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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
ACQUISITION OF 24% EQUITY INTEREST IN SHENZHEN AIRLINES

A notice convening a special general meeting of Shenzhen International Holdings Limited 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, 10 June 2011 at 11:00 a.m. or any adjournment thereof is set out on pages N-1 to N-2 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.

24 May 2011

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DEFINITIONS

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

“Acquisition”	the acquisition of 24% equity interest in Shenzhen Airlines by Total Logistics pursuant to the Acquisition Agreement
“Acquisition Agreement”	the agreement relating to the acquisition of 24% equity interest in Shenzhen Airlines owned by Huirun dated 7 May 2011 entered into between Total Logistics and Huirun
“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
“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 a capital increase agreement dated 21 March 2010, details of which are contained in the Company’s announcement dated 21 March 2010 and circular dated 29 March 2010
“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 Acquisition Agreement
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group as enlarged by the increase in 24% 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, Huirun is under receivership and on 24 January 2011, the Shenzhen Intermediate People’s Court declared Huirun bankrupt

DEFINITIONS

“Latest Practicable Date”	20 May 2011, 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, 10 June 2011 at 11:00 a.m. to consider and, if thought fit, to approve the Acquisition and the transactions contemplated under the Acquisition 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, 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.

LETTER FROM THE BOARD



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

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Non-executive Director:

Wang Dao Hai

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

Independent Non-executive Directors:

Leung Ming Yuen, Simon

Ding Xun

Nip Yun Wing

24 May 2011

To the Shareholders

Dear Sirs or Madams,

MAJOR TRANSACTION

ACQUISITION OF 24% EQUITY INTEREST IN SHENZHEN AIRLINES

INTRODUCTION

Reference is made to the announcement issued by the Company in relation to the acquisition of 24% equity interests in Shenzhen Airlines dated 8 May 2011.

On 7 May 2011, the Company, through its wholly-owned subsidiary Total Logistics, entered into the Acquisition Agreement with Huirun (acting through its receiver), pursuant to which Total Logistics will acquire 24% equity interest in Shenzhen Airlines from Huirun for a consideration of RMB788,632,500 (equivalent to approximately HK\$943,340,300). Upon completion of such acquisition, Total Logistics will increase its equity interest in Shenzhen Airlines from 25% to 49%, and Shenzhen Airlines will remain as an associate of the Company.

LETTER FROM THE BOARD

As the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition exceed 25% but are less than 100%, the entering into of the Acquisition Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

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

THE ACQUISITION AGREEMENT

Date

7 May 2011

Parties Involved

- (1) Total Logistics, which engages in the provision of total logistics and transportation ancillary services;
- (2) Huirun, a company which is under receivership and on 24 January 2011, the Shenzhen Intermediate People's Court declared Huirun bankrupt. Prior to the liquidation, the principal business activity of Huirun was industrial investments.

In accordance with the resolution "The proposal for disposal of the 24% equity interest in Shenzhen Airlines owned by Shenzhen Huirun Investment Co. Ltd." (《深圳市匯潤投資有限公司持有深航24%股權處置方案》) passed at the creditors' meeting of Huirun's bankruptcy case and relevant legal procedures, Huirun and Total Logistics entered into the Acquisition Agreement.

Save for Huirun's 24% interest in Shenzhen Airlines, the Company confirms that, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Huirun and its ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

Proposed Acquisition and Consideration

Pursuant to the Acquisition Agreement, Total Logistics will acquire 24% equity interest in Shenzhen Airlines from Huirun (acting through its receiver) on an as-is basis for a consideration of RMB788,632,500 (equivalent to approximately HK\$943,340,300). The Group intends to fund the Acquisition by internal resources.

The cash payments to be made by Total Logistics shall be as follows:

- (i) Within 3 business days from the date of the Acquisition Agreement, 20% prepayment in the amount of RMB157,726,500 (equivalent to approximately HK\$188,668,100). Save for a breach of contract by Total Logistics, such prepayment is refundable (together with interest) in the event the Acquisition is not approved by Shareholders within 60 days from date of the Acquisition Agreement (or such later date as may be agreed between the parties).
- (ii) Within 3 business days from the date of Shareholders' approval of the Acquisition Agreement and the transactions contemplated thereunder, RMB552,042,750 (equivalent to approximately HK\$660,338,200), representing 70% of the total consideration for the Acquisition.

LETTER FROM THE BOARD

- (iii) Within 3 business days from the date when Total Logistics is registered with the relevant PRC authority as the equity holder of such 24% equity interest, RMB78,863,250 (equivalent to approximately HK\$94,334,000), representing the remaining 10% of the total consideration together with ancillary tax and expenses agreed to be borne by Total Logistics.

In the event Huirun breaches the terms of the Acquisition Agreement, Huirun shall repay Total Logistics twice the amount of the 20% prepayment referred to above and to the extent such amount is less than the direct and indirect losses suffered by Total Logistics, Huirun shall indemnify Total Logistics the amount of such shortfall.

The consideration of the Acquisition was determined between the Company and Huirun (acting through its receiver) after arm's length negotiations. In determining the total consideration of the Acquisition, the Company has taken into account, amongst other things, the significant reduction of shareholders' deficit in the year 2010 (RMB1,782 million deficit for the year ended 31 December 2009 to RMB91.72 million deficit for the year ended 31 December 2010) as well as the turnaround of profitability of Shenzhen Airlines over the last two years (from net loss of RMB869 million for the year ended 31 December 2009 to net profit of RMB747 million for the year ended 31 December 2010). Since completion of the Capital Injection on 19 April 2010, Shenzhen Airlines contributed a profit of HK\$143 million to the Group for the period ended 31 December 2010.

Changes in the equity interests in Shenzhen Airlines before and after the Completion are summarised as follows:

Equity holders	Before Completion		After Completion	
	Amount of registered and paid up capital (in RMB)	Percentage	Amount of registered and paid up capital (in RMB)	Percentage
Total Logistics	203,125,000	25%	398,125,000	49%
Air China	414,375,000	51%	414,375,000	51%
Huirun	195,000,000	24%	0	0%
Total	<u>812,500,000</u>	<u>100%</u>	<u>812,500,000</u>	<u>100%</u>

Upon Completion, Total Logistics will increase its equity interest in Shenzhen Airlines from 25% to 49% and Shenzhen Airlines will remain as an associate of the Company.

Conditions

The transactions contemplated under the Acquisition Agreement are conditional upon the passing of the resolution proposed at the Shareholders' meeting to approve the Acquisition.

When the Shareholders' resolution approving the Acquisition Agreement and the transactions thereunder is passed, the Acquisition Agreement becomes effective and Total Logistics shall share the profits, risks and losses of the 24% equity interest of Shenzhen Airlines.

LETTER FROM THE BOARD

Termination

The Acquisition Agreement will not become effective if Shareholders' approval for the Acquisition Agreement and the transaction contemplated thereunder are not obtained within 60 days from the date of the Acquisition Agreement (or such later date as may be agreed between the parties). Further, if the applicable regulatory consents or amendment of business registration in connection with the acquisition of the 24% equity interest in Shenzhen Airlines could not be obtained or completed due to State policies of the PRC or other administrative procedural reasons, the Acquisition Agreement shall terminate and Huirun shall within 3 business days from receiving notice of the same from Total Logistics refund all consideration payments received from Total Logistics (together with interest).

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 Hong Kong Financial Reporting Standards, the net profit of Shenzhen Airlines for the year ended 31 December 2010 before and after taxation were approximately RMB907.79 million (equivalent to approximately HK\$1,085.87 million) and RMB747.00 million (equivalent to approximately HK\$893.54 million), respectively. The net loss of Shenzhen Airlines for the year ended 31 December 2009 before and after taxation were approximately RMB776.32 million (equivalent to approximately HK\$928.61 million) and RMB868.64 million (equivalent to approximately HK\$1,039.04 million), respectively. As at 31 December 2010, Shenzhen Airlines had a shareholders' deficit of RMB91.72 million (equivalent to approximately HK\$109.71 million). According to a valuation carried out by an independent valuer (which was commissioned solely by the receiver of Huirun), the net asset value of Shenzhen Airlines as at 31 December 2010 amounted to approximately RMB3,286 million (equivalent to approximately HK\$3,930.6 million).

Shenzhen Airlines had sound core business and earnings. The loss incurred by Shenzhen Airlines for the year ended 31 December 2009 was due to impairment losses not related to its core business.

INFORMATION ON THE GROUP

The Group is principally engaged in the investment, construction and operation of logistic infrastructure facilities, as well as providing various value-added logistic services to customers leveraging its infrastructure facilities.

REASONS AND BENEFITS FOR THE ACQUISITION

Driven by continuing domestic economic growth, together with an increase in PRC residents' consumption and acceleration in the urbanisation of the PRC, the market demand for domestic air transportation continued to grow, contributing to a sound operating environment and thereby good operating results of Shenzhen Airlines. During the period from 19 April 2010 (the date of completion of the Capital Injection pursuant to which Total Logistics increased its equity interest in Shenzhen Airlines to 25%) to 31 December 2010, Shenzhen Airlines contributed a profit of HK\$143 million to the Group.

The Directors consider that the Acquisition presents a valuable investment opportunity to the Group to further increase its stake in Shenzhen Airlines and believe that such opportunity will further enhance Shareholders' return.

LETTER FROM THE BOARD

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

FINANCIAL EFFECTS OF THE ACQUISITION

Effects on assets and liabilities

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, had the Acquisition been completed on 31 December 2010, the unaudited pro forma total assets of the Enlarged Group would be approximately HK\$36,796,394,000 and the unaudited pro forma total liabilities of the Enlarged Group would be approximately HK\$19,772,869,000 as at 31 December 2010.

Effect on earnings

Upon Completion, Total Logistics will increase its equity interest in Shenzhen Airlines from 25% to 49% and Shenzhen Airlines will remain as an associate of the Company. The Group recorded an audited consolidated net profit attributable to equity holders of the Company of approximately HK\$1,280 million for the year ended 31 December 2010. According to the accountant's report of Shenzhen Airlines as set out in Appendix II to this circular, the audited consolidated results of Shenzhen Airlines for the years ended 31 December 2008, 2009 and 2010 were profit of RMB73 million, loss of RMB869 million and profit of RMB747 million, respectively. Given the positive future prospect of Shenzhen Airlines (for details please refer to the paragraph headed "Reasons and Benefits for the Acquisition" above and "Review and Prospects of Shenzhen Airlines" in Appendix III), the Directors believe that Shenzhen Airlines will derive positive earnings to the Group.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Acquisition exceed 25% but are below 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules. As no Shareholder has any material interest in the Acquisition 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 SGM for the approval of the Acquisition and the transactions contemplated under the Acquisition Agreement.

SGM

The SGM will be convened to consider and, if thought fit, to approve the Acquisition and the transactions contemplated under the Acquisition Agreement. A notice convening the SGM is set out on pages N-1 to N-2 of this circular. Voting at the SGM will be taken on a poll.

As no Shareholder has any material interest in the Acquisition 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 Acquisition and the transactions contemplated under the Acquisition Agreement.

