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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**

### **The Capital Increase Agreement**

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 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. 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.

### **Reasons and Benefits for the Capital Injection**

Amidst the revival of the global economy and the continuous growth of economy of the PRC, the domestic air transportation industry in the PRC 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. 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.

### **Listing Rules Implications**

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 a general meeting. A circular containing, among other things, details of the Capital Injection, financial information of Shenzhen Airlines and a notice convening the Special General Meeting will be despatched to the Shareholders as soon as practicable.

## **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, and as at the date of this announcement, 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 also been designated by the court to take responsibility of the winding up affairs of Huirun.

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).

### **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 was determined by the Company after arm's length negotiations with 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.

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:

Equity holders	Before Completion		After Completion	
	Amount of registered and paid up capital <i>(in RMB)</i>	Percentage	Amount of registered and paid up capital <i>(in RMB)</i>	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 the PRC Accounting Standards, the net loss of Shenzhen Airlines for the year ended 31 December 2008 before and after taxation were approximately RMB74.57 million and RMB31.26 million, respectively. The net loss of Shenzhen Airlines for the year ended 31 December 2009 before and after taxation were approximately RMB769.21 million and RMB863.68 million, respectively. As at 31 December 2009, Shenzhen Airlines had a shareholders' deficit of approximately RMB2,067 million.

## **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 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.

## **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. 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(s) to be proposed at the Special General Meeting for the approval of the Capital Injection and the transactions contemplated under the Capital Increase Agreement.

A circular containing among other things, details of the Capital Injection, financial information of Shenzhen Airlines and a notice convening the Special General Meeting will be despatched to the Shareholders as soon as practicable.

## **DEFINITIONS**

In this announcement, the following expressions shall have the following meanings 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

“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
“Group”	the Company and its subsidiaries
“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 date of this announcement, 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
“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 announcement only, Hong Kong, Macau and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholders of the Company
“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
“Special General Meeting”	the special general meeting to be convened to approve the Capital Injection and the transactions contemplated under the Capital Increase Agreement

“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, a wholly-owned subsidiary of the Company.

By order of the Board  
**Shenzhen International Holdings Limited**  
**Guo Yuan**  
*Chairman*

Hong Kong, 21 March 2010

*As at the date of this announcement, the Board consists of Messrs. Guo Yuan, Li Jing Qi, Liu Jun and Yang Hai as executive directors, Messrs. To Chi Keung, Simon and Wang Dao Hai as non-executive directors and Messrs. Leung Ming Yuen, Simon, Ding Xun and Nip Yun Wing as independent non-executive directors.*

*\* For identification purpose only*