16,184,663	15,584,663	15,584,663	15,584,663	15,584,663
– unlisted equity securities, at fair value	141,554,785	54,743,313	125,870,494	141,554,785	54,743,313	125,870,494
	158,739,448	70,927,976	141,455,157	157,139,448	70,327,976	141,455,157

17 Deferred tax assets/(liabilities)

Movements of net deferred tax assets/(liabilities) are as follows:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
At 1 January	(96,720,726)	(282,591,919)	(248,142,761)	(96,924,341)	(282,857,294)	(248,620,488)
(Charged)/credited to income statement *(Note 7(a))*	(177,721,780)	12,746,290	50,903,482	(177,783,540)	12,533,938	44,293,196
(Charged)/credited to equity	(8,149,413)	21,702,868	(17,781,796)	(8,149,413)	21,702,868	(17,781,796)
At 31 December	(282,591,919)	(248,142,761)	(215,021,075)	(282,857,294)	(248,620,488)	(222,109,088)

(a) The components of deferred tax assets/(liabilities) recognised are analysed as follows:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	2008	2009	2007	2008	2009
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Net deferred tax assets/ (liabilities)						
– Accrued expenses	172,321,401	209,300,040	283,353,409	172,321,401	209,300,040	276,900,773
– Depreciation allowances in excess of the related depreciation	(368,838,491)	(399,840,459)	(547,656,029)	(368,838,491)	(399,840,459)	(547,656,029)
– Change in fair value of available-for-sale securities	(32,988,696)	(11,285,828)	(29,067,624)	(32,988,696)	(11,285,828)	(29,067,624)
– Capital prepayment	(52,611,322)	(71,338,486)	(74,700,300)	(52,611,322)	(71,338,486)	(74,700,300)
– Deferred revenue	49,531,561	19,573,600	154,982,890	49,531,561	19,573,600	154,982,890
– Unrealised exchange gain	(50,271,747)	–	–	(50,271,747)	–	–
– Tax losses	–	7,539,445	–	–	7,539,445	–
– Others	265,375	(2,091,073)	(1,933,421)	–	(2,568,800)	(2,568,798)
Net deferred tax liabilities	(282,591,919)	(248,142,761)	(215,021,075)	(282,857,294)	(248,620,488)	(222,109,088)
Represented by:						
Net deferred tax assets on the balance sheet	265,375	477,727	7,088,013	–	–	–
Net deferred tax liabilities on the balance sheet	(282,857,294)	(248,620,488)	(222,109,088)	(282,857,294)	(248,620,488)	(222,109,088)
Net deferred tax liabilities	(282,591,919)	(248,142,761)	(215,021,075)	(282,857,294)	(248,620,488)	(222,109,088)

18 Other non-current assets

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	2008	2009	2007	2008	2009
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Deposits for operating lease aircraft	111,712,019	116,856,642	155,189,964	111,712,019	116,856,642	155,189,964
Deposits for repairs service contracts	98,797,798	155,432,328	133,292,663	98,797,798	155,432,328	133,292,663
Prepayments for acquisitions of land use right	–	45,166,600	142,637,000	–	45,166,600	142,637,000
Others	3,005,333	7,075,118	19,299,002	2,258,213	5,663,927	18,507,600
	213,515,150	324,530,688	450,418,629	212,768,030	323,119,497	449,627,227

19 Financial assets/liabilities

(a) Financial assets

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	2008	2009	2007	2008	2009
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Overseas listed trading securities at fair value	3,184,085	5,935,732	17,322,528	–	–	–
Interest rate swaps	47,318,363	6,547,559	2,756,823	47,318,363	6,547,559	2,756,823
Interests in equity securities held for disposal	–	–	10,000,000	–	–	10,000,000
	50,502,448	12,483,291	30,079,351	47,318,363	6,547,559	12,756,823

Pursuant to a resolution of the President Meeting dated 21 December 2009, Shenzhen Airlines contemplate entering into a Share Transfer Agreement with Changzhou municipal government to dispose of its 90% equity interest in Changzhou Airport Company Limited ("Changzhou Airport") at a consideration of RMB10,000,000. Shenzhen Airlines has given up the power to control Changzhou Airport in December 2009 and accordingly the investment in Changzhou Airport was deconsolidated and classified as held for disposal in Shenzhen Airlines Group's and Shenzhen Airlines's balance sheets.

(b) Financial liabilities

	Shenzhen Airlines Group and Shenzhen Airlines At 31 December		
	2007	2008	2009
	RMB	*RMB*	*RMB*
Foreign exchange forward contracts	21,198,894	713,066	18,297,397
Interest rate swaps	–	44,939,610	74,385,908
	21,198,894	45,652,676	92,683,305

(c) Further disclosure of the financial derivative instruments are set out in Note 32.

20 Inventories

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	2008	2009	2007	2008	2009
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Expendable spare parts and maintenance materials	147,463,961	166,739,292	170,710,989	147,463,961	166,739,292	170,710,989
Other supplies	8,814,145	11,379,642	11,010,963	7,751,785	8,099,629	7,998,822
	156,278,106	178,118,934	181,721,952	155,215,746	174,838,921	178,709,811

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	2008	2009	2007	2008	2009
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cost of inventories	85,656,479	105,496,258	114,062,079	84,628,437	104,432,418	109,028,119

21 Trade and other receivables

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	2008	2009	2007	2008	2009
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Trade receivables	217,397,464	428,788,678	434,391,192	104,066,047	234,444,041	224,979,122
Less: allowance for doubtful debts	(664,402)	(1,635,537)	(2,654,181)	(46,302)	(55,828)	(87,609)
	216,733,062	427,153,141	431,737,011	104,019,745	234,388,213	224,891,513
Amounts due from subsidiaries *(Note (c))*	–	–	–	267,405,173	193,538,059	159,938,258
Amounts due from ultimate holding company *(Notes (a) and (c))*	350,000	1,320,700,000	1,920,700,000	350,000	1,320,700,000	1,920,700,000
Amounts due from jointly controlled entities *(Note (c))*	14,724,184	110,388,605	181,955,070	14,724,184	110,388,605	181,955,070
Amounts due from associates and its affiliates *(Note (c))*	2,369,251,862	742,821,668	1,049,672,017	2,340,628,254	742,821,668	1,049,672,017
Amounts due from other related parties *(Note (c))*	–	243,432	1,008,504	–	243,432	1,008,504
Deposits, prepayments and other receivables	546,720,146	1,477,497,953	706,597,058	540,904,390	1,420,026,161	663,978,436
Less: allowance for doubtful debts *(Notes (a) and (b))*	(2,122,371,201)	(2,122,395,303)	(3,179,827,422)	(2,122,234,475)	(2,122,235,475)	(3,179,691,880)
	808,674,991	1,529,256,355	680,105,227	1,041,777,526	1,665,482,450	797,560,405
	1,025,408,053	1,956,409,496	1,111,842,238	1,145,797,271	1,899,870,663	1,022,451,918

(a) Amounts due from ultimate holding company

On 26 December 2005, Shenzhen Airlines entered into an agreement with a finance company and an insurance company, entrusting the finance company and insurance company to purchase a hotel on behalf of Shenzhen Airlines. According to the agreement, Shenzhen Airlines paid the consideration of RMB600,000,000 to the finance company. The finance company and insurance company were not able to complete the acquisition by the end of 2006, nor did they return the prepayments according to the agreement. The directors of Shenzhen Airlines reassessed the recoverability of the balance as at 31 December 2007 and concluded that its collectability was remote. Accordingly, full allowance for doubtful debt in respect of the prepayment was made in 2007. On 18 August 2009, Shenzhen Airlines entered into a loan assignment agreement with Huirun under which Huirun assumed the outstanding balance together with accrued interest and penalty arising from the incompletion acquisition of the hotel as stipulated in the original purchase agreement from Shenzhen Airlines.

Shenzhen Airlines entered into a property development co-operation agreement with a property company in April 2006. Pursuant to the terms of the agreement, Shenzhen Airlines paid RMB300,000,000 to the property company for setting up of a joint venture company for a property development project. However, the property company did not establish a joint venture company within 30 days of payment as stipulated in the agreement, nor were the investment funds refunded to Shenzhen Airlines. The directors of Shenzhen Airlines reassessed the recoverability of the balance as at 31 December 2007 and concluded that its collectability was remote. Accordingly, full allowance for doubtful debt in respect of the outstanding balance was made in 2007. On 18 June 2008, Shenzhen Airlines entered into an agreement with Huirun, the property company and the holding company of that property company under which Shenzhen Airlines assumed the debts receivable from Huirun of RMB300,000,000 from the holding company of that property company as a settlement of the outstanding investment funds recoverable from the property company.

In 2006, Shenzhen Airlines made prepayments of RMB1,020,000,000 to a leasing company for lease of 19 aircraft as stipulated by certain aircraft lease and financing agreements. In 2007, the leasing company confirmed that they would not be able to execute the lease agreements. Shenzhen Airlines conducted a due diligence review on the leasing company in 2007 and found that the leasing company was not operating profitably. The directors of Shenzhen Airlines reassessed the recoverability of the balance as at 31 December 2007 and concluded that the collectability was remote. Accordingly, full allowance for doubtful debt in respect of the outstanding balance was made in 2007. On 13 September 2008, Shenzhen Airlines entered into a loan assignment agreement with Huirun and the leasing company under which Huirun assumed from Shenzhen Airlines the outstanding balance receivable from the leasing company.

In aggregate, the total amounts assumed by the ultimate holding company during the years ended 31 December 2008 and 2009 amounting to RMB1,320,000,000 and RMB600,000,000 respectively *(Note 30(b))*.

In January 2010, Shenzhen Airlines initiated legal proceedings at the Intermediate People's Court of Shenzhen City, Guangdong Province ("the Court") against Huirun for repayment of the above loans and accrued interest and application for property protection. On 21 January 2010, the Court accepted the application of property protection and froze in total 65% equity interest in Shenzhen Airlines and the 70% equity interest in SZ Property held by Huirun. In January 2010, the Court accepted Shenzhen Airlines's application. As at the date of this report, Huirun is under liquidation.

(b) Amounts due from associate and its subsidiaries

As at 31 December 2009, the gross amount receivable from SZ Property and its subsidiaries amounted to RMB1,049,672,017. On 30 November 2009, police authorities seized all the books and records, minutes to the board of directors meeting, contracts and other records of SZ Property for the period from its date of inception in October 2006 to June 2009 as well as freezing all bank accounts of SZ Property and one of its subsidiaries. After assessing the situation of SZ Property and its subsidiaries as at 31 December 2009, the directors of Shenzhen Airlines are at present unable to estimate the effect of matters described above, but consider the recoverability of the receivables to be remote, as such the receivables are fully impaired in 2009. If the police authorities release the above measures and SZ Property is able to repay the receivables, the impairment loss on other receivables will be reversed and affect the Financial Information accordingly.

(c) The amounts due from ultimate holding company, jointly controlled entities, associates and its affiliates, subsidiaries and other related parties are unsecured, interest free and have no fixed repayment terms.