LETTER FROM THE BOARD

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 Acquisition and the transactions contemplated under the Acquisition Agreement are on normal commercial terms and are fair and reasonable, and the entering into of the Acquisition 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 Acquisition and the transactions contemplated under the Acquisition 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. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for (i) the year ended 31 December 2010 and 31 December 2009 are disclosed in the annual report of the Company for the year ended 31 December 2010 from pages 70 to 148; (ii) the year ended 31 December 2008 is disclosed in the annual report of the Company for the year ended 31 December 2008 from pages 78 to 206, all of which have been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.szihl.com>).

2. FINANCIAL AND TRADING PROSPECTS

The logistic business of the Group has good growth potential. Given the high intrinsic value of the infrastructure resources including the land currently owned by the Group, the extent of efforts to be put in development and innovation on business model in the future will be the keys to exploit these values. The Group will keep in pace with market demand and continues to step up the investment in and development of the logistic segment, accelerating research and modifying business models to facilitate the integration and optimisation of resources, with a view to enabling the logistics operations to maintain a rapid increase in profits. The toll road business of the Group possesses stable income and earnings and adequate cash flow. As the new projects gradually mature in recent years, it is expected that the toll road business will have steady growth in the coming years.

Looking towards 2011, the Group will capitalise on opportunities to step up the investment in new projects, quicken the pace of development of the existing projects, enhance profitability and service standards, integrate resources and enhance their intrinsic value as well as further improve internal management standards. Moreover, the Group will continue to strengthen its communication with different sectors in order to make its initiatives more positive and reasonable. As such, the Group expects to be able to access various resources required for the development of the Group in an opportune manner.

3. INDEBTEDNESS OF THE GROUP

At the close of business on 31 March 2011, being the latest practicable date for the purpose of this indebtedness statement, the Group had the following indebtedness totalling approximately HK\$14,349,120,000:

- (1) secured non-current bank borrowings of approximately HK\$5,506,136,000, which were secured by the toll collection rights of Qinglian Project as to HK\$4,505,541,000, the Group's 40% equity interest of Shenzhen Qinglong Expressway Company Limited, an associate of the Group, as to HK\$790,256,000 and the Group's 55% equity interest in Jade Emperor Limited, a subsidiary of the Company, as to HK\$210,339,000;
- (2) unsecured bank borrowings of approximately HK\$4,786,062,000;
- (3) secured current bank borrowings of approximately HK\$659,537,000 which was secured jointly by a one-year fixed deposit of HK\$326,797,000 and the Group's 55% equity interest in Jade Emperor Limited, a subsidiary of the Company;
- (4) unsecured loans from a minority shareholder of a subsidiary of the Company with an amount of HK\$43,401,000;

- (5) secured convertible bonds (in which bonds and subscription warrants are tradable separately) for a term of 6 years from 9 October 2007 with carrying value of RMB1,332,050,000 (equivalent to HK\$1,582,947,000) and a nominal value of RMB1,500,000,000 (equivalent to HK\$1,782,531,000) which were guaranteed by Agricultural Bank of China, Shenzhen Branch with a pledge of the 47.3% toll collection rights of Nanguang Expressway with Shenzhen Expressway Company Limited (“Shenzhen Expressway”), a subsidiary of the Company, as counter-guarantee;
- (6) secured corporate bonds with carrying value of approximately RMB792,428,000 (equivalent to HK\$941,685,000) and a nominal value of RMB800,000,000 (equivalent to HK\$950,683,000) for a term of 15 years from August 2007 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 (“Meiguan Company”) as counter-guarantee; and
- (7) unsecured medium-term notes with carrying value of approximately RMB697,900,000 (equivalent to HK\$829,352,000) and a nominal value of RMB700,000,000 (equivalent to HK\$831,848,000) for a term of 3 years and bear floating rate interest.

At the close of business on 31 March 2011, contingent liabilities of the Group comprised the following:

- (1) During 2007, Shenzhen Expressway entered into two project construction management contracts with Bureau of Communications of Shenzhen Municipality (representing Shenzhen Municipal Government). Shenzhen Expressway was entrusted to manage the construction of the main route of Nanping (Phase II) and the renovation project of the Shenyun-North Ring Interchange in Shenzhen. Pursuant to the terms of the relevant contracts, Shenzhen Expressway had arranged with banks to issue irrevocable performance guarantees on its behalf to Bureau of Communications of Shenzhen Municipality totalling RMB50,000,000 (equivalent to HK\$59,418,000) and RMB1,000,000 (equivalent to HK\$1,188,000) 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 Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited were collectively demanded by the local tax bureau of Shenzhen in the notice to pay PRC enterprise income tax back taxes amounting to approximately RMB60,472,000 (equivalent to HK\$71,862,000). The amount attributable to the Group is RMB57,986,000 (equivalent to HK\$68,908,000) (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 local tax bureau of Shenzhen for a reassessment of the computation basis of the Back Taxes, waiver of the related penalty, as well as a deferral of the payment. According to certain subsequent discussions with the Futian Tax Bureau, the Group had recognised a provision for the corporate income tax amounting to RMB39,236,000 (equivalent to HK\$46,626,000) as at 31 December 2010.

As at the date of 31 March 2011, no further progress has been made, the amount of any related penalty could not be ascertained with reasonably certainty. Thus no change has been made to the provision for the enterprise income tax liabilities and no provision had been made for the potential penalty. The tax payable of RMB39,236,000 (equivalent to HK\$46,626,000) was not paid out as at 31 March 2011.

- (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 31 March 2011, the arbitration process was still in progress. According to the relevant provisions in the contracts, the Directors concluded that the result of the arbitration would not lead to any significant adverse impact on the Group’s operating results.
- (4) 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 31 March 2011, the arbitration has been revoked, and Shenzhen Expressway is still negotiating with Great Wall on the quantities and unit price of the project. The Directors considered that the outcome of the negotiation will have no significant adverse impact on the Group’s operating results.

For the purpose of preparing the indebtedness of the Group, translation of amounts in RMB into HK\$ has been made at the exchange rate of HK\$1 = RMB0.8415, the closing rate as at 31 March 2011.

Save as aforesaid, and apart from the intra-group liabilities, the Group did not have any outstanding loans, overdrafts, mortgages, charges, debentures 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 31 March 2011.

4. WORKING CAPITAL SUFFICIENCY OF THE GROUP

Taking into account the expected completion of the Acquisition and 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 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 Shenzhen Airlines' reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



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

24 May 2011

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 2008, 2009 and 2010 (the “Relevant Period”), and the consolidated balance sheets of Shenzhen Airlines Group and the balance sheets of Shenzhen Airlines as at 31 December 2008, 2009 and 2010, together with the explanatory notes thereto (the “Financial Information”), for inclusion in the circular of Shenzhen International Holdings Limited (the “Company”) dated 24 May 2011 (the “Circular”) in connection with the proposed acquisition of an additional 24% equity interest of Shenzhen Airlines by Shenzhen International Total Logistics (Shenzhen) Co., Ltd. (“Total Logistics”), a wholly owned subsidiary of the Company, pursuant to an agreement dated 7 May 2011 entered into between Total Logistics and Shenzhen Huirun Investment Co., Ltd. (“Acquisition 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 year ended 31 December 2008 and KPMG Huazhen for the years ended 31 December 2009 and 2010.

For the purpose of this report, the directors of Shenzhen Airlines have prepared the consolidated financial statements of Shenzhen Airlines Group for the Relevant Period (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 2008, 2009 and 2010 in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of Shenzhen Airlines 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 of the Financial Information that gives a true and fair presentation 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, and for such internal control as the directors of Shenzhen Airlines determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

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 2008, 2009 and 2010.

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 2008, 2009 and 2010, Shenzhen Airlines Group had net current liabilities of RMB6,109,883,000, RMB18,853,530,000 and RMB9,053,352,000 and net liabilities of RMB955,971,000, RMB1,781,606,000 and RMB91,717,000 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 the Shenzhen Airlines Group's operating costs and meet its obligations as and when they 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) to the Financial Information, the gross carrying amount of Shenzhen Airlines' investment in an associate, 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, 2009 and 2010 was RMB27,032,000. The gross receivables due from SZ Property and its subsidiaries as at December 2008, 2009 and 2010 were RMB742,822,000, RMB1,049,672,000 and RMB1,050,819,000 respectively. On 30 November 2009, police authorities in the People's Republic of China (the "PRC police authorities") seized all the books and records, minutes of 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, the directors of Shenzhen Airlines were unable to estimate the effects of the matters described above but considered that the recoverability of the investment in and receivables from SZ Property and its subsidiaries to be remote. As such, impairment loss had been recorded against the full amount of investment in and the receivables due from SZ Property and its subsidiaries as at 31 December 2009 and 2010. Should the PRC police authorities relax the above measures and SZ Property and its subsidiaries be able to repay the receivables partially or entirely, the provision for impairment loss on the investment in and receivables from SZ Property and its subsidiaries will be partially or wholly reversed in future accounting periods.

A FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

for the years ended 31 December 2008, 2009 and 2010

(Expressed in Renminbi)

	Note	Years ended 31 December		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
Operating revenue				
Traffic revenue		9,610,974	11,133,343	15,277,470
Other operating revenue		878,485	912,538	1,010,100
Total operating revenue		<u>10,489,459</u>	<u>12,045,881</u>	<u>16,287,570</u>
Operating expenses				
Jet fuel costs		(4,178,290)	(3,526,508)	(4,738,071)
Take-off, landing and depot charges		(1,029,326)	(1,432,421)	(1,514,454)
Depreciation and amortisation	3	(658,711)	(981,940)	(1,342,679)
Impairment losses	3	(1,179)	(1,099,523)	(551,820)
Aircraft maintenance, repairs and overhaul costs		(442,124)	(646,043)	(940,818)
Staff costs	3	(1,061,199)	(1,239,004)	(1,834,086)
Air catering charges		(196,519)	(244,141)	(334,031)
Aircraft and engine operating lease expenses		(996,621)	(1,030,513)	(1,077,296)
Other flight operation expenses		(797,941)	(787,233)	(878,608)
Other operating expenses		(1,045,131)	(1,211,477)	(2,056,416)
Total operating expenses		<u>(10,407,041)</u>	<u>(12,198,803)</u>	<u>(15,268,279)</u>
Other income/(loss), net	5	<u>136,064</u>	<u>(57,492)</u>	<u>(12,925)</u>
Operating profit/(loss)	3	218,482	(210,414)	1,006,366
Interest income		35,816	7,047	24,361
Interest expense	4	(533,375)	(498,078)	(405,915)
Share of associates' results	14	(2,674)	(2,161)	(247)
Share of jointly controlled entities' results	15	(25,740)	(32,247)	(35,272)
Fair value change on derivative financial instruments, net		(66,200)	(43,893)	4,315
Exchange gains, net		438,087	3,431	314,179
Profit/(loss) before taxation		64,396	(776,315)	907,787
Income tax credit/(expense)	6(a)	8,930	(92,320)	(160,785)
Profit/(loss) for the year		<u>73,326</u>	<u>(868,635)</u>	<u>747,002</u>
Attributable to:				
Equity holders of Shenzhen Airlines		70,315	(869,064)	742,641
Non-controlling interests		3,011	429	4,361
Profit/(loss) for the year		<u>73,326</u>	<u>(868,635)</u>	<u>747,002</u>

The accompany notes form part of the Financial Information.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME*for the years ended 31 December 2008, 2009 and 2010**(Expressed in Renminbi)*

	Note	Years ended 31 December		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
Profit/(loss) for the years		73,326	(868,635)	747,002
Other comprehensive income for the years (after tax)	8			
Exchange differences on translation of financial statements of overseas subsidiaries		-	-	(35)
Available-for-sale securities: net movement in the fair value reserve		(65,109)	53,345	(87,203)
		(65,109)	53,345	(87,238)
Total comprehensive income for the years		<u>8,217</u>	<u>(815,290)</u>	<u>659,764</u>
Attributable to:				
Equity holders of Shenzhen Airlines		5,206	(815,719)	655,403
Non-controlling interests		3,011	429	4,361
Total comprehensive income for the years		<u>8,217</u>	<u>(815,290)</u>	<u>659,764</u>

The accompany notes form part of the Financial Information.

CONSOLIDATED BALANCE SHEETS

at 31 December 2008, 2009 and 2010

(Expressed in Renminbi)

		At 31 December		
	Note	2008 RMB'000	2009 RMB'000	2010 RMB'000
Non-current assets				
Property, plant and equipment, net	10	10,572,721	14,359,509	17,353,424
Construction in progress	11	4,120,140	4,089,150	5,696,915
Interests in leasehold land situated in the People's Republic of China (the "PRC") held for own use under medium-term operating leases		98,692	34,368	95,669
Interest in associates	14	69,706	10,000	9,753
Interest in jointly controlled entities	15	10,609	–	–
Other investments in equity securities	16	70,928	141,455	25,185
Deferred tax assets	17	478	7,088	5,462
Other non-current assets	18	324,529	450,419	535,299
		<u>15,267,803</u>	<u>19,091,989</u>	<u>23,721,707</u>
Current assets				
Aircraft held for sale	12	–	–	30,464
Financial assets	19(a)	12,483	30,079	27,379
Inventories	20	178,119	181,722	157,413
Trade and other receivables	21	1,956,409	1,111,842	1,370,332
Income tax recoverable		29,702	–	415
Pledged bank deposits	22	269,860	1,741,649	518,051
Non-pledged time deposits with original maturity over 3 months		–	–	4,955
Cash and cash equivalents	23	266,618	616,506	446,651
		<u>2,713,191</u>	<u>3,681,798</u>	<u>2,555,660</u>
Current liabilities				
Financial liabilities	19(b)	45,653	92,683	87,280
Bank and other loans	24	3,865,450	16,532,952	4,549,959
Obligations under finance leases	25	118,272	118,272	174,513
Trade and other payables	26	4,792,668	5,680,563	6,661,505
Income tax payable		1,031	110,858	135,755
		<u>8,823,074</u>	<u>22,535,328</u>	<u>11,609,012</u>
Net current liabilities		<u>(6,109,883)</u>	<u>(18,853,530)</u>	<u>(9,053,352)</u>
Total assets less current liabilities		<u>9,157,920</u>	<u>238,459</u>	<u>14,668,355</u>

APPENDIX II
FINANCIAL INFORMATION OF SHENZHEN AIRLINES

		At 31 December		
	<i>Note</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>
Non-current liabilities				
Bank and other loans	24	8,179,592	22,000	12,251,736
Obligations under finance leases	25	384,384	266,112	654,228
Provision for major overhauls	27	810,785	854,045	592,817
Deferred tax liabilities	17	248,620	222,109	297,833
Other non-current liabilities	28	490,510	655,799	963,458
		<u>10,113,891</u>	<u>2,020,065</u>	<u>14,760,072</u>
NET LIABILITIES		<u>(955,971)</u>	<u>(1,781,606)</u>	<u>(91,717)</u>
CAPITAL AND RESERVES				
	29			
Paid-in capital		300,000	300,000	812,500
Reserves		<u>(1,287,774)</u>	<u>(2,103,493)</u>	<u>(930,465)</u>
Total deficit in equity attributable to equity holders of Shenzhen Airlines		(987,774)	(1,803,493)	(117,965)
Non-controlling interests		<u>31,803</u>	<u>21,887</u>	<u>26,248</u>
TOTAL DEFICIT IN EQUITY		<u>(955,971)</u>	<u>(1,781,606)</u>	<u>(91,717)</u>

The accompany notes form part of the Financial Information.

BALANCE SHEETS

at 31 December 2008, 2009 and 2010

(Expressed in Renminbi)

	Note	At 31 December		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
Non-current assets				
Property, plant and equipment, net	10	10,426,828	14,216,367	17,229,887
Construction in progress	11	4,094,759	4,065,390	5,337,718
Interests in leasehold land situated in the PRC held for own use under medium-term operating leases		98,692	34,368	95,669
Investment in subsidiaries	13	112,823	160,493	140,543
Interest in associates	14	73,017	–	–
Interest in jointly controlled entities	15	10,609	–	–
Other investments in equity securities	16	70,328	141,455	25,185
Other non-current assets	18	323,120	449,629	526,085
		15,210,176	19,067,702	23,355,087
Current assets				
Aircraft held for sale	12	–	–	30,464
Financial assets	19(a)	6,548	12,757	5,894
Inventories	20	174,839	178,710	154,884
Trade and other receivables	21	1,899,870	1,022,451	1,325,691
Tax recoverable		29,606	–	–
Pledged bank deposits	22	269,860	1,741,649	518,051
Cash and cash equivalents	23	166,782	470,182	270,338
		2,547,505	3,425,749	2,305,322
Current liabilities				
Financial liabilities	19(b)	45,653	92,683	87,280
Bank and other loans	24	3,865,450	16,524,952	4,539,959
Obligations under finance leases	25	118,272	118,272	174,513
Trade and other payables	26	4,681,984	5,425,986	6,062,317
Income tax payable		–	102,471	125,545
		8,711,359	22,264,364	10,989,614
Net current liabilities		(6,163,854)	(18,838,615)	(8,684,292)
Total assets less current liabilities		9,046,322	229,087	14,670,795

APPENDIX II**FINANCIAL INFORMATION OF SHENZHEN AIRLINES**

		At 31 December		
		2008	2009	2010
	Note	RMB'000	RMB'000	RMB'000
Non-current liabilities				
Bank and other loans	24	8,179,592	–	12,239,736
Obligations under finance leases	25	384,384	266,112	654,228
Provision for major overhauls	27	810,785	850,839	584,052
Deferred tax liabilities	17	248,620	222,109	297,833
Other non-current liabilities	28	484,713	655,799	963,252
		<u>10,108,094</u>	<u>1,994,859</u>	<u>14,739,101</u>
NET LIABILITIES		<u>(1,061,772)</u>	<u>(1,765,772)</u>	<u>(68,306)</u>
CAPITAL AND RESERVES				
	29			
Paid-in capital		300,000	300,000	812,500
Reserves		<u>(1,361,772)</u>	<u>(2,065,772)</u>	<u>(880,806)</u>
TOTAL DEFICIT IN EQUITY		<u>(1,061,772)</u>	<u>(1,765,772)</u>	<u>(68,306)</u>

The accompany notes form part of the Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended 31 December 2008, 2009 and 2010

(Expressed in Renminbi)

	Attributable to equity holders of Shenzhen Airlines						Total	Non-controlling interests	Total equity
	Paid-in capital	Capital reserve	Surplus reserve	Fair value reserve	Exchange reserve	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2008	300,000	-	264,285	98,967	-	(1,656,232)	(992,980)	13,526	(979,454)
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	(1,028)	(1,028)
Addition through establishment of subsidiaries	-	-	-	-	-	-	-	16,294	16,294
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	70,315	70,315	3,011	73,326
Other comprehensive income: net movement in fair value reserve for available-for-sale securities	-	-	-	(65,109)	-	-	(65,109)	-	(65,109)
Total comprehensive income for the year	-	-	-	(65,109)	-	70,315	5,206	3,011	8,217
Balance at 31 December 2008	<u>300,000</u>	<u>-</u>	<u>264,285</u>	<u>33,858</u>	<u>-</u>	<u>(1,585,917)</u>	<u>(987,774)</u>	<u>31,803</u>	<u>(955,971)</u>

APPENDIX II
FINANCIAL INFORMATION OF SHENZHEN AIRLINES

Attributable to equity holders of Shenzhen Airlines

	Attributable to equity holders of Shenzhen Airlines						Total	Non-controlling interests	Total equity
	Paid-in capital	Capital reserve	Surplus reserve	Fair value reserve	Exchange reserve	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2009	300,000	-	264,285	33,858	-	(1,585,917)	(987,774)	31,803	(955,971)
Deconsolidation of a subsidiary held for sale	-	-	-	-	-	-	-	(9,724)	(9,724)
Dividends paid to non-controlling equity holders	-	-	-	-	-	-	-	(621)	(621)
Total comprehensive income for the year									
Loss for the year	-	-	-	-	-	(869,064)	(869,064)	429	(868,635)
Other comprehensive income:									
Net movement in fair value reserve for available-for-sale securities	-	-	-	53,345	-	-	53,345	-	53,345
Total comprehensive income for the year	-	-	-	53,345	-	(869,064)	(815,719)	429	(815,290)
Balance at 31 December 2009	<u>300,000</u>	<u>-</u>	<u>264,285</u>	<u>87,203</u>	<u>-</u>	<u>(2,454,981)</u>	<u>(1,803,493)</u>	<u>21,887</u>	<u>(1,781,606)</u>

APPENDIX II
FINANCIAL INFORMATION OF SHENZHEN AIRLINES

	Attributable to equity holders of Shenzhen Airlines							Total	Non-controlling interests	Total equity
	Paid-in capital	Capital reserve	Surplus reserve	Fair value reserve	Exchange reserve	Accumulated losses				
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Balance at 1 January 2010	300,000	–	264,285	87,203	–	(2,454,981)	(1,803,493)	21,887	(1,781,606)	
Additional paid-in capital during the year	29(b)(i) 512,500	517,625	–	–	–	–	1,030,125	–	1,030,125	
Total comprehensive income for the year										
Profit for the year	–	–	–	–	–	742,641	742,641	4,361	747,002	
Other comprehensive income:										
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	–	–	(35)	–	(35)	–	(35)	
Net movement in fair value reserve for available-for-sale securities	–	–	–	(87,203)	–	–	(87,203)	–	(87,203)	
Total comprehensive income for the year	–	–	–	(87,203)	(35)	742,641	655,403	4,361	659,764	
Balance at 31 December 2010	<u>812,500</u>	<u>517,625</u>	<u>264,285</u>	<u>–</u>	<u>(35)</u>	<u>(1,712,340)</u>	<u>(117,965)</u>	<u>26,248</u>	<u>(91,717)</u>	

The accompany notes form part of the Financial Information.