(d) Ageing analysis

Credit terms granted by Shenzhen Airlines Group to sales agents and other customers generally range from one to four weeks. An ageing analysis of trade receivables, net of allowance for doubtful debts, is set out below:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Within 1 month	164,505,504	283,588,492	292,400,212	95,170,421	163,178,503	150,531,464
More than 1 month but less than 3 months	34,878,522	41,296,493	75,628,928	3,681,554	27,747,647	33,523,585
More than 3 months but less than 12 months	12,324,243	95,044,770	51,925,022	1,092,446	40,401,173	39,495,293
More than 12 months	5,024,793	7,223,386	11,782,849	4,075,324	3,060,890	1,341,171
	216,733,062	427,153,141	431,737,011	104,019,745	234,388,213	224,891,513

All of the trade receivables are expected to be recovered within one year.

(e) Impairment of trade receivables

Impairment loss in respect of trade receivables is recorded using an allowance account unless Shenzhen Airlines Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movements in the allowance for doubtful debts during the year are as follows:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
At 1 January	611,786	664,402	1,635,537	25,098	46,302	55,828
Impairment loss recognised	207,674	1,069,620	1,019,570	21,204	9,526	31,781
Uncollectible amounts written off	(155,058)	(98,485)	(926)	–	–	–
At 31 December	664,402	1,635,537	2,654,181	46,302	55,828	87,609

(f) Trade receivables that are not impaired

The ageing analysis of trade receivables that is neither individually nor collectively considered to be impaired is as follows:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Neither past due nor impaired	164,505,504	283,588,492	292,400,212	95,170,421	163,178,503	150,531,464
Past due	52,227,558	143,564,649	139,336,799	8,849,324	71,209,710	74,360,049
	216,733,062	427,153,141	431,737,011	104,019,745	234,388,213	224,891,513

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with Shenzhen Airlines Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Shenzhen Airlines Group does not hold any collateral over these balances.

22 Pledged bank deposits

As at 31 December 2007, 2008 and 2009 of Shenzhen Airlines Group's and Shenzhen Airlines's deposits of RMB29,555,375, RMB28,250,899 and RMB98,922,698 respectively are restricted deposits to secure the overhaul of operating leased jet engines and rental payment of operating leased aircraft.

As at 31 December 2007, 2008 and 2009, the deposits of Shenzhen Airlines Group and Shenzhen Airlines amounting to RMB427,504,173, RMB241,609,086 and RMB1,642,726,230 respectively were pledged to secure certain short term bank loans.

23 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Cash at bank and in hand	376,992,528	266,617,603	616,505,655	277,408,868	166,781,988	470,181,828

(b) Reconciliation of (loss)/profit before taxation to cash generated from operations:

	At 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
(Loss)/profit before taxation	(1,638,441,665)	64,396,611	(776,315,195)
Depreciation and amortisation	547,553,750	658,711,032	981,939,926
Impairment loss on trade and other receivables	2,120,304,696	1,179,477	1,061,895,768
Impairment loss on construction in progress	–	–	10,595,851
Impairment loss on available-for-sale securities investment	14,000,000	–	–
Impairment loss on investment in associate	–	–	27,031,628
Loss on deconsolidation of a subsidiary	–	–	77,518,182
Share of associates' results	3,634,204	2,674,408	2,161,091
Share of jointly controlled entities' results	83,616,249	25,739,656	32,246,737
Gain on sale of property, plant and equipment and lease prepayments, net	(48,516,435)	(55,614,322)	(3,836,836)
Gain on disposal of an associate	–	–	(25,486,789)
Gain on disposal of available-for-sale investment	(534,521)	–	–
Gain on disposal of a subsidiary	–	(76,039,200)	–
Interest income	(14,934,248)	(35,817,317)	(7,047,424)
Interest expense	451,976,206	533,374,757	498,078,078
Changes in fair value of derivative financial instruments	103,680,848	66,200,256	43,892,884
Dividend income from other investments in equity securities	(1,938,492)	(964,190)	(10,666,913)
Unrealised exchange gain, net	(288,923,020)	(295,605,412)	(1,095,843)
Decrease/(increase) in inventories	14,056,959	(21,882,145)	(3,978,806)
Increase in trade and other receivables	(1,031,792,952)	(854,662,141)	(285,881,685)
Increase in trade and other payables	373,714,276	2,525,410,731	929,321,821
Increase in provision for major overhauls	69,712,201	224,943,551	253,995,383
	757,168,056	2,762,045,752	2,804,367,858

(c) Non cash transactions - acquisition of aircraft

During the years ended 31 December 2007, 2008 and 2009, additions of finance leased aircraft amounted to RMB Nil, RMB600,156,204 and RMB Nil respectively relate to certain sale and finance leasebank arrangements as disclosed in Notes 11(e) and 25.

24 Bank and other loans

(a) Bank and other loans were repayable as follows:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	2008	2009	2007	2008	2009
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Within 1 year or on demand	4,290,834,888	3,865,450,389	16,532,952,203	4,290,834,888	3,865,450,389	16,524,952,203
After 1 year but within 2 years	469,400,400	920,058,903	22,000,000	469,400,400	920,058,903	–
After 2 years but within 5 years	1,797,601,600	885,692,401	–	1,797,601,600	885,692,401	–
After 5 years	3,388,864,887	6,373,840,864	–	3,388,864,887	6,373,840,864	–
	5,655,866,887	8,179,592,168	22,000,000	5,655,866,887	8,179,592,168	–
	9,946,701,775	12,045,042,557	16,554,952,203	9,946,701,775	12,045,042,557	16,524,952,203

(b) Details of bank and other loans are as follows:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	2008	2009	2007	2008	2009
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Secured bank loans						
Floating interest rates ranging from 90-95% of benchmark interest rate (stipulated by PBOC) per annum	–	598,207,684	1,892,062,021	–	598,207,684	1,892,062,021
Floating interest rate ranging from 6-month LIBOR + 0.3% to 3.2% per annum	5,836,851,061	8,259,893,890	9,597,980,532	5,836,851,061	8,259,893,890	9,597,980,532
Floating interest rate ranging from 12-month LIBOR + 0.1% to 4.8% per annum	419,980,436	239,451,983	1,651,709,650	419,980,436	239,451,983	1,651,709,650
Unsecured bank loans						
Fixed interest rate at 4.77% to 8.6% per annum	3,689,870,278	2,947,489,000	3,413,200,000	3,689,870,278	2,947,489,000	3,383,200,000
Total	9,946,701,775	12,045,042,557	16,554,952,203	9,946,701,775	12,045,042,557	16,524,952,203

(c) Bank and other loans in the consolidated and company balance sheets are the following amounts denominated in a currency other than the functional currency of the entity of which they related:

	Shenzhen Airlines Group and Shenzhen Airlines		
	At 31 December		
	2007	**2008**	**2009**
United States dollars	919,352,432	1,243,576,196	1,635,950,893
Hong Kong dollars	–	–	87,027,830
Euro	–	–	256,457

(d) The secured bank and other loans are secured by the following assets:

	Shenzhen Airlines Group and Shenzhen Airlines		
	At 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Aircraft *(Note 11)*	4,408,024,446	8,113,432,299	11,858,993,312
Advance payments for aircraft *(Note 12)*	3,105,321,230	3,143,816,399	3,274,947,497
Pledged bank deposits *(Note 22)*	427,504,173	241,609,086	1,642,726,230
	7,940,849,849	11,498,857,784	16,776,667,039

(e) As at 31 December 2007, 2008 and 2009, certain bank and other loans were guaranteed by Air China Limited ("Air China") amounting to RMB131,598,662, RMB84,272,102 and RMB 43,227,321 respectively.

25 Obligations under finance leases

Shenzhen Airlines Group and Shenzhen Airlines have commitments under finance lease agreements in respect of aircraft and related equipment. These leases have terms of 5 years expiring during 2013. Future payments under these finance leases are as follows:

	Shenzhen Airlines Group and Shenzhen Airlines At 31 December 2008		
	Present value of the minimum lease payments *RMB*	**Total minimum lease payments** *RMB*	**Interest** *RMB*
Within 1 year	118,272,000	145,420,800	27,148,800
After 1 year but within 2 years	118,272,000	138,412,800	20,140,800
After 2 years but within 5 years	266,112,000	285,825,600	19,713,600
	384,384,000	424,238,400	39,854,400
	502,656,000	569,659,200	67,003,200

	Shenzhen Airlines Group and Shenzhen Airlines At 31 December 2009		
	Present value of the minimum lease payments *RMB*	**Total minimum lease payments** *RMB*	**Interest** *RMB*
Within 1 year	118,272,000	138,412,800	20,140,800
After 1 year but within 2 years	118,296,000	131,428,800	13,132,800
After 2 years but within 5 years	147,816,000	154,396,800	6,580,800
	266,112,000	285,825,600	19,713,600
	384,384,000	424,238,400	39,854,400

There was no finance lease obligations of Shenzhen Airlines Group and Shenzhen Airlines as at 31 December 2007.

These finance lease arrangements bear interests at benchmark interest rate stipulated by PBOC.

26 Trade and other payables

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Trade and bills payable	982,021,543	2,315,817,315	2,683,174,546	933,014,932	2,277,634,170	2,581,950,764
Amounts due to subsidiaries	–	–	–	67,096,842	5,089,717	18,012,732
Amounts due to ultimate holding company	825,727,300	773,514,300	718,514,300	825,727,300	773,514,300	718,514,300
Amounts due to jointly controlled entities	16,509,718	–	–	16,509,718	–	–
Amounts due to an associate and its affiliates	70,000,000	70,000,000	78,288,627	70,000,000	70,000,000	78,288,627
Amounts due to other related parties	114,036,199	151,514,181	163,554,251	114,036,199	151,514,181	163,554,251
Other payables and accruals	654,325,185	1,481,822,095	2,037,031,177	575,709,181	1,404,231,397	1,865,664,681
	2,662,619,945	4,792,667,891	5,680,562,901	2,602,094,172	4,681,983,765	5,425,985,355

The amounts due to subsidiaries, holding company, jointly controlled entities, associates and its affiliates and other related parties are unsecured, interest free and have no fixed repayment terms.

The following is the ageing analysis of trade and bills payable:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Within 1 month	667,078,143	1,961,695,511	2,104,760,698	643,641,830	1,954,595,382	2,093,086,405
More than 1 month but less than 3 months	144,948,096	45,036,429	166,988,435	126,043,145	40,955,480	126,039,384
More than 3 months but less than 6 months	169,889,648	219,798,753	314,269,909	163,329,957	218,675,035	310,065,977
More than 6 months	105,656	89,286,622	97,155,504	–	63,408,273	52,758,998
	982,021,543	2,315,817,315	2,683,174,546	933,014,932	2,277,634,170	2,581,950,764

All of the trade and bills payable are expected to be settled within one year.