CONSOLIDATED CASH FLOW STATEMENTS*for the years ended 31 December 2008, 2009 and 2010**(Expressed in Renminbi)*

	<i>Note</i>	Years ended 31 December		
		2008	2009	2010
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating activities				
Cash generated from operations	23(b)	2,762,046	2,804,368	3,126,125
Income tax paid		(17,502)	(3,261)	(27,471)
Net cash generated from operating activities		<u>2,744,544</u>	<u>2,801,107</u>	<u>3,098,654</u>
Investing activities				
Proceeds from sale of property, plant and equipment and lease prepayments		55,616	76,589	27,804
Proceeds from sale of an associate		572	66,000	–
Net cash disposed of upon sale of subsidiary	2	(873)	–	–
Net cash disposed of on deconsolidation of a subsidiary		–	(42,632)	–
Cash received from disposal of financial assets		–	–	18,066
Net cash settlement of trading securities		(882)	8,122	(2,174)
Interest received		35,816	7,047	24,361
Dividends received from other investments		1,846	2,545	1,924
Payments for purchase of property, plant and equipment and land use rights		(5,285,797)	(4,918,306)	(5,974,607)
Decrease/(increase) in pledged bank deposits		187,200	(1,471,789)	1,217,783
Payment for the investment in an associate		–	(10,000)	–
Net cash used in investing activities		<u>(5,006,502)</u>	<u>(6,282,424)</u>	<u>(4,686,843)</u>

APPENDIX II
FINANCIAL INFORMATION OF SHENZHEN AIRLINES

	<i>Note</i>	Years ended 31 December		
		2008 RMB'000	2009 RMB'000	2010 RMB'000
Financing activities				
Proceeds from bank and other loans		4,838,113	10,181,258	7,040,432
Capital injection by non-controlling equity holders		16,294	–	–
Capital injection by equity holders	29(b)(i)	–	–	1,030,125
Repayment of bank and other loans		(2,059,783)	(5,788,524)	(6,018,330)
Interest paid		(542,013)	(505,908)	(624,497)
Dividends paid to equity holders		(100,000)	(55,000)	–
Dividends paid to non-controlling equity holders		(1,028)	(621)	–
Net cash generated from financing activities		<u>2,151,583</u>	<u>3,831,205</u>	<u>1,427,730</u>
Net (decrease)/increase in cash and cash equivalents		(110,375)	349,888	(160,459)
Cash and cash equivalents at 1 January		376,993	266,618	616,506
Effect of foreign exchange rate change		–	–	(9,396)
Cash and cash equivalents at 31 December	23(a)	<u>266,618</u>	<u>616,506</u>	<u>446,651</u>

The accompany 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 has been prepared in accordance with all applicable 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 Limited (“Shenzhen Airlines”) and its subsidiaries (collectively “Shenzhen Airlines Group”) is set out below.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing the Financial Information, Shenzhen Airlines Group has adopted all these new and revised HKFRSs applicable to the three years period ended 31 December 2008, 2009 and 2010 (the “Relevant Period”), except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2010. However, none of these developments have material impact to Shenzhen Airlines Group’s Financial Information. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended 31 December 2010 are set out in note 37.

(b) Basis of measurement

The Financial Information is presented in Renminbi (“RMB”) and rounded to the nearest thousand. 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.

As at 31 December 2008, 2009 and 2010, Shenzhen Airlines Group had net current liabilities of RMB6,109,883,000, RMB18,853,530,000 and RMB9,053,352,000 and net liabilities of RMB955,971,000, RMB1,781,606,000 and RMB91,717,000 respectively. The Financial

Information has been prepared on a going concern basis as Shenzhen Airlines' board of directors have agreed to implement the following measures to obtain the necessary operating capital and improve Shenzhen Airlines' financial situation:

- (i) Shenzhen Airlines has entered into loan agreements with several domestic banks and obtained revolving loan facilities and specific loan facilities totalling RMB30,973,515,000. As at 31 December 2010, un-utilised loan facilities amounted to RMB9,395,421,000; and
- (ii) Implementing comprehensive management policies and improving Shenzhen Airlines' profitability, including reducing operating costs and opening new routes.

In view of the above mentioned measures and according to Shenzhen Airlines' cash flow forecast for the year ending 31 December 2011, 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' 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 has 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 36.

(e) Subsidiaries and non-controlling 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.

Non-controlling interests (previously known as “minority interests”) represent the equity in a subsidiary not attributable directly or indirectly to Shenzhen Airlines, 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.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of Shenzhen Airlines. Non-controlling 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 non-controlling interests and the equity holders of Shenzhen Airlines.

Loans from holders of non-controlling 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’ 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, adjusted for any excess of Shenzhen Airlines Group’s share of the acquisition-date fair values of the investee’s identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in Shenzhen Airlines Group’s share of the investee’s net asset 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 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' 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' 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:

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 in securities which do not fall into any of the above categories are classified as available-for-sale equity securities. 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 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.

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.

Effective from 1 January 2010, the Group revised the estimated useful life and residual value of property, plant and equipment as follows:

	Year ended 31 December 2010		Years ended 31 December 2009 and 2008	
	Estimated useful life	Residual value	Estimated useful life	Residual value
Buildings	30 – 35 years	0 – 5%	20 years	5%
Owned and leased				
aircraft and jet engines	5 – 25 years	0 – 5%	8 – 20 years	0 – 3%
Machinery and equipment	4 – 20 years	0 – 5%	4 – 15 years	5%
Rotable spares	10 years	0%	15 years	0%
Vehicles and others	4 – 6 years	5%	5 – 8 years	5%

These changes were made to better reflect the future operation plan of the Group. The change had the net effect of increasing depreciation expense by approximately RMB1,996,000, and decreasing profit after taxation by approximately RMB1,745,000 for the year ended 31 December 2010. The change is expected to decrease depreciation expense by RMB20,414,000 and increase the profit after taxation by RMB17,841,000 in each subsequent year until the relevant assets are fully depreciated or disposed of. The change in accounting estimate is accounted for prospectively from 1 January 2010.

(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 is 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 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 decline 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 subsidiaries, associates and jointly controlled entities (including those recognised using the equity method (*note 1(f)*)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(1)(ii). 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(1)(ii).
- 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 an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment;
- Construction in progress; and
- Lease prepayments.

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 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 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.

(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 recognised as deferred income within trade and other payables. Where consideration is received or receivable of the issuance of the guarantee, the consideration is recognised 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 recognised 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 miles 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 equity holder'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/amortisation 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 profit or loss.

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 RMB 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 RMB 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 RMB 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 RMB at the PBOC exchange rates prevailing on the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items are translated into RMB 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 profit or loss 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 Information 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 the 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 (北京橫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
	<i>RMB'000</i>
Property, plant and equipment	95
Construction in progress	78,606
Interests in leasehold land	173,755
Inventories	41
Trade and other receivables	3,333
Cash and cash equivalents	873
Trade and other payables	(1,987)
Amount due to Shenzhen Airlines	<u>(180,755)</u>
	73,961
Gain on disposal of a subsidiary	<u>76,039</u>
Total consideration	<u><u>150,000</u></u>

3 Operating profit/(loss)

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

	Years ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Auditors' remuneration	1,145	9,073	5,204
Depreciation:			
– Owned assets	627,977	927,094	1,249,879
– Assets acquired under finance leases	32,969	70,009	76,437
– Amortisation of deferred gain/loss	(7,767)	(15,535)	(15,535)
Amortisation of lease prepayments	5,532	372	31,898
Minimum lease payments under operating leases:			
– Aircraft and related equipment	996,621	1,030,513	1,077,296
– Land and buildings	47,705	69,859	77,020
Impairment:			
– Property, plant and equipment	–	–	302,241
– Construction in progress	–	10,595	1,044
– Trade and other receivables	1,179	1,061,896	248,535
– Investment in an associate	–	27,032	–
Staff costs:			
– Salaries, wages, bonuses and other benefit	993,946	1,148,951	1,705,079
– Contribution to defined contribution retirement schemes (<i>Note</i>)	67,253	90,053	129,007

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 2008, 2009 and 2010 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 total annual salaries.

4 Interest expense

	Years ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Interest on bank and other loans wholly repayable			
– Within five years	241,836	247,342	292,160
– After five years	394,917	322,668	285,591
Finance charges on obligations under finance leases	21,594	27,149	20,141
Less: Borrowing costs capitalised	(124,972)	(99,081)	(191,977)
	<u>533,375</u>	<u>498,078</u>	<u>405,915</u>

Borrowing costs have been capitalised at rates ranging from 2.44% to 8.73%, 1.23% to 8.22% and 1.23% to 6.14% per annum for the years ended 31 December 2008, 2009 and 2010 respectively.

5 Other income/(loss), net

	Years ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Gain/(loss) on sale of property, plant and equipment and lease prepayments, net	55,614	3,837	(20,114)
Gain on disposal of an associate	–	25,487	–
Gain on disposal of a subsidiary (note 2)	76,039	–	–
Gain on disposal of equity securities held for disposal (note 19(a))	–	–	8,066
Loss on deconsolidation of a subsidiary (note 19(a))	–	(77,518)	–
Others	4,411	(9,298)	(877)
	<u>136,064</u>	<u>(57,492)</u>	<u>(12,925)</u>

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

	Years ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
PRC Corporate income tax			
– Provision for the year	3,816	143,223	54,367
Deferred tax			
– Origination and reversal of temporary differences (note 17)	(12,746)	(50,903)	106,418
Income tax (credit)/expense	<u>(8,930)</u>	<u>92,320</u>	<u>160,785</u>

Shenzhen Airlines was taxed at an income tax rate of 18%, 20% and 22% during the years ended 31 December 2008, 2009 and 2010 respectively. Its branches and subsidiaries in the PRC were taxed at rates ranging from 18% to 25%, 20% to 25% and 22% to 25% for the years ended 31 December 2008, 2009 and 2010 respectively.

Tax provision for Hong Kong Profits Tax for the years ended 31 December 2008, 2009 and 2010 is calculated at 16.5% of the assessable profits for the years.

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

	Years ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit/(loss) before taxation	<u>64,396</u>	<u>(776,315)</u>	<u>907,787</u>
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profit/(loss) in the tax jurisdictions concerned	11,338	(155,911)	199,713
Adjustments for tax effect of:			
– Non-deductible expenses	20,271	254,332	15,681
– Non-taxable income	(53,321)	(508)	(5,285)
– Tax losses not recognised	3,613	10,112	9,967
– Effect on deferred tax balance resulting from a change in the tax rate effective in the year of expected realisation	9,627	(13,847)	2,876
– Effect of change in tax regulation (<i>note(i)</i>)	–	–	(68,180)
– Others	<u>(458)</u>	<u>(1,858)</u>	<u>6,013</u>
Actual tax (credit)/expense	<u>(8,930)</u>	<u>92,320</u>	<u>160,785</u>

- (i) The State Administration of Taxation (“SAT”) issued SAT Announcement [2010] No. 13 (“Announcement No. 13”) on 8 September 2010, which clarifies that sale of assets under a sale and finance leaseback arrangement is out of the scope of the PRC value-added tax and business tax. Announcement No. 13 further explains that gains arising from a sale and finance leaseback transaction should not be taxable under the PRC corporate income tax. The tax paid for the taxable gain with respect to sales and finance leaseback arrangements in previous years was refunded during 2010.

7 Profit/(loss) attributable to equity holders of Shenzhen Airlines

The profit/(loss) attributable to equity holders of Shenzhen Airlines for the years ended 31 December 2008, 2009 and 2010 includes a profit of RMB62,040,000, a loss of RMB757,346,000 and a profit of RMB754,545,000 respectively which has been dealt with in the financial statements of Shenzhen Airlines.

8 Other comprehensive income*Tax effects relating to each component of other comprehensive income*

	Year ended 31 December 2008		
	Before-tax amount	Tax benefit	Net-of-tax
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-
Change in fair value of available-for-sale securities	(86,812)	21,703	(65,109)
Other comprehensive income	<u>(86,812)</u>	<u>21,703</u>	<u>(65,109)</u>

	Year ended 31 December 2009		
	Before-tax amount	Tax expense	Net-of-tax
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Exchange differences on translation of financial statements of overseas subsidiaries	-	-	-
Change in fair value of available-for-sale securities	71,127	(17,782)	53,345
Other comprehensive income	<u>71,127</u>	<u>(17,782)</u>	<u>53,345</u>

	Year ended 31 December 2010		
	Before-tax amount	Tax benefit	Net-of-tax
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Exchange differences on translation of financial statements of overseas subsidiaries	(35)	-	(35)
Change in fair value of available-for-sale securities	(116,271)	29,068	(87,203)
Other comprehensive income	<u>(116,306)</u>	<u>29,068</u>	<u>(87,238)</u>

9 Earnings/loss per share

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

10 Property, plant and equipment, net

(a) Shenzhen Airlines Group

	Aircraft					Total RMB'000
	Buildings RMB'000	Owned RMB'000	Acquired under finance leases RMB'000	Machinery and equipment, including rotable spares RMB'000	Vehicles and others RMB'000	
Cost:						
At 1 January 2008	921,583	7,449,334	–	747,836	161,328	9,280,081
Additions	22,798	33,591	600,156	107,842	32,616	797,003
Transfer from construction in progress (note 11)	2,966	4,286,011	–	149,847	–	4,438,824
Disposals	(8,928)	(1,253,537)	–	(21,812)	(1,207)	(1,285,484)
Disposal of subsidiary (note 2)	–	–	–	(159)	–	(159)
At 31 December 2008	938,419	10,515,399	600,156	983,554	192,737	13,230,265
At 1 January 2009	938,419	10,515,399	600,156	983,554	192,737	13,230,265
Additions	37,013	179,226	–	92,759	30,569	339,567
Transfer from construction in progress (note 11)	57,138	4,442,168	–	–	–	4,499,306
Disposals	(9,175)	(95,057)	–	(7,134)	(1,248)	(112,614)
Deconsolidation of subsidiary held for sale (note 19(a))	(45,012)	–	–	(22,416)	(19,986)	(87,414)
At 31 December 2009	978,383	15,041,736	600,156	1,046,763	202,072	17,869,110
At 1 January 2010	978,383	15,041,736	600,156	1,046,763	202,072	17,869,110
Additions	3,467	363,041	814,204	131,562	22,664	1,334,938
Transfer from construction in progress (note 11)	3,392	3,891,819	–	72,379	–	3,967,590
Disposals	(31,094)	(634,682)	(6,062)	(25,560)	(4,208)	(701,606)
Reclassification to assets held for sale (note 12)	–	(581,856)	–	–	–	(581,856)
At 31 December 2010	954,148	18,080,058	1,408,298	1,225,144	220,528	21,888,176

	Aircraft					Total RMB'000
	Buildings RMB'000	Owned RMB'000	Acquired under finance leases RMB'000	Machinery and equipment, including rotable spares RMB'000	Vehicles and others RMB'000	
Accumulated depreciation:						
At 1 January 2008	193,446	2,245,956	–	269,428	85,153	2,793,983
Charge for the year	43,001	479,497	32,969	83,467	22,012	660,946
Disposals	(3,597)	(782,026)	–	(10,866)	(832)	(797,321)
Disposal of subsidiary (note 2)	–	–	–	(64)	–	(64)
At 31 December 2008	<u>232,850</u>	<u>1,943,427</u>	<u>32,969</u>	<u>341,965</u>	<u>106,333</u>	<u>2,657,544</u>
At 1 January 2009	232,850	1,943,427	32,969	341,965	106,333	2,657,544
Charge for the year	50,279	757,140	70,009	92,929	26,746	997,103
Disposals	(6,255)	(93,170)	–	(3,156)	(1,229)	(103,810)
Deconsolidation of subsidiary held for sale (note 19(a))	(15,972)	–	–	(11,224)	(14,040)	(41,236)
At 31 December 2009	<u>260,902</u>	<u>2,607,397</u>	<u>102,978</u>	<u>420,514</u>	<u>117,810</u>	<u>3,509,601</u>
At 1 January 2010	260,902	2,607,397	102,978	420,514	117,810	3,509,601
Charge for the year	28,254	1,083,385	76,437	118,299	19,941	1,326,316
Disposals	(4,466)	(33,009)	(6,062)	(4,829)	(3,648)	(52,014)
Reclassification to assets held for sale (note 12)	–	(425,689)	–	–	–	(425,689)
At 31 December 2010	<u>284,690</u>	<u>3,232,084</u>	<u>173,353</u>	<u>533,984</u>	<u>134,103</u>	<u>4,358,214</u>
Accumulated impairment:						
At 1 January 2008, 2009 and 2010	–	–	–	–	–	–
Charge for the year	–	133,416	150,858	17,781	186	302,241
Reclassification to assets held for sale (note 12)	–	(125,703)	–	–	–	(125,703)
At 31 December 2010	<u>–</u>	<u>7,713</u>	<u>150,858</u>	<u>17,781</u>	<u>186</u>	<u>176,538</u>
Net book value:						
At 31 December 2010	<u>669,458</u>	<u>14,840,261</u>	<u>1,084,087</u>	<u>673,379</u>	<u>86,239</u>	<u>17,353,424</u>
At 31 December 2009	<u>717,481</u>	<u>12,434,339</u>	<u>497,178</u>	<u>626,249</u>	<u>84,262</u>	<u>14,359,509</u>
At 31 December 2008	<u>705,569</u>	<u>8,571,972</u>	<u>567,187</u>	<u>641,589</u>	<u>86,404</u>	<u>10,572,721</u>

(b) Shenzhen Airlines

	Aircraft					Total RMB'000
	Buildings RMB'000	Owned RMB'000	Acquired under finance leases RMB'000	Machinery and equipment, including rotable spares RMB'000	Vehicles and others RMB'000	
Cost:						
At 1 January 2008	872,741	7,433,930	–	698,623	119,947	9,125,241
Additions	18,162	32,724	600,156	96,108	25,935	773,085
Transfer from construction in progress (note 11)	2,966	4,237,663	–	149,642	–	4,390,271
Disposals	(7,063)	(1,253,537)	–	(13,618)	(876)	(1,275,094)
At 31 December 2008	886,806	10,450,780	600,156	930,755	145,006	13,013,503
At 1 January 2009	886,806	10,450,780	600,156	930,755	145,006	13,013,503
Additions	36,737	130,508	–	86,405	24,822	278,472
Transfer from construction in progress (note 11)	57,138	4,435,206	–	–	–	4,492,344
Disposals	(7,210)	(93,015)	–	(3,369)	(555)	(104,149)
At 31 December 2009	973,471	14,923,479	600,156	1,013,791	169,273	17,680,170
At 1 January 2010	973,471	14,923,479	600,156	1,013,791	169,273	17,680,170
Additions	3,467	363,041	814,204	128,882	21,960	1,331,554
Transfer from construction in progress (note 11)	3,392	3,891,819	–	72,379	–	3,967,590
Disposals	(31,094)	(634,682)	(6,062)	(22,287)	(3,661)	(697,786)
Reclassification to assets held for sale (note 12)	–	(581,856)	–	–	–	(581,856)
At 31 December 2010	949,236	17,961,801	1,408,298	1,192,765	187,572	21,699,672

	Aircraft					Total RMB'000
	Buildings RMB'000	Owned RMB'000	Acquired under finance leases RMB'000	Machinery and equipment, including rotable spares RMB'000	Vehicles and others RMB'000	
Accumulated depreciation:						
At 1 January 2008	176,298	2,245,623	–	248,574	59,116	2,729,611
Charge for the year	42,602	476,714	32,969	77,788	17,349	647,422
Disposals	(2,364)	(782,026)	–	(5,210)	(758)	(790,358)
At 31 December 2008	<u>216,536</u>	<u>1,940,311</u>	<u>32,969</u>	<u>321,152</u>	<u>75,707</u>	<u>2,586,675</u>
At 1 January 2009	216,536	1,940,311	32,969	321,152	75,707	2,586,675
Charge for the year	46,480	747,799	70,009	88,442	22,553	975,283
Disposals	(2,472)	(93,015)	–	(2,139)	(529)	(98,155)
At 31 December 2009	<u>260,544</u>	<u>2,595,095</u>	<u>102,978</u>	<u>407,455</u>	<u>97,731</u>	<u>3,463,803</u>
At 1 January 2010	260,544	2,595,095	102,978	407,455	97,731	3,463,803
Charge for the year	28,102	1,076,363	76,437	114,500	17,353	1,312,755
Disposals	(4,466)	(33,009)	(6,062)	(3,070)	(3,116)	(49,723)
Reclassification to assets held for sale (note 12)	–	(425,689)	–	–	–	(425,689)
At 31 December 2010	<u>284,180</u>	<u>3,212,760</u>	<u>173,353</u>	<u>518,885</u>	<u>111,968</u>	<u>4,301,146</u>
Accumulated impairment:						
At 1 January 2008, 2009 and 2010	–	–	–	–	–	–
Charge for the year	–	125,703	150,858	17,781	–	294,342
Reclassification to assets held for sale (note 12)	–	(125,703)	–	–	–	(125,703)
At 31 December 2010	<u>–</u>	<u>–</u>	<u>150,858</u>	<u>17,781</u>	<u>–</u>	<u>168,639</u>
Net book value:						
At 31 December 2010	<u>665,056</u>	<u>14,749,041</u>	<u>1,084,087</u>	<u>656,099</u>	<u>75,604</u>	<u>17,229,887</u>
At 31 December 2009	<u>712,927</u>	<u>12,328,384</u>	<u>497,178</u>	<u>606,336</u>	<u>71,542</u>	<u>14,216,367</u>
At 31 December 2008	<u>670,270</u>	<u>8,510,469</u>	<u>567,187</u>	<u>609,603</u>	<u>69,299</u>	<u>10,426,828</u>

- (c) All buildings are located in the PRC.
- (d) As at 31 December 2008, 2009 and 2010, certain aircraft of Shenzhen Airlines Group and Shenzhen Airlines with an aggregate carrying value of approximately RMB8,680,619,000 RMB12,356,171,000 and RMB15,566,606,000 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 and 2010. Under the Arrangements, Shenzhen Airlines sold certain 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 2008, 2009 and 2010, 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 2008, 2009 and 2010, carrying value of such properties of Shenzhen Airlines Group amounting to RMB514,605,000, RMB512,674,000 and RMB525,655,000 respectively, and carrying value of such properties of Shenzhen Airlines amounting to RMB514,605,000, RMB512,674,000 and RMB521,252,000 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.
- (g) Pursuant to the resolution of the President Meeting dated 8 December 2010, four aircraft of B737-300 will be retired by the year ending 31 December 2011 to increase the aviation safety and assets utilisation efficiency. Accordingly, the aircraft are measured at the lower of their carrying amounts and fair values less cost to sell, as determined by reference to the recent observable market prices for those aircraft as at 31 December 2010. Shenzhen Airlines Group and Shenzhen Airlines recognised an impairment loss of RMB294,342,000 in profit or loss as “Impairment losses” to write down the costs of owned aircraft, aircraft acquired under finance leases and rotatable spares. Two of the retiring aircraft, which are owned by Shenzhen Airlines, are classified as aircraft held for sale as at 31 December 2010 (*note 12*).