27 Provision for major overhauls

Details of provision for major overhauls in respect of aircraft held under operating leases are as follows:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
At 1 January	610,196,346	679,908,547	904,852,098	610,196,346	679,908,547	904,852,098
Provision for the year	212,460,407	307,576,050	314,044,620	212,460,407	307,576,050	300,270,090
Provision utilised during the year	(142,748,206)	(82,632,499)	(60,049,237)	(142,748,206)	(82,632,499)	(60,049,237)
At 31 December	679,908,547	904,852,098	1,158,847,481	679,908,547	904,852,098	1,145,072,951
Less: current portion included in other payables	83,734,634	94,067,291	304,802,314	83,734,634	94,067,291	294,233,515
	596,173,913	810,784,807	854,045,167	596,173,913	810,784,807	850,839,436

28 Other non-current liabilities

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Gain on sale and finance leaseback arrangements	–	145,729,493	130,194,249	–	145,729,493	130,194,249
Deferred revenue	125,810,707	250,077,252	411,661,769	125,810,707	250,077,252	411,661,769
Manufacturers' credit	84,334,993	82,345,431	103,022,240	84,334,993	82,345,431	103,022,240
Others	11,535,750	12,357,000	10,920,000	8,200,000	6,560,000	10,920,000
	221,681,450	490,509,176	655,798,258	218,345,700	484,712,176	655,798,258

29 Capital and reserves

(a) Capital management

Shenzhen Airlines Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide returns to its equity holders, by securing access to finance at a reasonable cost.

Shenzhen Airlines Group manages capital by regularly monitoring its current and expected liquidity requirements. If there is a deficit in capital, Shenzhen Airlines Group would raise additional funding from bank loans. The objectives and policies were unchanged during the years presented. Shenzhen Airlines Group is not subject to either internally or externally imposed capital requirements.

(b) Movements in components of equity

The reconciliation between the opening and closing balances of each component of Shenzhen Airlines Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in Shenzhen Airline's individual components of equity between the beginning and the end of each of the years ended 31 December 2007, 2008 and 2009 are set out below:

	Note	Paid-up capital *RMB*	Surplus reserve *RMB*	Fair value reserve *RMB*	Retained earnings/ (accumulated losses) *RMB*	Total *RMB*
Balance at 1 January 2007		300,000,000	221,453,604	74,517,848	487,195,070	1,083,166,522
Dividends approved in respect of the previous year	*29(d)*	–	–	–	(347,272,800)	(347,272,800)
Total comprehensive income for the year		–	–	24,448,241	(1,819,045,010)	(1,794,596,769)
Transfer to reserve		–	42,831,800	–	(42,831,800)	–
Balance at 31 December 2007 and 1 January 2008		300,000,000	264,285,404	98,966,089	(1,721,954,540)	(1,058,703,047)
Total comprehensive income for the year		–	–	(65,108,604)	62,039,832	(3,068,772)
Balance at 31 December 2008 and 1 January 2009		300,000,000	264,285,404	33,857,485	(1,659,914,708)	(1,061,771,819)
Total comprehensive income for the year		–	–	53,345,385	(757,345,855)	(704,000,470)
Balance at 31 December 2009		300,000,000	264,285,404	87,202,870	(2,417,260,563)	(1,765,772,289)

(c) Nature of reserves

(i) Surplus reserve

According to the PRC Company Law and the Articles of Association of Shenzhen Airlines and certain of its subsidiaries, Shenzhen Airlines and the relevant subsidiaries are required to transfer 10% of their annual net profits after taxation, as determined under the PRC accounting rules and regulations, to a statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders and when there are retained earnings at the financial year end.

Statutory surplus reserve can be used to offset prior years' losses, if any, and may be converted into capital provided that the balance after such issue is not less than 25% of the registered capital.

(ii) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in Note 1(g).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial information of foreign operations. The reserve is dealt with in accordance with the accounting policy as set out in Note 1(z).

(d) Dividend

Dividend payable to equity holders of Shenzhen Airlines attributable to the previous financial year and approved during the year:

	Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Dividend declared in respect of the previous financial year and approved during the year	347,272,800	–	–

A final dividend of RMB347,272,800 was declared and approved during the year ended 31 December 2007 in respect of profits of 2006. As at 31 December 2007, 2008 and 2009, dividends payable in respect of the dividend declared during the year ended 31 December 2007 which remained unsettled were RMB252,545,500, RMB152,545,500 and RMB97,545,500 respectively.

(e) Distributability of reserves

Shenzhen Airlines did not have any reserves available for distribution as at 31 December 2007, 2008 and 2009.

30 Material related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of Shenzhen Airlines Group, including amounts paid to Shenzhen Airlines's directors/supervisors and certain of the highest paid employees as disclosed in Note 6, is as follows:

	Years ended 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Employee benefits	17,468,593	17,603,537	15,746,539

(b) Significant transactions with related parties of Shenzhen Airlines Group

The following is a summary of principal related parties of Shenzhen Airlines Group during the Relevant Period.

Name of related party	Relationship
Huirun	Ultimate holding company
Air China	Shareholder of Shenzhen Airlines
Administracao de Aeroportos Limitada	Other related party
Aviation Data Communication Corporation 民航數據通信有限責任公司*	Other related party
Guangzhou Baiyun International Airport Ground Handling Service Co., Ltd 廣州白雲機場地勤服務有限公司*	Other related party
SZ Property	Associate
Shenyang Shenzhen Property Company Limited 瀋陽深航置業有限公司*	Subsidiary of an associate
Wuxi Shenzhen Property Company Limited 無錫深航置業有限公司*	Subsidiary of an associate
Heng Shan Property	Subsidiary of an associate
Shenzhen Airlines (Zhengzhou) Property Co., Ltd. 深航(鄭州)置業有限公司*	Subsidiary of an associate
Shenzhen Airlines (Xishuangbanna) Property Co., Ltd. 深航西雙版納置業有限公司*	Subsidiary of an associate
Jade Cargo	Jointly controlled entity
Henan Airlines	Jointly controlled entity

* *The English translation of the above companies name is for reference only. The official names of these companies are in Chinese.*

In addition to the transactions and balances disclosed elsewhere in the Financial Information, Shenzhen Airlines Group entered into the following material related party transactions:

	Years ended 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Income received from Air China			
– Ticket handling income	716,691	4,571,180	10,029,298
– Flight simulation service income	243,432	2,445,912	2,832,912
– Air catering income	3,557,239	3,236,576	4,612,266
– Airport ground services, take-off, landing and depot income	1,877,210	3,246,225	3,339,809
	6,394,572	13,499,893	20,814,285
Expenses paid to other related parties			
– Ground service expenses	5,367,221	2,587,676	3,354,560
– Airport ground services, take-off, landing and depot charges	1,902,947	1,364,001	1,450,744
– Flight data service fee	2,040,000	2,160,000	2,160,000
	9,310,168	6,111,677	6,965,304
Income received from jointly controlled entities			
– Air catering income	1,059,835	1,085,405	361,515
– Flight simulation service income	220,409	584,400	66,000
– Rental income	879,168	1,090,854	1,284,371
– Commission income	387,551	2,847,090	7,955,253
	2,546,963	5,607,749	9,667,139
Gain on disposal of a subsidiary to an associate *(Note 2)*	–	76,039,200	–
Assumption of amounts receivable by ultimate holding company *(Note 21(a))*	–	1,320,000,000	600,000,000

31 Segmental reporting

The directors consider that Shenzhen Airlines Group operates in a single business and geographical segment as the revenue and profit are derived entirely from airline operations and provision of services to the customers in the PRC from the perspective of the senior executive management for allocating resources and assessing the performance. However, Shenzhen Airlines Group's chief operating decision maker monitors the results, assets and liabilities of Shenzhen Airlines Group based on financial results prepared under PRC Accounting Standards for Business Enterprises ("PRC GAAP") issued by the Ministry of Finance of the PRC. As such, the amount of each material reconciling items from the Shenzhen Airlines Group's revenue, profit or loss, assets and liabilities arising from different accounting policies are set out as follows:

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities arising from different accounting policies

	Years ended 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Revenue			
Reportable segment revenue	8,411,093,134	10,410,076,660	12,143,588,586
Effects of differences between HKFRSs and PRC GAAP	(162,234,501)	79,382,032	(97,707,585)
Consolidated revenue	8,248,858,633	10,489,458,692	12,045,881,001
Profit			
Reportable segment loss before taxation	(1,729,650,002)	(74,570,086)	(769,207,688)
Effects of differences between HKFRSs and PRC GAAP	91,208,337	138,966,697	(7,107,507)
Consolidated (loss)/profit before taxation	(1,638,441,665)	64,396,611	(776,315,195)
Assets			
Reportable segment assets	12,478,546,027	17,656,296,079	22,386,553,481
Effects of differences between HKFRSs and PRC GAAP	274,015,465	324,698,158	387,233,709
Consolidated total assets	12,752,561,492	17,980,994,237	22,773,787,190
Liabilities			
Reportable segment liabilities	13,655,311,982	18,849,256,079	24,453,664,473
Effects of differences between HKFRSs and PRC GAAP	76,703,866	87,708,960	101,728,427
Consolidated total liabilities	13,732,015,848	18,936,965,039	24,555,392,900

The effects of differences between HKFRSs and PRC GAAP as mentioned above relate primarily to the capitalisation of exchange difference of specific loans, recognition of fair value of unlisted equity shares, certain reclassification and the related tax impact of these differences.

32 Financial risk management and fair values

Exposure to liquidity, interest rate, currency, jet fuel price risk and credit risks arises in the normal course of Shenzhen Airlines Group's business. Shenzhen Airlines Group's exposure to these risks and the financial risk management policies and practices used by Shenzhen Airlines Group to manage these risks are described below.

(a) Liquidity risk

As at 31 December 2009, Shenzhen Airlines Group and Shenzhen Airlines's recognised trade and bills payable and derivative forward liabilities as disclosed in Notes 26 and 19(b), are not materially different from the amount determined based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date). The contractual undiscounted cashflow of finance lease obligation is disclosed in Note 25.

The following table details the remaining contractual maturities as the balance sheet date of Shenzhen Airlines Group's and Shenzhen Airlines's bank loans which are based on contractual undiscounted cash flows in (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date Shenzhen Airlines Group and Shenzhen Airlines can be required to pay. Although all the bank and other loans of Shenzhen Airlines have been classified as current liabilities due to the breach of the loan covenants as disclosed in Note 1(c), for the purpose of this liquidity risk disclosure, the following table has assumed that no immediate demand from banks would be requested and the repayment would be made according to the original schedule:

	Shenzhen Airlines Group		
	At 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Bank loans			
Within 1 year of on demand	4,569,796,953	4,143,976,636	4,635,804,512
More than 1 year but less than 2 years	1,072,699,276	1,320,112,907	1,649,519,939
More than 2 years but less than 5 years	2,225,319,363	3,338,249,204	3,447,158,758
More than 5 years	4,417,414,368	5,860,577,166	8,382,167,971
Total contractual undiscounted cashflow	12,285,229,960	14,662,915,913	18,114,651,180
Carrying amount	9,946,701,775	12,045,042,557	16,554,952,203

	Shenzhen Airlines		
	At 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Bank loans			
Within 1 year of on demand	4,548,598,059	4,143,976,636	4,626,184,512
More than 1 year but less than 2 years	1,072,699,276	1,320,112,907	1,638,331,939
More than 2 years but less than 5 years	2,225,319,363	3,338,249,204	3,447,158,758
More than 5 years	4,417,414,368	6,532,020,530	8,704,090,553
Total contractual undiscounted cash flow	12,264,031,066	15,334,359,277	18,415,765,762
Carrying amount	9,946,701,775	12,045,042,557	16,524,952,203

(b) Interest rate risk

The interest rates and maturity information of Shenzhen Airlines Group and Shenzhen Airlines's bank and other loans and finance lease obligations are disclosed in Notes 24 and 25 respectively.