In addition, Shenzhen Airlines Group engaged independent valuers to assess the recoverable amounts of certain assets of subsidiaries of Shenzhen Airlines Group. According to the valuation report, certain owned aircraft and vehicles were written down by RMB7,899,000 (included in “Impairment losses”).

11 Construction in progress

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
At 1 January	3,517,003	4,120,140	4,089,150	3,426,437	4,094,759	4,065,390
Additions	5,123,199	4,486,573	5,599,123	5,059,568	4,476,940	5,321,081
Transfer to property, plant and equipment (note 10)	(4,438,824)	(4,499,306)	(3,967,590)	(4,390,271)	(4,492,344)	(3,967,590)
Disposal through sale of subsidiary (note 2)	(78,606)	-	-	-	-	-
Other decrease	(2,632)	(18,257)	(23,768)	(975)	(13,965)	(81,163)
At 31 December	<u>4,120,140</u>	<u>4,089,150</u>	<u>5,696,915</u>	<u>4,094,759</u>	<u>4,065,390</u>	<u>5,337,718</u>

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 2008, 2009 and 2010, advance payments for acquisition of aircraft of Shenzhen Airlines Group and Shenzhen Airlines of RMB3,143,816,000, RMB3,274,947,000 and RMB3,409,321,000 respectively were pledged under certain loan agreements (note 24(d)).

12 Aircraft held for sale

As disclosed in note 10(g), in order to increase aviation safety and assets utilisation efficiency, four aircraft of B737-300 will be retired by the end of 2011, of which two owned aircraft satisfied the classification requirements of non-current assets held-for-sale. Accordingly, these two owned aircraft are measured at lower of their carrying amounts and fair values less cost to sell as at 31 December 2010. The re-measurement resulted in the recognition of an impairment loss of RMB125,703,000 for the year ended 31 December 2010 (note 10).

	Shenzhen Airlines Group and Shenzhen Airlines RMB'000
As at 1 January 2010	-
Reclassification from property, plant and equipment during the year (note 10)	<u>30,464</u>
As at 31 December 2010	<u><u>30,464</u></u>

13 Investment in subsidiaries

	Shenzhen Airlines		
	At 31 December		
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares/capital contributions, at cost	119,616	182,616	182,616
<i>Less: Impairment loss</i>	<u>(6,793)</u>	<u>(22,123)</u>	<u>(42,073)</u>
	<u><u>112,823</u></u>	<u><u>160,493</u></u>	<u><u>140,543</u></u>

During the years ended 31 December 2008, 2009 and 2010, the management assessed the recoverability of investment in subsidiaries and concluded that the carrying amounts of certain investments exceeded their recoverable amounts by approximately RMB6,793,000, RMB22,123,000 and RMB42,073,000 respectively. Accordingly, provisions for impairment loss of RMB6,793,000, RMB15,330,000 and RMB19,950,000 were recorded in profit or loss for the years ended 31 December 2008, 2009 and 2010 respectively.

Details of Shenzhen Airlines Group's subsidiaries are set out in note 38.

14 Interest in associates

	Shenzhen Airlines Group		
	At 31 December		
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Share of net assets	69,706	37,032	36,785
<i>Less: Impairment loss</i>	<u>-</u>	<u>(27,032)</u>	<u>(27,032)</u>
	<u><u>69,706</u></u>	<u><u>10,000</u></u>	<u><u>9,753</u></u>

	Shenzhen Airlines		
	At 31 December		
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	76,000	30,000	30,000
<i>Less: Impairment loss</i>	<u>(2,983)</u>	<u>(30,000)</u>	<u>(30,000)</u>
	<u><u>73,017</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

A provision for impairment loss of RMB27,032,000 was recorded at 31 December 2009 and 2010 in respect of the investment in SZ Property (*see note 21(b)*).

Details of Shenzhen Airlines Group's associates as of 31 December 2010 are as follows:

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

Note:

- (i) The English translation of the above company name is for reference only. The official name of the company is in Chinese.

Summary of financial information on associates:

	100 Percent At 31 December			Shenzhen Airlines Group's effective interest At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Assets	512,672	33,631	32,512	171,436	10,089	9,753
Liabilities	(329,500)	(298)	-	(101,730)	(89)	-
Equity	<u>183,172</u>	<u>33,333</u>	<u>32,512</u>	<u>69,706</u>	<u>10,000</u>	<u>9,753</u>
Revenue	52,219	13,885	-	24,021	6,387	-
Loss for the year	<u>(8,659)</u>	<u>(4,698)</u>	<u>(821)</u>	<u>(2,674)</u>	<u>(2,161)</u>	<u>(247)</u>

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 years ended 31 December 2009 and 2010 are not disclosed in the above summary of financial information accordingly.

15 Interest in jointly controlled entities

	Shenzhen Airlines Group		
	At 31 December		
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Share of net assets	<u>10,609</u>	<u>–</u>	<u>–</u>

	Shenzhen Airlines		
	At 31 December		
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted capital contribution, at cost	176,308	176,308	176,308
<i>Less: Impairment loss</i>	<u>(165,699)</u>	<u>(176,308)</u>	<u>(176,308)</u>
	<u>10,609</u>	<u>–</u>	<u>–</u>

In Shenzhen Airlines' balance sheet, a provision for impairment loss of RMB165,699,000, RMB176,308,000 and RMB176,308,000 was recorded as at 31 December 2008, 2009 and 2010 respectively in respect of investment in 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 2010 are as follows:

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

Notes:

- (i) Pursuant to the articles 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) Pursuant to the articles of association of Henan Airlines, all decisions (including participation in the financial and operating policies decisions) should be passed by at least two-thirds of the board members. Shenzhen Airlines is able to exercise 57% 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 2010, 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 RMB42,427,000 and RMB111,588,000 as at 31 December 2009 and 2010 respectively. As Shenzhen Airlines did not fully contribute its capital into Henan Airlines, Shenzhen Airlines Group and Shenzhen Airlines has recognised a provision of RMB21,638,000 and RMB56,910,000 as at 31 December 2009 and 2010 respectively 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. Henan Airlines fully repaid the bank loans on 23 March 2010 and Shenzhen Airlines has been released from the guarantee.

Summary of financial information on jointly controlled entities:

	Shenzhen Airlines Group's effective interest At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Non-current assets	1,754,993	1,696,764	1,656,875
Current assets	271,429	285,025	304,737
Non-current liabilities	(1,665,996)	(1,484,707)	(1,306,642)
Current liabilities	(698,990)	(862,266)	(1,061,818)
Net liabilities	<u>(338,564)</u>	<u>(365,184)</u>	<u>(406,848)</u>
Revenue	1,261,996	1,267,398	1,808,319
Expenses	(1,484,589)	(1,294,018)	(1,797,196)
(Loss)/profit for the year	<u>(222,593)</u>	<u>(26,620)</u>	<u>11,123</u>

As at 31 December 2008, 2009 and 2010, 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		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Unlisted available-for-sale equity securities	<u>70,928</u>	<u>141,455</u>	<u>25,185</u>	<u>70,328</u>	<u>141,455</u>	<u>25,185</u>

17 Deferred tax (liabilities)/assets

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

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
At 1 January	(282,591)	(248,142)	(215,021)	(282,857)	(248,620)	(222,109)
Credited/(charged) to profit or loss (note 6(a))	12,746	50,903	(106,418)	12,534	44,293	(104,792)
Credited/(charged) to equity	21,703	(17,782)	29,068	21,703	(17,782)	29,068
At 31 December	<u>(248,142)</u>	<u>(215,021)</u>	<u>(292,371)</u>	<u>(248,620)</u>	<u>(222,109)</u>	<u>(297,833)</u>

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

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Net deferred tax (liabilities)/assets						
– Accrued expenses	209,300	283,353	237,917	209,300	276,901	232,455
– Depreciation allowances in excess of the related depreciation	(399,840)	(547,656)	(854,197)	(399,840)	(547,656)	(854,197)
– Change in fair value of available-for-sale securities	(11,286)	(29,068)	–	(11,286)	(29,068)	–
– Capital prepayments	(71,338)	(74,700)	(41,909)	(71,338)	(74,700)	(41,909)
– Deferred revenue	19,574	154,983	187,773	19,574	154,983	187,773
– Impairment losses	–	–	178,045	–	–	178,045
– Tax losses	7,539	–	–	7,539	–	–
– Others	(2,091)	(1,933)	–	(2,569)	(2,569)	–
Net deferred tax liabilities	<u>(248,142)</u>	<u>(215,021)</u>	<u>(292,371)</u>	<u>(248,620)</u>	<u>(222,109)</u>	<u>(297,833)</u>

Represented by:

Net deferred tax assets on the balance sheet	478	7,088	5,462	–	–	–
Net deferred tax liabilities on the balance sheet	<u>(248,620)</u>	<u>(222,109)</u>	<u>(297,833)</u>	<u>(248,620)</u>	<u>(222,109)</u>	<u>(297,833)</u>
Net deferred tax liabilities	<u>(248,142)</u>	<u>(215,021)</u>	<u>(292,371)</u>	<u>(248,620)</u>	<u>(222,109)</u>	<u>(297,833)</u>

18 Other non-current assets

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Deposits for operating lease aircraft	116,857	155,190	107,871	116,857	155,190	107,871
Deposits for sale and leaseback aircraft	-	-	13,000	-	-	13,000
Prepayments for repairs service contracts	155,432	133,293	167,634	155,432	133,293	167,634
Prepayments for land use right	45,167	142,637	142,637	45,167	142,637	142,637
Deposit for hotel rentals	-	-	7,662	-	-	-
Deferred loss on sale and leaseback arrangements	-	-	38,909	-	-	38,909
Prepayments for acquisition of property, plant and equipment	-	-	52,787	-	-	52,787
Others	7,073	19,299	4,799	5,664	18,509	3,247
	<u>324,529</u>	<u>450,419</u>	<u>535,299</u>	<u>323,120</u>	<u>449,629</u>	<u>526,085</u>

19 Financial assets/liabilities

(a) Financial assets

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Listed trading securities at market value	5,935	17,322	21,485	-	-	-
Interest rate swaps	6,548	2,757	5,894	6,548	2,757	5,894
Interests in equity securities held for disposal	-	10,000	-	-	10,000	-
	<u>12,483</u>	<u>30,079</u>	<u>27,379</u>	<u>6,548</u>	<u>12,757</u>	<u>5,894</u>

Pursuant to a resolution of the President Meeting dated 21 December 2009, Shenzhen Airlines was in the process of 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 gave 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' balance sheets as at 31 December 2009. The equity investment was measured at its fair value less costs to sell and as a result, an impairment provision of RMB77,518,000 was made in the year ended 31 December 2009. The disposal was completed in July 2010.