Shenzhen Airlines Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, Shenzhen Airlines Group enters into interest rate swaps, in which Shenzhen Airlines Group agrees to exchange the floating interest rate finance charge for the fixed interest rate finance charge as stipulated in the swap agreements. These arrangements do not meet the criteria for hedge accounting and the unrealised gains or losses arising from the change in fair value of these interest rate swaps are recognised immediately in the profit or loss.

At 31 December 2007, 2008 and 2009, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased Shenzhen Airlines Group and Shenzhen Airlines's profit or loss after tax and accumulated losses by approximately RMB80,661,959, RMB96,089,768 and RMB113,733,217 respectively. These amounts represent the fair value change of interest rate swaps and the increase/decrease in net finance changes.

(c) Foreign currency risk

The Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place either through the PBOC or other institutions authorised to buy and sell foreign exchange or at a swap centre.

Shenzhen Airlines Group and Shenzhen Airlines have significant exposure to foreign currency risk as substantially all of Shenzhen Airlines Group and Shenzhen Airlines's obligations under finance leases *(Note 25)* and bank and other loans *(Note 24)* are denominated in foreign currencies, principally US dollars and Hong Kong dollars.

The following table details Shenzhen Airlines Group's and Shenzhen Airlines's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into Shenzhen Airlines Group's presentation currency are excluded.

(i) Exposure to foreign currency risk

	Shenzhen Airlines Group At 31 December 2007		Shenzhen Airlines At 31 December 2007	
	USD	*HKD*	*USD*	*HKD*
Cash and cash equivalents	127,263,545	12,878,520	127,127,420	9,834,612
Bank and other loans	(6,714,950,163)	–	(6,714,950,163)	–
Gross exposure arising from recognised assets and liabilities	(6,587,686,618)	12,878,520	(6,587,822,743)	9,834,612
Notional amounts of foreign exchange forward contracts	392,578,154	–	392,578,154	–
Net exposure arising from recognised assets and liabilities	(6,195,108,464)	12,878,520	(6,195,244,589)	9,834,612

	Shenzhen Airlines Group At 31 December 2008		Shenzhen Airlines At 31 December 2008	
	USD	*HKD*	*USD*	*HKD*
Cash and cash equivalents	40,275,587	9,509,630	40,272,805	9,506,481
Bank and other loans	(8,499,345,869)	–	(8,499,345,869)	–
Gross exposure arising from recognised assets and liabilities	(8,459,070,282)	9,509,630	(8,459,073,064)	9,506,481
Notional amounts of foreign exchange forward contracts	248,097,750	–	248,097,750	–
Net exposure arising from recognised assets and liabilities	(8,210,972,532)	9,509,630	(8,210,975,314)	9,506,481

	Shenzhen Airlines Group At 31 December 2009		Shenzhen Airlines At 31 December 2009	
	USD	*HKD*	*USD*	*HKD*
Cash and cash equivalents	88,451,499	21,769,493	87,635,338	21,756,938
Bank and other loans	(11,170,599,888)	(76,628,004)	(11,170,599,888)	(76,628,004)
Gross exposure arising from recognised assets and liabilities	(11,082,148,389)	(54,858,511)	(11,082,964,550)	(54,871,066)
Notional amounts of foreign exchange forward contracts	2,319,726,443	–	2,319,726,443	–
Net exposure arising from recognised assets and liabilities	(8,762,421,946)	(54,858,511)	(8,763,238,107)	(54,871,006)

(ii) Sensitivity analysis

	2009		
	Appreciation (depreciation)/ of Renminbi against currency	Shenzhen Airlines Group decrease/ (increase) on loss after tax and accumulated losses *RMB*	Shenzhen Airlines decrease/ (increase) on loss after tax and accumulated losses *RMB*
United States dollars	10%	698,280,304	698,343,964
Hong Kong dollars	10%	4,278,964	4,279,943

	2008		
	Appreciation (depreciation)/ of Renminbi against currency	Shenzhen Airlines Group increase/ (decrease) on profit after tax and accumulated losses *RMB*	Shenzhen Airlines increase/ (decrease) on profit after tax and accumulated losses *RMB*
United States dollars	10%	650,357,770	650,357,993
Hong Kong dollars	10%	760,770	760,518

	2007		
	Appreciation (depreciation)/ of Renminbi against currency	Shenzhen Airlines Group decrease/ (increase) on loss after tax and accumulated losses *RMB*	Shenzhen Airlines decrease/ (increase) on loss after tax and accumulated losses *RMB*
United States dollars	10%	567,185,901	567,198,493
Hong Kong dollars	10%	1,191,263	909,702

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of Shenzhen Airlines Group and Shenzhen Airlines entities' profit/loss after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

(d) Jet fuel price risk

A significant portion of Shenzhen Airlines Group and Shenzhen Airlines's operating costs is jet fuel cost. Shenzhen Airlines Group and Shenzhen Airlines's financial performance is affected by jet fuel price fluctuation. Shenzhen Airlines Group and Shenzhen Airlines's jet fuel price risk is primarily attributable to the fuel consumption for domestic flights, which represented 96%, 96% and 96% of the total jet fuel costs for the years ended 31 December 2007, 2008 and 2009.

As at 31 December 2007, 2008 and 2009, if jet fuel price were to rise by RMB800 per tonne, with other variables held constant, Shenzhen Airlines Group's and Shenzhen Airlines's jet fuel costs for the year would increase by approximately RMB385,273,083, RMB449,038,400 and RMB569,703,200; and RMB385,273,083, RMB449,038,400 and RMB549,286,400 for each year respectively.

(e) Credit risk

Shenzhen Airlines Group and Shenzhen Airlines's credit risk is primarily attributable to cash and cash equivalents and trade receivables.

A significant portion of Shenzhen Airlines Group and Shenzhen Airlines's air tickets are sold by agents participating in the Billing and Settlement Plan ("BSP"), a clearing scheme between airlines and sales agents organised by International Air Transportation Association which has insignificant credit risk to Shenzhen Airlines Group. The balance due from BSP agents amounted to RMB119,678,751, RMB115,718,298 and RMB 121,946,355 as at 31 December 2007, 2008 and 2009 respectively. The credit risk exposure to BSP and the remaining trade receivables balance are monitored by Shenzhen Airlines Group and Shenzhen Airlines on an ongoing basis and the allowance for impairment of doubtful debts is within management's expectations. Further quantitative disclosures in respect of Shenzhen Airlines Group and Shenzhen Airlines's exposure to credit risk arising from trade receivables is set out in Note 21.

(f) Fair value

(i) Financial instruments carried at fair value

The following tables present the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (Lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

2007

	Shenzhen Airlines Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
Assets				
Trading securities	3,184,085	–	–	3,184,085
Available-for-sale equity securities at fair value	–	141,554,785	–	141,554,785
Interest rate swaps	–	47,318,363	–	47,318,363
	3,184,085	188,873,148	–	192,057,233
Liabilities				
Foreign exchange forward contracts	–	21,198,894	–	21,198,894

2008

	Shenzhen Airlines Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
Assets				
Trading securities	5,935,732	–	–	5,935,732
Available-for-sale equity securities at fair value	–	54,743,313	–	54,743,313
Interest rate swap	–	6,547,559	–	6,547,559
	5,935,732	61,290,872	–	67,226,604
Liabilities				
Interest rate swap	–	44,939,610	–	44,939,610
Foreign exchange forward contracts	–	713,066	–	713,066
	–	45,652,676	–	45,652,676

2009

	Shenzhen Airlines Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
Assets				
Trading securities	17,322,528	–	–	17,322,528
Available-for-sale equity securities at fair value	–	125,870,494	–	125,870,494
Interest rate swaps	–	2,756,823	–	2,756,823
	17,322,528	128,627,317	–	145,949,845
Liabilities				
Interest rate swaps	–	74,385,908	–	74,385,908
Foreign exchange forward contracts	–	18,297,397	–	18,297,397
	–	92,683,305	–	92,683,305

2007

	Shenzhen Airlines			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
Assets				
Available-for-sale equity securities at fair value	–	141,554,785	–	141,554,785
Interest rate swaps	–	47,318,363	–	47,318,363
	–	188,873,148	–	188,873,148
Liabilities				
Foreign exchange forward contracts	–	21,198,894	–	21,198,894

2008

	Shenzhen Airlines			
	Level 1 *RMB*	**Level 2** *RMB*	**Level 3** *RMB*	**Total** *RMB*
Assets				
Available-for-sale equity securities at fair value	–	54,743,313	–	54,743,313
Interest rate swaps	–	6,547,559	–	6,547,559
	–	61,290,872	–	61,290,872
Liabilities				
Interest rate swaps	–	44,939,610	–	44,939,610
Foreign exchange forward contracts	–	713,066	–	713,066
	–	45,652,676	–	45,652,676

2009

	Shenzhen Airlines			
	Level 1 *RMB*	**Level 2** *RMB*	**Level 3** *RMB*	**Total** *RMB*
Assets				
Available-for-sale equity securities at fair value	–	125,870,494	–	125,870,494
Interest rate swaps	–	2,756,823	–	2,756,823
	–	128,627,317	–	128,627,317
Liabilities				
Interest rate swaps	–	74,385,908	–	74,385,908
Foreign exchange forward contracts	–	18,297,397	–	18,297,397
	–	92,683,305	–	92,683,305

(ii) The economic characteristics of Shenzhen Airlines Group's finance leases vary from lease to lease. It is impractical to compare such leases with those prevailing in the market within the constraints of timeliness and cost for the purpose of estimating the fair value of such leases.

(iii) Other non-current investments represent unlisted equity securities of companies established in the PRC. There is no quoted market price for such equity securities and accordingly a reasonable estimate of the fair value could not be measured reliably.

(iv) Amounts due from/to related companies are unsecured, interest-free and have no fixed terms of repayment. Given these terms, it is not meaningful to disclose fair values of these balances.

33 Commitments

(a) Capital commitments

Shenzhen Airlines Group and Shenzhen Airlines had capital commitments as follows:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**	**2007**	**2008**	**2009**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Commitments in respect of aircraft and flight equipment						
– authorised and contracted for	33,678,286,014	27,380,015,153	23,341,564,642	33,668,976,705	27,324,095,870	23,341,564,642
Other commitments						
– authorised and contracted for	791,203,171	44,744,156	81,807,073	715,876,000	44,744,156	81,807,073
	34,469,489,185	27,424,759,309	23,423,371,715	34,384,852,705	27,368,840,026	23,423,371,715

(b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases in respect of aircraft and flight equipment were payable as follows:

	Shenzhen Airlines Group and Shenzhen Airlines At 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Within 1 year	731,482,702	903,263,825	906,473,949
After 1 year but within 5 years	2,498,266,377	2,714,039,945	2,941,939,311
After 5 years	2,682,767,279	2,938,501,681	2,653,767,133
	5,912,516,358	6,555,805,451	6,502,180,393

(c) Investment commitments

Shenzhen Airlines Group committed to make capital contributions in respect of:

	Shenzhen Airlines Group At 31 December		
	2007	**2008**	**2009**
	RMB	*RMB*	*RMB*
Jointly controlled entities	204,000,000	204,000,000	204,000,000
Associates	–	–	35,000,000
Subsidiaries	156,000,000	220,000,000	156,000,000
	360,000,000	424,000,000	395,000,000

34 Contingent liabilities

(a) Contingent liability in respect of legal claims

(i) A construction firm has sued Shenzhen Airlines in respect of certain unpaid construction fees. The court has ruled that Shenzhen Airlines has to compensate the construction firm for the unpaid construction fees, penalties for breaking the contract and all legal fees relating to the case, totaling RMB7,879,335. Shenzhen Airlines has appealed the decision. With the appeal currently in progress, management has not made a provision in respect of this claim.

(ii) An investment company has sued Shenzhen Airlines for failing to bear legal responsibilities arising from certain guarantees issued. On 14 January 2010, the court has ruled that Shenzhen Airlines has to compensate the investment company an amount totaling RMB5,335,600 plus accrued interest in respect of the compensation amount. Management is currently preparing the necessary legal materials for an appeal. As such, management has not made provision in respect of this claim.

(b) Financial guarantees issued

Shenzhen Airlines has provided guarantees to banks for certain employees in respect of their residential mortgages as well as for certain pilot trainees in respect of their tuition loans. As at 31 December 2007, 2008 and 2009, Shenzhen Airlines has outstanding guarantees for employees residential mortgages amounting to RMB17,269,721, RMB14,451,356 and RMB10,138,800 respectively and for pilot trainees amounting to RMB25,720,700, RMB112,172,671 and RMB231,701,745 respectively.

Financial guarantees granted by Shenzhen Airlines Group/Shenzhen Airlines for its jointly controlled entities are disclosed in Note 15.

(c) Other contingent liabilities

As disclosed in Note 1(c) and Note 21(b), Shenzhen Airlines believes that the possibility of these matters causing material contingent liabilities for Shenzhen Airlines is low, as such, management has not made provision in respect of these matters.

35 Non-adjusting post balance sheet events

Pursuant to the Capital Increase Agreement, the registered capital of Shenzhen Airlines shall increase, upon the completion of the proposed capital injection, by RMB512,500,000, of which, Shenzhen International Total Logistics Company Limited will subscribe for an additional registered capital of RMB173,125,000 for a cash consideration of RMB347,981,250 and Air China will subscribe for an additional registered capital of RMB339,375,000 for a cash consideration of RMB682,143,750.

36 Immediate and ultimate controlling party

As at 31 December 2009, the directors of Shenzhen Airlines consider the immediate parent and ultimate controlling party of Shenzhen Airlines Group to be Huirun, which is established in the PRC. This entity does not produce financial statements available for public use.

37 Accounting judgements and estimates

Shenzhen Airlines Groups' financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the Financial Information. Shenzhen Airlines Group bases the assumptions and estimates on historical experience and on various other assumptions that Shenzhen Airlines Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in Note 1. Shenzhen Airlines Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Going concern assumptions

As disclosed in Note 1(c), the Financial Information has been prepared on a going concern basis based on the assumptions that Shenzhen Airlines Group will be able to obtain the necessary funding to support its operation and meet its obligations as and when they fall due. The outcome may be different and there will be a significant doubt on Shenzhen Airlines's ability to continue as a going concern.

(b) Impairment of receivables

Shenzhen Airlines Group estimates impairment loss for bad and doubtful debts from the inability of the customers and related companies to make the required payments. As disclosed in Note 21(b), if there is any favourable event occurring after the impairment loss was recognised, the impairment loss will be reversed.

(c) Impairment of long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of Assets*. The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of traffic revenue and the amount of operating costs. Shenzhen Airlines Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions for projections of traffic revenue and amount of operating costs.

(d) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Shenzhen Airlines Group reviews the estimated useful lives of assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on Shenzhen Airlines Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(e) Provision for major overhauls

To fulfil certain return conditions under relevant lease agreement, Shenzhen Airlines Group estimated the cost of major overhauls for aircraft held under operating leases based on Shenzhen Airlines Group's historical experience on actual cost of overhauls and charged the cost to profit or loss over the estimated period between overhauls. However, it is possible that the historical cost of overhauls is not indicative of future cost of overhauls. Any increase or decrease in the provision would affect profit or loss in future years.

(f) Deferred income

The amount of revenue attributable to the mileage points earned by the members of Shenzhen Airlines Group's frequent-flyer programme is estimated based on the fair value of the mileage points awarded and the expected redemption rate. The expected redemption rate was estimated considering the number of the miles that will be available for redemption in the future after allowing for mileage points which are not expected to be redeemed.

38 Possible impact of amendments, new standards and interpretations issued but not effective for the year ended 31 December 2009

Up to the date of issue of this report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in the Financial Information.

Shenzhen Airlines Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on Shenzhen Airlines Group's results of operations and financial position.

39 Subsidiaries

The particulars of Shenzhen Airlines Group's subsidiaries are as follows:

Name of company	Issued and fully paid up/ registered capital	Attributable equity interest		Principal activities
	RMB	*Direct*	*Indirect*	
Shenzhen Jinpeng Industrial & Trading Co., Ltd. 深圳金鵬工貿有限責任公司*(Notes i and iii)*	20,000,000	90%	10%	Tickets agent
Shenzhen Airport Catering Co., Ltd. 深圳航空港配餐有限公司*(Note ii)*	10,000,000	70%	–	Air catering
Shenzhen Airlines International Travel Co., Ltd. 深圳市航空國際旅行社有限公司*(Notes i and iii)*	8,000,000	88.9%	11.1%	Travel services
Shenzhen Airlines Cargo Co., Ltd. 深圳市深航貨運有限公司*(Notes i and iii)*	10,000,000	80%	20%	Air freight
Shenzhen Airlines Advertising Co., Ltd. 深圳航空廣告有限公司*(Notes i and iii)*	5,000,000	96%	4%	Aviation advertising services
Guangxi Jinpeng Yongjiang Industrial & Trading Co., Ltd. 廣西金鵬邕江工貿有限公司*(Notes i and iii)*	3,000,000	–	100%	Tickets agent
Beijing Yinpeng Air Service Co., Ltd. 北京銀鵬航空服務有限公司*(Notes i and iii)*	1,000,000	–	100%	Tickets agent
Shanghai Shenfa Air Service Co., Ltd. 上海深發航空服務有限公司*(Notes i and iii)*	1,000,000	–	100%	Tickets agent
Guangzhou Zhongying Travele Service Co., Ltd. 廣州中鷹商旅服務有限公司*(Notes i and iii)*	2,000,000	–	100%	Tickets agent

Name of company	Issued and fully paid up/ registered capital *RMB*	Attributable equity interest *Direct*	*Indirect*	Principal activities
Wuxi Jinpeng Ticket Service Co., Ltd. 無錫金鵬票務服務有限公司*(Notes i and iii)*	1,000,000	–	100%	Tickets agent
Shenyang Beipeng Travele Service Co., Ltd. 沈陽北鵬商旅服務有限公司*(Notes i and iii)*	1,000,000	–	100%	Tickets agent
Zhengzhou Zhongpeng Air Service Co., Ltd. 鄭州中鵬航服有限責任公司*(Notes i and iii)*	2,000,000	–	100%	Tickets agent
Xian Tangpeng Business Service Co., Ltd. 西安唐鵬商務服務有限公司*(Notes i and iii)*	2,000,000	–	100%	Tickets agent
Yunnan Nanpeng Business Service Co., Ltd. 雲南南鵬商務有限公司*(Notes i and iii)*	2,000,000	–	100%	Tickets agent
Chongqing Yupeng Travele Service Co., Ltd. 重慶渝鵬商旅服務有限責任公司*(Notes i and iii)*	2,000,000	–	100%	Tickets agent
Shenzhen Zunpeng Property Management Co., Ltd. 深圳市尊鵬物業管理有限公司 (formerly known as 深圳市鵬達航空服務有限公司Shenzhen Pengda Air Service Co., Ltd.) *(Notes i and iii)*	5,000,000	90%	10%	Property management
Zhengzhou Shenzhen Airlines Holidays Travel Service Co., Ltd. 鄭州市深航假期旅行社有限公司*(Notes i and iii)*	300,000	10%	90%	Travel services
Shenzhen Airlines Express Service Co., Ltd. 深圳市深航客貨運輸服務有限公司*(Notes i and iii)*	2,000,000	100%	–	Logistics
Zhengzhou Shenzhen Airlines Catering Co., Ltd. 鄭州深航航空食品有限公司*(Notes i and iii)*	3,000,000	80%	20%	Air catering
Shenzhen Kunpeng International Flight Academy 深圳鯤鵬國際飛行學校*(Notes i and iii)*	89,000,000	100%	–	Flight Academy
Huizhou Airport Management Co., Ltd. 惠州機場管理有限公司*(Notes i and iii)*	100,000,000	90%	–	Airport operator

Name of company	Issued and fully paid up/ registered capital *RMB*	Attributable equity interest *Direct*	*Indirect*	Principal activities
Shenzhen Airlines Investment Co., Ltd. 深圳市深航投資有限公司*(Notes i and iii)*	30,000,000	100%	–	Investment holding
Shenzhen Yuanzhouyuan Industrial & Trading Co., Ltd. 深圳源洲圓工貿有限公司*(Notes i and iii)*	1,000,000	67%	–	Trading
Shenzhen Airlines Media Co., Ltd. 深圳市深航傳媒有限公司 (formerly known as 深圳市企業管理顧問有限公司Shenzhen Enterprise Management Consulting Co,, Ltd.)*(Notes i and iii)*	100,000	100%	–	Advertising services
Shenzhen Airlines Property Hotel Management Co., Ltd. 深航物業酒店管理有限公司*(Notes i and iii)*	1,500,000	–	100%	Property management
Shenzhen Airlines Holidays Travel Service Co., Ltd. 深圳市深航假期旅行社有限公司*(Notes i and iii)*	300,000	–	51%	Travel services
Sanya Shenzhen Airlines Holidays Travel Service Co., Ltd. 三亞深航假期旅行社有限公司*(Notes i and iii)*	300,000	–	100%	Travel services
Shenzhen Airlines (H.K.) Travel Service Limited 深圳航空（香港）旅運有限公司	HKD500,000	–	100%	Travel services
Shenzhen Huiyou Network Technology Co., Ltd. 深圳滙遊網路科技有限公司*(Notes i and iii)*	300,000	–	51%	Travel web site operator
Kunming Airlines Co., Ltd. 昆明航空有限公司*(Notes i and iii)*	80,000,000	80%	–	Airline operations
Shenzhen Xiangyou Enterprise Management Consulting Co., Ltd. 深圳市翔友企業管理諮詢有限公司*(Notes i and iii)*	1,000,000	100%	–	Flight crew agency
Shenzhen Airlines Zunpeng Property Co., Ltd. 深圳市深航尊鵬置業有限公司*(Notes i and iii)*	8,000,000	100%	–	Property management
Shenzhen Airlines (Beijing) Hotels Co., Ltd. 深航（北京）酒店有限責任公司*(Notes i and iii)*	2,000,000	100%	–	Hotel management

Name of company	Issued and fully paid up/ registered capital	Attributable equity interest		Principal activities
	RMB	*Direct*	*Indirect*	
Wuyisan Shenzhen Airlines Holidays Travel Service Co., Ltd. 武夷山市深航假期旅行社有限公司*(Notes i and iii)*	300,000	–	100%	Travel services
Wuxi Shenzhen Airlines Holidays Travel Service Co., Ltd. 無錫市深航假期旅行社有限公司*(Notes i and iii)*	500,000	–	100%	Travel services
Henan Holidays Travel Service Co., Ltd. 河南省假日旅遊有限公司*(Notes i and iii)*	300,000	–	100%	Travel services
Flightcrew Resources International Limited 翔友國際有限公司	HKD10,000	100%	–	Flight crew agency

Notes:

(i) These entities are limited liability companies established in the PRC.