(b) Financial liabilities

	Shenzhen Airlines Group and Shenzhen Airlines		
	At 31 December		
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange forward contracts	713	18,297	13,811
Interest rate swaps	44,940	74,386	73,469
	<u>45,653</u>	<u>92,683</u>	<u>87,280</u>

Further disclosure of the financial derivative instruments are set out in note 32.

20 Inventories

	Shenzhen Airlines Group			Shenzhen Airlines		
	At 31 December			At 31 December		
	2008	2009	2010	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Expendable spare parts and maintenance materials	166,739	170,711	146,469	166,739	170,711	146,469
Other supplies	11,380	11,011	10,944	8,100	7,999	8,415
	<u>178,119</u>	<u>181,722</u>	<u>157,413</u>	<u>174,839</u>	<u>178,710</u>	<u>154,884</u>

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

	Shenzhen Airlines Group			Shenzhen Airlines		
	At 31 December			At 31 December		
	2008	2009	2010	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories	105,496	114,062	669,186	104,432	109,028	660,774
Write down of inventories	-	-	38,791	-	-	38,791
	<u>105,496</u>	<u>114,062</u>	<u>707,977</u>	<u>104,432</u>	<u>109,028</u>	<u>699,565</u>

21 Trade and other receivables

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Trade receivables	428,789	434,391	578,615	234,444	224,980	321,825
Less: Allowance for doubtful debts	(1,636)	(2,654)	(6,862)	(56)	(88)	(22)
	427,153	431,737	571,753	234,388	224,892	321,803
Amounts due from subsidiaries (note 21(c))	-	-	-	193,538	159,938	274,907
Amounts due from Huirun (note 21(a))	1,320,700	1,920,700	2,020,700	1,320,700	1,920,700	2,020,700
Amounts due from jointly controlled entities (note 21(c))	110,389	181,955	330,627	110,389	181,955	330,578
Amounts due from an associate and its affiliates (note 21(b))	742,822	1,049,672	1,050,819	742,822	1,049,672	1,050,819
Amounts due from Air China Limited ("Air China") (note 21(c))	243	1,009	4,148	243	1,009	4,148
Deposits, prepayments and other receivables	1,477,497	706,596	814,251	1,420,025	663,977	744,625
Less: Allowance for doubtful debts (notes 21(a) and (b))	(2,122,395)	(3,179,827)	(3,421,966)	(2,122,235)	(3,179,692)	(3,421,889)
	1,529,256	680,105	798,579	1,665,482	797,559	1,003,888
	1,956,409	1,111,842	1,370,332	1,899,870	1,022,451	1,325,691

(a) Amounts due from Huirun

In 2005 and 2006, Shenzhen Airlines paid RMB1,920,000,000 for various investment projects and aircraft lease and financing agreements. The prepayments were fully impaired as a result of the reassessment of the recoverability in 2007. In 2008 and 2009, Shenzhen Airlines entered into several loan assignment agreements with Huirun and the debtors, under which Huirun assumed the outstanding balances of RMB1,320,000,000 and RMB600,000,000 in 2008 and 2009 respectively (note 30).

In January 2010, Shenzhen Airlines initiated legal proceedings at the Shenzhen Intermediate People's Court, Guangdong Province ("the Court") against Huirun for repayment of the above loans and accrued interest and application for property protection. The Court accepted the application of property protection and froze all its interest of Shenzhen Airlines and SZ Property held by Huirun. In November 2010, the Court ruled that Huirun is liable to repay Shenzhen Airlines for the above loans and resumed a liability of another company due to Shenzhen Airlines amounting to RMB100,000,000. On 24 January 2011, the Court declared Huirun bankrupt and, as of the date of this report, Huirun is under receivership.

(b) Amounts due from an associate and its affiliates

	Shenzhen Airlines Group and Shenzhen Airlines		
	As 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
SZ Property	461,826	467,649	468,796
Subsidiaries of SZ Property			
– Wuxi Shenzhen Airlines Property Co., Ltd. (“Wuxi Property”)	–	300,000	300,000
– Shenyang Shenzhen Airlines Property Co., Ltd. (“Shenyang Property”)	100,655	101,333	101,333
– Heng Shan Property	180,341	180,690	180,690
	<u>742,822</u>	<u>1,049,672</u>	<u>1,050,819</u>
Gross receivables	742,822	1,049,672	1,050,819
Less: Allowance for doubtful debts	<u>(742,822)</u>	<u>(1,049,672)</u>	<u>(1,050,819)</u>
Carrying value	<u>–</u>	<u>–</u>	<u>–</u>

The gross receivables due from SZ Property and its affiliates was RMB1,049,672,000, and the gross carrying amount of investment in SZ Property was RMB27,032,000 as at 31 December 2009. On 30 November 2009, the PRC 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 establishment (October 2006) to June 2009, as well as froze all bank accounts of SZ Property and one of its subsidiaries.

After assessing the situation of SZ Property and its subsidiaries, the directors of Shenzhen Airlines were unable to estimate the effect of matters described above but consider the recoverability of the investment in and receivables from SZ Property and its subsidiaries to be remote. As such, impairment losses had been recorded against the full amount of these balances as at 31 December 2009 and 2010.

Should the PRC police authorities relax 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.

Shenzhen Airlines has taken the following actions to recover these receivables:

- (i) In May 2010, Shenzhen Airlines initiated legal proceeding at the Immediate People’s Court of Wuxi City, Jiangsu Province (the “Wuxi Court”) against Wuxi Property for the repayment of loans of RMB300,000,000 and accrued interest. The Wuxi Court accepted the legal proceedings in July 2010 and a judgement in favour of Shenzhen Airlines was obtained. Pursuant to the judgement, Wuxi Property is liable to repay the loans of RMB300,000,000, together with interest thereon. Full impairment has been recorded against this balance as at 31 December 2009 and 2010.

- (ii) In June 2010, Shenzhen Airlines initiated legal proceedings at the Higher People's Court of Liaoning Province (the "Liaoning Court") against Shenyang Property in respect of loans due to Shenzhen Airlines totalling RMB100,000,000 and accrued interest. In January 2011, Shenzhen Airlines entered into a settlement agreement with Shenyang Property, which is affected by the Liaoning Court, whereby Shenyang Property agreed to repay the loans of RMB100,000,000 and accrued interest of RMB15,179,000 by ten instalments in 2011. Full impairment has been recorded against this balance as at 31 December 2009 and 2010.
- (iii) In August 2010, Shenzhen Airlines initiated legal proceedings at the Higher People's Court of Beijing City (the "Beijing Court") against Heng Shan Property in respect of loans due to Shenzhen Airlines totalling RMB180,690,000 and accrued interest. As of the date of this report, the legal proceedings are still under progress. Full impairment has been recorded against this balance as at 31 December 2009 and 2010.
- (c) The amounts due from subsidiaries, jointly controlled entities and Air China are unsecured, interest free and have no fixed repayment terms.
- (d) Included in trade receivables are the following amounts due from related parties:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Air China	1,937	2,761	2,905	-	-	-
Jointly controlled entity	1,122	-	2,176	-	-	-
	<u>3,059</u>	<u>2,761</u>	<u>5,081</u>	<u>-</u>	<u>-</u>	<u>-</u>

(e) *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		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Within 1 month	283,589	292,400	489,054	163,178	150,532	321,027
More than 1 month but less than 3 months	41,296	75,629	70,242	27,748	33,524	273
More than 3 months but less than twelve months	95,045	51,925	10,566	40,401	39,495	503
More than twelve months	7,223	11,783	1,891	3,061	1,341	-
	<u>427,153</u>	<u>431,737</u>	<u>571,753</u>	<u>234,388</u>	<u>224,892</u>	<u>321,803</u>

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

(f) 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 Relevant Period are as follows:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
At 1 January	664	1,636	2,654	46	56	88
Impairment loss recognised	1,070	1,020	6,397	10	32	1,185
Uncollectible amounts written off	(98)	(2)	(2,189)	-	-	(1,251)
At 31 December	<u>1,636</u>	<u>2,654</u>	<u>6,862</u>	<u>56</u>	<u>88</u>	<u>22</u>

(g) 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		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Neither past due nor impaired	283,589	292,400	489,054	163,178	150,532	321,026
Less than twelve months past due	136,341	127,554	80,808	68,149	73,019	777
More than twelve months past due	7,223	11,783	1,891	3,061	1,341	-
	<u>427,153</u>	<u>431,737</u>	<u>571,753</u>	<u>234,388</u>	<u>224,892</u>	<u>321,803</u>

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 2008, 2009 and 2010, Shenzhen Airlines Group's and Shenzhen Airlines' deposits of RMB28,251,000, RMB98,923,000 and RMB81,781,000 respectively are restricted deposits to secure the overhaul of operating leased jet engines and rental payment of operating leased aircraft.

As at 31 December 2008, 2009 and 2010, the deposits of Shenzhen Airlines Group and Shenzhen Airlines amounting to RMB241,609,000, RMB1,642,726,000 and RMB436,270,000 respectively were pledged to secure certain short term bank loans (note 23 (d)).