(ii) These entities are sino-foreign joint venture companies established in the PRC.

(iii) The English translation of the above companies name is for reference only. The official names of these Companies are in Chinese

C SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Shenzhen Airlines Group have been prepared in respect of any period subsequent to 31 December 2009.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

Management Discussion and Analysis of Shenzhen Airlines for the three years ended 31 December 2009

For the year ended 31 December 2009 ("Year 2009")

Business Review

In Year 2009, with the impact of financial crisis alleviating, total operating revenue of Shenzhen Airlines was RMB12,045 million, representing a growth of approximately 15% over 2008. In Year 2009, total operating expenses excluding impairment losses of Shenzhen Airlines was RMB11,099 million, representing a growth of approximately 6.7% over 2008; income tax expense was RMB92 million, representing an increase of tax expense of approximately RMB100 million over 2008. In Year 2009, net loss was about RMB869 million (2008: net profit of RMB73 million）.

For the year ended 31 December 2008 ("Year 2008")

Business Review

In Year 2008, total operating revenue of Shenzhen Airlines was RMB10,489 million, representing a growth of approximately 27% over 2007. In Year 2008, total operating expenses excluding impairment losses of Shenzhen Airlines was RMB10,406 million, representing a growth of approximately 38% over 2007; income tax credit was RMB9 million (2007: income tax expense of RMB179 million). In Year 2008, net profit was about RMB73 million (2007: net loss of RMB1,818 million).

For the year ended 31 December 2007 ("Year 2007")

Business Review

In Year 2007, total operating revenue of Shenzhen Airlines was RMB8,249 million, representing a growth of approximately 35.56% over 2006. In Year 2007, total operating expenses excluding impairment losses of Shenzhen Airlines was RMB7,549 million; income tax expense was RMB180 million, representing an increase of approximately RMB145 million over 2006. In Year 2007, net loss was RMB1,818 million (2006: net profit of RMB456 million).

Liquidity and Financial Resources

As at 31 December 2009, cash and cash equivalents of Shenzhen Airlines was RMB616 million, and were RMB266 million and RMB376 million as at 31 December 2008 and 31 December 2007, respectively.

As at 31 December 2009, the loan balance of Shenzhen Airlines was RMB16,700 million and were RMB12,254 million and RMB9,855 million, respectively in 2008 and 2007. The loans of Shenzhen Airlines were mainly mortgage loan for aircraft projects and loan for short-term liquidity.

In respect of future capital commitments and other financing requirements, Shenzhen Airlines had obtained banking facilities of RMB26,000 million from various banks in China as at 31 December 2009, of which approximately RMB14,600 million has been utilized. In 2009, Shenzhen Airlines had sufficient liquidity to satisfy the requirements in working capital and capital expenditure.

Capital Structure

As at 31 December 2009, total assets of Shenzhen Airlines amounted to RMB22,774 million and total liabilities amounted to RMB24,555 million, with shareholders' deficit of RMB1,781 million. In respect of the total liabilities, current liabilities amounted to RMB22,535 million, representing 91.77% of total liabilities, and non-current liabilities amounted to RMB2,020 million, representing 8.23% of total liabilities.

As at 31 December 2008, total liabilities of Shenzhen Airlines were RMB18,936 million, of which, current liabilities amounted to RMB8,823 million, representing 46.59% of total liabilities, and non-current liabilities amounted to RMB10,113 million, representing 53.41% of total liabilities.

As at 31 December 2007, total liabilities of Shenzhen Airlines were RMB13,731 million, of which, current liabilities amounted to RMB6,975 million, representing 50.80% of total liabilities; and non-current liabilities amounted to RMB6,756 million, representing 49.20% of total liabilities.

The principal financial instruments (except derivatives) of Shenzhen Airlines include bank loan and other borrowings, obligation under finance lease, cash and cash equivalents and pledged deposits. The purpose of these financial instruments is to finance the operation of Shenzhen Airlines. Shenzhen Airlines has other different financial assets and liabilities, including accounts receivables and accounts payables, both arising from business operation.

The airline business of Shenzhen Airlines is exposed to commercial risk, liquidity risk, price risk of jet fuel, foreign currency risk, interest rate risk and credit risk. The overall strategy for the risk management of Shenzhen Airlines is to mitigate the impact to its financial results arising from these fluctuations. Shenzhen Airlines also conduct derivative transactions, mainly including interest rate swap, for the purpose of controlling the interest rate risk arising from its business operation.

Significant Investments

In Years 2007, 2008 and 2009, Shenzhen Airlines introduced 12, 18 and 14 new aircrafts for its core passenger aviation business, respectively, among which 17 aircrafts were under operating leases, and 27 aircrafts were purchased for own use. As at 31 December 2009, the number of aircrafts of Shenzhen Airlines reached 84. The significant expansion of aircraft scale had not only provided more opportunities for opening more air freights and capturing more market share, but also meeting the increasing demand for passenger and cargo transportation in China.

Acquisitions and Disposals

In 2009, the 46% equity interests held in Asia United Business Aviation Ltd.（亞聯公務機有限公司）, an associated company of Shenzhen Airlines, was sold at RMB66 million, making a gain on disposal of RMB25.48 million.

Segment Information

The airline operation in the PRC is the sole business of Shenzhen Airlines and therefore it has only one business segment. This is consistent with the internal report provided to the management. Therefore, the change in accounting policy for segment reporting does not have any significant effect on the financial information of Shenzhen Airlines in 2009.

Employees and Remuneration Policy

As at 31 December 2009, 31 December 2008 and 31 December 2007, the employees of Shenzhen Airlines were 13,094, 12,762 and 9,411 with labor cost expenditure of RMB1,239 million, RMB1,061 million and RMB782 million, respectively. The remuneration of employees were determined based on 3P-M principles, namely by reference to market remuneration standard and the position of employee, ability of individual employee and performance. Shenzhen Airlines participates in various social insurances (including pension, medical, injury, unemployment and maternity) and launches enterprise annuity scheme for employees to elect and participate on a voluntary basis.

Pledge of Assets

As at 31 December 2009, Shenzhen Airlines pledged its aircrafts and flight simulators with a total net book value of approximately RMB15,626 million under certain bank loans and finance lease agreements. In addition, bank deposit of Shenzhen Airlines of approximately RMB1,741 million was pledged as security for operating leases and financial derivatives of Shenzhen Airlines.

As at 31 December 2008, Shenzhen Airlines pledged its aircrafts and flight simulators, with a total net book value of approximately RMB7,946 million under certain bank loans and finance lease agreements (as at 31 December 2007: RMB4,156 million). In addition, bank deposit of Shenzhen Airlines of approximately RMB269 million (as at 31 December 2007: RMB 457 million) was pledged as security for operating leases and financial derivatives of Shenzhen Airlines.

Future Investment Plan and Funding Arrangements

The amount of capital expenditure of Shenzhen Airlines in 2010 is expected to be approximately RMB5,780 million, of which about 90% is expected to be expenditure for purchase of aircrafts and aircraft engines, about 10% is expected to be expenditure for purchase of flight simulators, infrastructure construction, motor vehicles, informatization construction etc. The expenditure for the purchase of aircrafts and aircraft engines in 2010 is expected to be financed in full by long-term loan facility from banks. The remaining capital expenditure is expected to be financed by operating cash inflow and short-term working capital loans.

Gearing Ratio

The gearing ratios (calculated as total liabilities/total assets) of Shenzhen Airlines as at 31 December 2009, 31 December 2008 and 31 December 2007 were 107.82%, 105.31% and 107.67%, respectively.

Foreign Exchange Risk

As at 31 December 2009, total foreign currency interest-bearing borrowings of Shenzhen Airlines were RMB11,247 million; of which, loans equivalent to RMB11,171 million were denominated in US dollar. As at 31 December 2008, total foreign currency interest-bearing borrowings of Shenzhen Airlines were RMB8,459 million; of which, loans equivalent to RMB8,459 million were denominated in US dollar, and as at 31 December 2007, total foreign currency interest-bearing borrowings of Shenzhen Airlines were RMB6,587 million; of which, loans equivalent to RMB6,587 million were denominated in US dollar. In addition, Shenzhen Airlines also had sales income and expenses in foreign currencies. Shenzhen Airlines tries to minimize the interest rate and exchange rate fluctuation risks mainly by adjusting the interest rate structure of its borrowings and currencies composition structure and also through the use of financial derivatives.

Interest Rate Risk

The financial instruments of Shenzhen Airlines that are subject to market interest rate fluctuations are principally the floating interest-bearing long-term loans held by Shenzhen Airlines.

Shenzhen Airlines maintains an effective control on its costs through interest rate swap. According to such interest rate swap products, Shenzhen Airlines agreed to perform the transactions based on the difference calculated between fixed and floating interest rates of its nominal principal amount at a designated time period.

Contingent Liabilities

The contingent liabilities as at 31 December 2009 were as follows:

(a) Contingent liabilities due to outstanding litigations

1. A litigation claim was filed by a construction company in respect of the outstanding project payment due by Shenzhen Airlines. The judgment of the court of first instance had ruled that Shenzhen Airlines is required to compensate the project payment, default charges and all legal fees to the construction company for a total amount of RMB7,879,335. Shenzhen Airlines has appealed the decision and is in the process of preparing the legal materials. The appeal is currently in progress and the management of Shenzhen Airlines has not made provision in respect of the claim. According to the legal opinion, in the event of losing the case, the cash compensation by Shenzhen Airlines might be lower than the amount as ruled in the court of first instance.

2. A litigation claim was filed by an investment company in respect of the non-performance of a guarantee undertaking. The judgment of the court of first instance on 14 January 2010 had ruled that Shenzhen Airlines is required to pay RMB5,335,600 to the investment company together with interest. Shenzhen Airlines has filed an appeal to the court. As a result, no provision has been made for this claim as at 31 December 2009.

(b) External guarantee provided

Shenzhen Airlines has provided guarantees to banks in respect of the mortgage loans for staff housing and certain pilot trainees tuition fee. On 31 December 2009, these outstanding guaranteed amounts were RMB10,138,800 and RMB231,701,745, respectively (2008: RMB14,451,356 and RMB112,172,671).

As at 31 December 2009, Shenzhen Airlines provided a guarantee for Henan Airline, its joint venture, with a total guarantee amount of RMB50 million. The guarantee period is from 6 May 2009 to 19 February 2012.

Review and Prospects of Shenzhen Airlines

Shenzhen Airlines was established in November 1992 and is principally engaged in passenger, cargo and mail transportation aviation businesses. Since its first flight, Shenzhen Airlines was able to maintain a satisfactory growth trend. With its safety flights, excellent services, sound economic performance and effective management, Shenzhen Airlines becomes the fifth largest airline of the PRC. At present, Shenzhen Airlines operates over 200 domestic and international flights with nationwide coverage of branch companies and air bases, with diversified development in cargo transportation, industrial and commercial and leisure travelling businesses. By leveraging on the stable growing economic environment of the PRC as well as in the Pearl River Delta region, Shenzhen Airlines has maintained records for 16 years of safety travel since the first flight. At the same time, Shenzhen Airlines keeps on improving its corporate management standard and received several honours including "Shenzhen Mayor Quality Award", "International Five Star Diamond Award", "China's Most Valuable Brand" and "China's Top Ten Employer Brand".

In 2009, Shenzhen Airlines had an average number of registered aircrafts of 78.22 units, annual passengers throughput of 15.1093 million, cargo throughput of 195,300 tonnes and transportation income of RMB11,133 million. All operation indicators had maintained satisfactory double-digit growth rates. Shenzhen Airlines' major operating statistics for the past few years are as follows:

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Average number of registered aircrafts (units)	11.08	15.48	19.34	24.47	29.74	36.04	47.51	65.19	78.22
Passengers throughput (million/year)	1.5905	2.5706	3.5147	4.8369	5.7337	7.1257	9.5021	11.8295	15.1093
Cargo/Mail throughput (tonnes/year)	25,064	41,845	52,462	69,349	83,234	105,933	139,273	158,644	195,334
Transportation revenue (billion/year)	1.383	1.957	2.513	3.602	4.327	5.801	7.707	9.610	11.133

The 2010 Chinese government report states that it will continue to implement aggressive financial policy and appropriate relaxing monetary policy with keeping a GDP growth rate of 8% as its objective. At the 2010 National Civil Aviation Conference, the noble objective of setting up our country as a "powerful civil aviation nation" was put forth, and the civil aviation industry will exert its strategic influence to the social economic development of the country. With sound economic environment and industry development prospect, it has provided strong support for the strategic planning and development of Shenzhen Airlines. As the fifth largest civil aviation system, Shenzhen Airlines will leverage on the continuous sound economic development trend, the distinct advantage of the co-operation among Guangzhou, Hong Kong and Shenzhen and will firmly grasp the historic opportunities to build up its powerful civil aviation nation. Through on-going improvement of its management standard, innovative management thinking and approach, Shenzhen Airlines will develop aggressively and is optimistic in its future development.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma statement of assets and liabilities of the Enlarged Group which has been prepared based on the audited consolidated balance sheet of the Group as set out in the published annual report of the Group for the year ended 31 December 2009 after making pro forma adjustments as set out in Notes 2 and 3 below.

This unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effects of the Capital Injection, as if the Capital Injection had taken place on 31 December 2009. It has been prepared on the basis of the notes set out below and is consistent with the accounting policies adopted by the Group.

The unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Capital Injection been completed as at 31 December 2009 or any future date.

(a) Unaudited pro forma consolidated assets and liabilities of the Enlarged Group

		Pro forma adjustments		
	Audited consolidated assets and liabilities of the Group as at 31 December 2009	**Other adjustment**	**Other adjustment**	**Unaudited pro forma consolidated assets and liabilities of the Enlarged Group**
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*
	Note 1	*Note 2*	*Note 3*	
ASSETS				
Non-current assets				
Property, plant and equipment	2,214,359	–	–	2,214,359
Investment properties	44,443	–	–	44,443
Leasehold land, land use rights and other leased assets	670,262	–	–	670,262
Construction in progress	636,456	–	–	636,456
Intangible assets	22,463,694	–	–	22,463,694
Investments in associates	1,455,216	395,298	68,444	1,918,958
Investments in jointly controlled entities	300,350	–	–	300,350
Available-for-sale financial assets	142,366	–	(38,992)	103,374
Deferred income tax assets	45,923	–	–	45,923
Other non-current assets	53,247	–	–	53,247
	28,026,316	395,298	29,452	28,451,066

	Audited consolidated assets and liabilities of the Group as at 31 December 2009	Pro forma adjustments: Other adjustment	Pro forma adjustments: Other adjustment	Unaudited pro forma consolidated assets and liabilities of the Enlarged Group
	HKD'000	*HKD'000*	*HKD'000*	*HKD'000*
	Note 1	*Note 2*	*Note 3*	
Current assets				
Available-for-sale financial assets	2,311,475	–	–	2,311,475
Assets held for sale	14,528	–	–	14,528
Trade and other receivables	412,421	–	–	412,421
Restricted bank deposits	556,920	–	–	556,920
Cash and cash equivalents	1,126,402	–	–	1,126,402
	4,421,746	–	–	4,421,746
Total assets	32,448,062	395,298	29,452	32,872,812
LIABILITIES				
Non-current liabilities				
Borrowings	9,604,665	395,298	–	9,999,963
Derivative financial instruments	51,608	–	–	51,608
Provision for maintenance/ resurfacing obligations	829,180	–	–	829,180
Convertible bonds	1,426,402	–	–	1,426,402
Deferred income tax liabilities	1,684,619	–	7,363	1,691,982
Other non-current liabilities	9,087	–	–	9,087
	13,605,561	395,298	7,363	14,008,222
Current liabilities				
Trade and other payables	2,086,141	–	–	2,086,141
Income tax payable	172,718	–	–	172,718
Convertible bonds	1,776,430	–	–	1,776,430
Borrowings	2,084,829	–	–	2,084,829
Derivative financial instruments	2,693	–	–	2,693
	6,122,811	–	–	6,122,811
Total liabilities	19,728,372	395,298	7,363	20,131,033
Net assets	12,719,690	–	22,089	12,741,779

(b) Notes to unaudited pro forma financial information of the Enlarged Group

1. The amounts are extracted from the audited consolidated balance sheet of the Group as at 31 December 2009.

2. The adjustment represents injection of capital amounting to RMB347,981,000 (equivalent to HKD395,298,000), which will be financed by long-term bank borrowings.

3. Total Logistics, which is a wholly owned subsidiary of the Company, held 10% equity interest in Shenzhen Airlines previously, which was recognised as available-for-sale financial assets amounting to HKD38,992,000 as at 31 December 2009. Upon the completion of the Capital Injection, the percentage of interest Total Logistics hold in Shenzhen Airlines will increase to 25% and Shenzhen Airlines will become an associate of the Group. The investment cost in Shenzhen Airlines is measured as the sum of the fair value of the interest previously held plus the fair value of additional capital to be injected.

   The adjustment represents the remeasurement of the value of the interest in Shenzhen Airlines previously held as at 31 December 2009. The difference between the fair value and the carrying value of the interest previously held, amounting to HKD29,452,000, is treated as remeasurement gain and recognised in the income statement. Deferred tax is provided at a rate of 25% on the gain.

   The fair value of the interest in Shenzhen Airlines previously held and the fair value of identifiable assets and liabilities of Shenzhen Airlines are estimated by the directors of the Company with reference to the valuation report issued by Shanghai Orient Certified Appraisal Co., Ltd. At the date of completion, the fair value of identifiable assets of liabilities may be substantially different from the estimated fair value used in the preparation of this unaudited pro forma financial information. Accordingly, the final investment cost in Shenzhen Airlines, the remeasurement gain and related tax of interest previously held may be different from the amount as presented in this unaudited pro forma financial information.

4. For the purpose of preparing the unaudited pro forma financial information, translation of amounts in RMB into HKD has been made at the exchange rate of HKD1 = RMB0.8803, the closing rate as at 31 December 2009.

B. REPORT FROM THE REPORTING ACCOUNTANT

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Enlarged Group for the purpose of incorporation in this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF SHENZHEN INTERNATIONAL HOLDINGS LIMITED

We report on the unaudited pro forma financial information set out on pages 188 to 190 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix V of the circular dated 29 March 2010 (the "Circular") of Shenzhen International Holdings Limited (the "Company"), in connection with the proposed injection of capital to Shenzhen Airlines Limited (English translation of 深圳航空有限責任公司 for identification purpose) by Shenzhen International Total Logistics (Shenzhen) Co., Ltd., a wholly owned subsidiary of the Company (the "Capital Injection"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Capital Injection might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 190 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated assets and liabilities of the Group as at 31 December 2009 with the audited consolidated financial statements of the Group for the year ended 31 December 2009, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2009 or any future date.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 29 March 2010

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in ordinary shares of the Company

Name of Directors	Number of ordinary shares held	Capacity	Nature of interest	Approximate % of issued share capital of the Company
Li Jing Qi	20,000,000	Beneficial owner	Personal	0.14%
Liu Jun	19,000,000	Beneficial owner	Personal	0.13%

Long positions in underlying shares of the Company

Name of Directors	Number of unlisted share options (physically settled equity derivative) held	Capacity	Nature of interest	Approximate % of issued share capital of the Company
Guo Yuan	35,000,000	Beneficial owner	Personal	0.25%

The share options above granted to Mr. Guo Yuan were granted on 6 February 2007 and are exercisable from 6 February 2007 to 5 February 2012 at an exercise price of HK$0.532 per share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company was interested in the Shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

3. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

4. INTERESTS IN CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors was materially interested in any contracts or arrangement entered into by any member of the Enlarged Group which is subsisting at the date of this circular and which is significant in relation to the business of the Enlarged Group.

None of the Directors has any direct or indirect interest in any assets which have been, since 31 December 2009, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by, or leased to any member of the Enlarged Group.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, the date to which the latest published audited consolidated financial statements of the Group have been made up.

6. LITIGATION

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or is proposing to enter, into any service contract with the Enlarged Group which is not expiring or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

8. EXPERTS

(a) The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	**Qualification**
PricewaterhouseCoopers ("PwC")	certified public accountants
KPMG	certified public accountants

(b) As at the Latest Practicable Date, each of PwC and KPMG had no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

(c) Each of PwC and KPMG has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its report and references to its name in the form and context in which it is included.

(d) As at the Latest Practicable Date, each of PwC and KPMG was not interested, directly or indirectly, in any assets which had since 31 December 2009 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group.

(e) The accountant's report of Shenzhen Airlines is set out in Appendix III to this circular.

(f) The unaudited pro forma financial information of the Enlarged Group is set out in Appendix V to this circular.

9. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and are, or may be, material:

(a) the Capital Increase Agreement;

(b) a provisional sale and purchase agreement dated 11 February 2010 entered into between Shenzhen International Holdings (SZ) Limited (深國際控股(深圳)有限公司) (formerly known as Yiwan Industry Development (Shenzhen) Co., Ltd. (怡萬實業發展(深圳)有限公司)) ("Shenzhen International SZ") as the purchaser and Shenzhen Nongke Real Estate Development Co., Ltd. (深圳市農科房地產開發有限公司) as the vendor in relation to the acquisition of an office premises comprising 11 units on 10th Floor of 時代科技大廈 (Times Technology Building) located in Futian District, Shenzhen, the PRC for a consideration of RMB54,963,587;

(c) a subscription agreement dated 25 November 2009 entered into between Shenzhen Expressway Company Limited ("Shenzhen Expressway") with Guangdong United Electronic Toll Collection Inc. (廣東聯合電子收費股份有限公司), pursuant to which Shenzhen Expressway agreed to subscribe for 28,500,000 new shares in Guangdong United Electronic Toll Collection Inc. for a consideration of RMB28,500,000;

(d) a contract dated 24 November 2009 entered into between Nanjing Xiba Wharf Co. Ltd. (南京西壩碼頭有限公司) (a non-wholly owned subsidiary of the Company) ("Nanjing Xiba Wharf Company") and Nanjing Port Engineering Company (南京港港務工程公司), pursuant to which Nanjing Port Engineering Company will provide electrical and mechanical installation work at the terminal under construction and to be operated by Nanjing Xiba Wharf Company at Nanjing Xiba Port for a consideration of RMB4,320,049.60;

(e) a master agreement dated 6 November 2009 entered into between Shenzhen Expressway and Shenzhen Investment Holdings Company Limited (深圳市投資控股有限公司) ("SIHCL"), pursuant to which Shenzhen Expressway was entrusted by SIHCL to manage a project company; the project company is a wholly-owned subsidiary of SIHCL and is principally engaged in the investment, construction, operation, maintenance and management of Guangshen Coastal Expressway (Shenzhen Section);

(f) a capital injection agreement dated 29 September 2009 entered into between Xin Tong Chan Development (Shenzhen) Co., Ltd.（新通產實業開發（深圳）有限公司）(a wholly-owned subsidiary of the Company) ("XTC") and Shenzhen Capital Group Co., Ltd（深圳市創新投資集團有限公司）(a company in which XTC owns a 3.125% equity interest), pursuant to which XTC agreed to inject an additional capital of RMB12,500,000 into Shenzhen Capital Group Co., Ltd;

(g) an agreement dated 29 September 2009 entered into between Shenzhen Expressway and the Shenzhen Branch of the Shanghai Pudong Development Bank（上海浦東發展銀行有限公司深圳分行), in relation to the fix deposit in the sum of RMB450,000,000 for a period of 1 year as a pledge for the principal and interest of a bank loan to Shenzhen Expressway in the sum of not less than RMB510,000,000;

(h) an agreement dated 1 June 2009 entered into among Shenzhen Expressway, Intersafe Investments Limited, Road King Infrastructure Limited (as guarantor), pursuant to which Shenzhen Expressway has agreed to acquire from Intersafe Investments Limited a 45% equity interest in Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited（深圳機荷高速公路東段有限公司）and related shareholder's loan for a total consideration of RMB1,068,800,000;

(i) the agreement dated 29 May 2009 entered into between the Shenzhen Branch of Industrial and Commercial Bank of China（中國工商銀行股份有限公司深圳市分行）and Shenzhen Expressway, pursuant to which Shenzhen Expressway agreed to charge 40% of its interests in Shenzhen QingLong Expressway Co., Ltd（深圳清龍高速公路有限公司）to the aforesaid bank as security for its RMB1,500,000,000 loan to Shenzhen Expressway. This agreement was entered into between the parties to replace the agreement as mentioned in paragraph (m) below;

(j) the purchase agreement dated 16 March 2009 entered into between Nanjing Xiba Wharf Company and Nanjing Port Machinery Plant（南京港口機械廠）, pursuant to which, Nanjing Xiba Wharf Company acquired a shiploader from Nanjing Port Machinery Plant at a consideration of RMB8,580,000;

(k) the pre-incorporation expenditure agreement dated 11 December 2008 entered into between Nanjing Xiba Wharf Company and Nanjing Chemical Industry Park Co., Ltd（南京化學工業園有限公司）("Nanjing Industry Park Co."), pursuant to which Nanjing Xiba Wharf Company agreed to reimburse Nanjing Industry Park Co. all the fees and charges under various contracts that Nanjing Industry Park Co. had entered into for the project of Nanjing Xiba Port before the incorporation of Nanjing Industry Park Co.. The total contract sum under the various contracts as mentioned above and the miscellaneous expenses which shall be borne by Nanjing Xiba Wharf Company amounted to RMB4,273,417;

(l) the loan agreement dated 31 July 2008 entered into by the Company and a syndicate of banks relating to a HK$1,340,000,000 term loan facility;

(m) the agreement dated 11 July 2008 entered into between the Shenzhen Branch of Agricultural Bank of China (中國農業銀行深圳市分行) and Shenzhen Expressway, pursuant to which Shenzhen Expressway agreed to charge 47.3% of its toll collection rights of Nanguang Expressway to the aforesaid bank as counter-guarantee for the unconditional and irrevocable joint-liability guarantee provided by the aforesaid bank for the redemption of the convertible corporate bonds, in which bonds and subscription warrants are tradable separately, in the aggregate amount of RMB1,500,000,000 upon maturity;

(n) the agreement dated 8 July 2008 entered into between the Shenzhen Branch of Industrial and Commercial Bank of China (中國工商銀行股份有限公司深圳市分行) and Shenzhen Expressway, pursuant to which Shenzhen Expressway agreed to charge 52.7% of its toll collection rights of Nanguang Expressway to the aforesaid bank as security for its RMB1,500,000,000 loan to Shenzhen Expressway;

(o) the agreement dated 24 June 2008 entered into between the Shenzhen Longhua Branch of Bank of China (中國銀行股份有限公司深圳龍華支行) and Shenzhen Expressway, pursuant to which Shenzhen Expressway agreed to charge the one-year-fixed-term deposit of RMB116,000,000 as security for the HK$133,000,000 loan made by the aforesaid bank to Shenzhen Expressway and the accrued interests;

(p) a framework agreement dated 22 April 2008 entered into between Shenzhen Nanyou (Group) Holdings Limited (深圳市南油(集團)有限公司) ("Nanyou Group"), Shenzhen International SZ, Shenzhen International Western Logistics Co. Ltd (深圳市深國際西部物流有限公司) (formerly known as Shenzhen Western Logistics Co., Ltd. (深圳市西部物流有限公司)) ("Shenzhen Western Logistics") and the Company, pursuant to which (i) Shenzhen International SZ agreed to acquire a 40% equity interest in Shenzhen Western Logistics from Nanyou Group pursuant to the terms and conditions of the Acquisition Agreement (as defined below); and (ii) Shenzhen Western Logisitics agreed to transfer its entire 35% equity interests in 深圳市平方汽車園區有限公 司 (Grand Autopark Company Limited) ("Grand Autopark") to Nanyou Group pursuant to the terms and conditions of the Disposal Agreement (as defined below);

(q) an agreement dated 22 April 2008 entered into between Nanyou Group and Shenzhen International SZ, pursuant to which Shenzhen International SZ agreed to acquire a 40% equity interest in Shenzhen Western Logistics from Nanyou Group at a consideration of RMB349,846,300 (the "Acquisition Agreement"); and

(r) an agreement dated 22 April 2008 entered into between Shenzhen Western Logistics and Nanyou Group, pursuant to which Shenzhen Western Logistics agreed to transfer its entire 35% equity interests in Grand Autopark to Nanyou Group at a consideration of RMB468,140,900 (the "Disposal Agreement").

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours of the Company at the principal place of business of the Company at Rooms 2206-2208, 22nd Floor, Greenfield Tower, Concordia Plaza, No.1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong up to and including the date of the SGM:

(a) the Capital Increase Agreement;

(b) the memorandum of association and Bye-Laws of the Company;

(c) the audited financial statements of the Group for the two years ended 31 December 2008 and 2009;

(d) the letters of consent from each of PwC and KPMG;

(e) the accountant's report of Shenzhen Airlines, the text of which is set out in Appendix III to this circular;

(f) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V to this circular;

(g) the material contracts referred to in this Appendix; and

(h) all circulars issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which have been issued since the date of the latest published audited financial statements (i.e. 31 December 2009) of the Company.

11. MISCELLANEOUS

(a) The company secretary of the Company is Ms. Tam Mei Mei and she is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company is situated at Rooms 2206-2208, 22nd Floor, Greenfield Tower, Concordia Plaza, No.1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(d) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

Shenzhen International Holdings Limited
深圳國際控股有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 00152)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of Shenzhen International Holdings Limited (the "**Company**") will be held at Rooms 2206-2208, 22nd Floor, Greenfield Tower, Concordia Plaza, No.1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong on Friday, 16 April 2010 at 11:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

THAT:

(a) the entering into of the capital increase agreement dated 21 March 2010 (the "**Agreement**") (a copy of which, signed by the Chairman of the meeting for the purpose of identification, has been produced to the meeting marked "A") by Shenzhen International Total Logistics (Shenzhen) Co., Ltd. (深國際全程物流(深圳)有限公司) ("**Total Logistics**"), a company established under the laws of the PRC and a wholly-owned subsidiary of the Company, Air China Limited (中國國際航空股份有限公司) and Shenzhen Huirun Investment Co. Ltd. (深圳市匯潤投資有限公司) in relation to the capital contribution totalling RMB1,030,125,000 to Shenzhen Airlines Limited (深圳航空有限責任公司) ("**Shenzhen Airlines**") and the contribution by Total Logistics of RMB347,981,250 to subscribe for an additional registered capital of RMB173,125,000 in Shenzhen Airlines, and the transactions contemplated thereunder be hereby approved, confirmed and ratified; and

(b) the board of directors of the Company (the "**Board**") be and is hereby authorised to do all such acts and things and execute all such documents as it considers necessary or expedient or desirable in connection with, or to give effect to, the Agreement and to implement the transactions contemplated thereunder and to agree to such variations, amendments or waivers of matters relating thereto as are, in the opinion of the Board, in the interest of the Company.

By Order of the Board
Shenzhen International Holdings Limited
Guo Yuan
Chairman

Hong Kong, 29 March 2010

* *For identification purpose only*

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.

2. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him in accordance with the Company's Bye-Laws. A proxy need not be a member of the Company but must be present in person to represent the member.

3. To be valid, a form of proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited at 26th Floor Tesbury Centre, 28 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or any adjournment thereof (as the case may be) should they so wish, and in such event, the instrument appointing a proxy shall be revoked.

5. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.