23 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Cash at bank and in hand	<u>266,618</u>	<u>616,506</u>	<u>446,651</u>	<u>166,782</u>	<u>470,182</u>	<u>270,338</u>

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

	Years ended 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Profit/(loss) before taxation	64,396	(776,315)	907,787
Adjustments for:			
Depreciation and amortisation	658,711	981,940	1,342,679
Impairment losses	1,179	1,099,523	551,820
Loss on deconsolidation of a subsidiary	–	77,518	–
Write down of inventories	–	–	38,791
Share of associates' results	2,674	2,161	247
Share of jointly controlled entities' results	25,740	32,247	35,272
(Gain)/loss on sale of property, plant and equipment and lease prepayments, net	(55,614)	(3,837)	20,114
Gain on disposal of an associate	–	(25,487)	–
Gain on disposal of financial assets	–	–	(8,066)
Gain on disposal of a subsidiary	(76,039)	–	–
Interest income	(35,816)	(7,047)	(24,361)
Interest expense	533,375	498,078	405,915
Changes in fair value of derivative financial instruments	66,200	43,893	(4,315)
Dividend income from other investments in equity securities	(964)	(10,667)	(1,924)
Unrealised exchange gain, net	(295,605)	(1,095)	(271,000)
Increase in inventories	(21,882)	(3,979)	(14,482)
Increase in trade and other receivables	(854,662)	(285,882)	(513,593)
Increase in trade and other payables	2,525,409	929,322	921,456
Increase/(decrease) in provision for major overhauls	<u>224,944</u>	<u>253,995</u>	<u>(260,215)</u>
	<u>2,762,046</u>	<u>2,804,368</u>	<u>3,126,125</u>

(c) Non cash transactions – acquisition of aircraft

During the years ended 31 December 2008, 2009 and 2010, additions of finance leased aircraft amounted to RMB600,156,000, Nil and RMB814,204,000 respectively which relate to certain sale and finance leaseback arrangements as disclosed in notes 10(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		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Within 1 year or on demand	3,865,450	16,532,952	4,549,959	3,865,450	16,524,952	4,539,959
After 1 year but within 2 years	920,059	10,000	1,279,593	920,059	–	1,267,593
After 2 years but within 5 years	885,692	12,000	3,767,779	885,692	–	3,767,779
After 5 years	6,373,841	–	7,204,364	6,373,841	–	7,204,364
	8,179,592	22,000	12,251,736	8,179,592	–	12,239,736
	<u>12,045,042</u>	<u>16,554,952</u>	<u>16,801,695</u>	<u>12,045,042</u>	<u>16,524,952</u>	<u>16,779,695</u>

As a result of the investigation of Shenzhen Airlines' former senior consultant (concurrently the former controlling equity holder of Huirun which is the former ultimate holding company of Shenzhen Airlines) by the police authorities in the PRC (the "PRC police authorities"), Shenzhen Airlines was in breach of the terms of certain bank loans contracts, giving banks the right to demand early repayment. As such, bank loans totalling RMB10,874,408,000 have been re-classified from non-current liabilities to current liabilities as at 31 December 2009. Upon the change in controlling equity holder and senior management on 19 April 2010, Shenzhen Airlines was no longer in breach of the terms and as such the amounts due after more than one year were classified back to non-current liabilities with effect from that date.

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

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Secured bank loans						
Floating interest rates ranging from 90% to 95% of benchmark interest rate (stipulated by PBOC) per annum	598,208	1,892,062	1,955,558	598,208	1,892,062	1,955,558
Floating interest rate ranging from 6-month London Interbank Offered Rate ("LIBOR") + 0.3% to 3.2% per annum	8,259,894	9,597,980	11,257,611	8,259,894	9,597,980	11,257,611
Floating interest rate ranging from 12-month LIBOR + 0.1% to 4.8% per annum	239,452	1,651,710	420,760	239,452	1,651,710	420,760
Fixed interest rate at 0.9% to 2.4%	-	-	425,102	-	-	425,102
Unsecured bank loans						
Fixed interest rate at 4.8% to 8.6% per annum	2,947,488	3,383,200	780,000	2,947,488	3,383,200	780,000
Floating interest rates at 90% to 100% of benchmark interest rate (stipulated by PBOC) per annum	-	30,000	1,578,547	-	-	1,556,547
Floating interest rate at 6-month LIBOR + 2.6%	-	-	384,117	-	-	384,117
Total	<u>12,045,042</u>	<u>16,554,952</u>	<u>16,801,695</u>	<u>12,045,042</u>	<u>16,524,952</u>	<u>16,779,695</u>

(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 to which they related:

	Shenzhen Airlines Group and Shenzhen Airlines At 31 December		
	2008 '000	2009 '000	2010 '000
USD	1,243,576	1,635,951	1,566,471
HKD	-	87,028	-
Euro dollars	<u>-</u>	<u>256</u>	<u>-</u>

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

	Shenzhen Airlines Group and Shenzhen Airlines		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Aircraft (note 10)	8,113,432	11,858,993	14,482,519
Advance payments for aircraft (note 11)	3,143,816	3,274,947	3,409,321
Pledged bank deposits (note 22)	241,609	1,642,726	436,270
	<u>11,498,857</u>	<u>16,776,666</u>	<u>18,328,110</u>

(e) As at 31 December 2008 and 2009, certain bank and other loans were guaranteed by Air China amounting to RMB84,272,000 and RMB43,227,000 respectively. Those loans were fully repaid during the year ended 31 December 2010.

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 will be expiring between 2013 and 2020. 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'000	Total minimum lease payments RMB'000	Interest RMB'000
Within 1 year	118,272	145,421	27,149
After 1 year but within 2 years	118,272	138,413	20,141
After 2 years but within 5 years	266,112	285,826	19,714
	<u>384,384</u>	<u>424,239</u>	<u>39,855</u>
	<u>502,656</u>	<u>569,660</u>	<u>67,004</u>

**Shenzhen Airlines Group and Shenzhen Airlines
At 31 December 2009**

	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Interest RMB'000
Within 1 year	118,272	138,413	20,141
After 1 year but within 2 years	118,296	131,429	13,133
After 2 years but within 5 years	147,816	154,397	6,581
	<u>266,112</u>	<u>285,826</u>	<u>19,714</u>
	<u><u>384,384</u></u>	<u><u>424,239</u></u>	<u><u>39,855</u></u>

**Shenzhen Airlines Group and Shenzhen Airlines
At 31 December 2010**

	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Interest RMB'000
Within 1 year	174,513	222,785	48,272
After 1 year but within 2 years	174,464	212,409	37,945
After 2 years but within 5 years	198,382	271,395	73,013
After 5 years	281,382	329,352	47,970
	<u>654,228</u>	<u>813,156</u>	<u>158,928</u>
	<u><u>828,741</u></u>	<u><u>1,035,941</u></u>	<u><u>207,200</u></u>

As at 31 December 2008, 2009 and 2010, there were four, four and six aircraft respectively under finance lease agreements. Under the terms of the leases, Shenzhen Airlines has the bargain option to purchase these aircraft or the ownership of aircraft will be transferred to the Shenzhen Airlines at the end of the lease period. These finance lease arrangements bear interest at the benchmark interest rate stipulated by PBOC.

As at 31 December 2008, 2009 and 2010, Shenzhen Airlines Group's and Shenzhen Airline's finance leases were secured by certain aircraft with aggregate carrying value of RMB567,187,000, RMB497,178,000 and RMB1,084,087,000 respectively (*note 10(d)*).

26 Trade and other payables

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Trade and bills payable	2,315,817	2,683,175	2,837,187	2,277,634	2,581,951	2,688,923
Amounts due to subsidiaries	–	–	–	5,090	18,013	632,875
Amounts due to Air China and its affiliates	86,818	86,818	110,405	86,818	86,818	98,012
Amounts due to Huirun	773,514	718,514	718,514	773,514	718,514	718,514
Amounts due to jointly controlled entities	–	–	2,642	–	–	–
Amounts due to associates and its affiliates	70,000	78,289	97,089	70,000	78,289	97,089
Other payables and accruals	1,546,519	2,113,767	2,895,668	1,468,928	1,942,401	1,826,904
	<u>4,792,668</u>	<u>5,680,563</u>	<u>6,661,505</u>	<u>4,681,984</u>	<u>5,425,986</u>	<u>6,062,317</u>

The amounts due to subsidiaries, Air China and its affiliates, Huirun, jointly controlled entities, associates and its affiliates are unsecured, interest free and have no fixed repayment terms.

Included in trade and bills payable are the following amounts due to related parties:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Air China and its affiliates	64,696	88,327	43,837	64,696	88,327	43,837
Jointly controlled entity	–	1,359	2,207	–	–	–
	<u>64,696</u>	<u>89,686</u>	<u>46,044</u>	<u>64,696</u>	<u>88,327</u>	<u>43,837</u>

The following is the ageing analysis of trade and bills payable:

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Within 1 month	1,961,696	2,104,762	1,515,527	1,954,596	2,093,087	1,472,634
More than 1 month but less than 3 months	45,036	166,988	671,646	40,955	126,039	646,332
More than 3 months but less than 12 months	309,085	411,425	650,014	282,083	362,825	569,957
	<u>2,315,817</u>	<u>2,683,175</u>	<u>2,837,187</u>	<u>2,277,634</u>	<u>2,581,951</u>	<u>2,688,923</u>

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		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
At 1 January	679,909	904,852	1,158,847	679,909	904,852	1,145,073
Provision for the year	307,575	314,044	393,861	307,575	300,270	393,861
Provision utilised during the year	(82,632)	(60,049)	(654,076)	(82,632)	(60,049)	(649,067)
At 31 December	904,852	1,158,847	898,632	904,852	1,145,073	889,867
Less: Current portion included in other payables	94,067	304,802	305,815	94,067	294,234	305,815
	<u>810,785</u>	<u>854,045</u>	<u>592,817</u>	<u>810,785</u>	<u>850,839</u>	<u>584,052</u>

28 Other non-current liabilities

	Shenzhen Airlines Group At 31 December			Shenzhen Airlines At 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Gain on sale and finance leaseback arrangements	145,729	130,194	114,659	145,729	130,194	114,659
Deferred revenue on frequent flyer programme	250,077	411,662	588,392	250,077	411,662	588,186
Manufacturers' credit	82,345	103,022	91,486	82,345	103,022	91,486
Others	12,359	10,921	168,921	6,562	10,921	168,921
	<u>490,510</u>	<u>655,799</u>	<u>963,458</u>	<u>484,713</u>	<u>655,799</u>	<u>963,252</u>

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 Relevant Period. 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 Airlines' individual components of equity between the beginning and the end of each of the years ended 31 December 2008, 2009 and 2010 are set out below:

	Paid-in capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Fair value reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2008	300,000	-	264,285	98,967	(1,721,955)	(1,058,703)
Total comprehensive income for the year	-	-	-	(65,109)	62,040	(3,069)
Balance at 31 December 2008 and 1 January 2009	300,000	-	264,285	33,858	(1,659,915)	(1,061,772)
Total comprehensive income for the year	-	-	-	53,346	(757,346)	(704,000)
Balance at 31 December 2009 and 1 January 2010	300,000	-	264,285	87,204	(2,417,261)	(1,765,772)
Additional paid-in capital during the year (note 29(b)(i))	512,500	517,625	-	-	-	1,030,125
Total comprehensive income for the year	-	-	-	(87,204)	754,545	667,341
Balance at 31 December 2010	<u>812,500</u>	<u>517,625</u>	<u>264,285</u>	<u>-</u>	<u>(1,662,716)</u>	<u>(68,306)</u>

(i) Increase in paid-in capital

On 21 March 2010, Huirun, Air China, Shenzhen International Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics") entered into an agreement to increase the registered capital of Shenzhen Airlines ("Capital Increase Agreement"). Pursuant to the Capital Increase Agreement, the registered capital of Shenzhen Airlines was increased by RMB512,500,000. Total Logistics subscribed for additional registered capital of RMB173,125,000 for a cash consideration of RMB347,981,000 and Air China subscribed for additional registered capital of RMB339,375,000 for a cash consideration of RMB682,144,000.

Huirun's liquidator, on behalf of Huirun, has waived its right to subscribe, and agreed that Total Logistics and Air China would subscribe for the entire additional registered capital of Shenzhen Airlines. The capital injection and all necessary approval procedures were completed on 19 April 2010. The difference between cash consideration received by Shenzhen Airlines on the capital injection of RMB1,030,125,000 and the additional registered capital of RMB512,500,000 was credited to the capital reserve of Shenzhen Airlines.

(c) Nature of reserves

(i) Capital reserve

The capital reserve represents the excess of the amounts received for subscriptions for registered capital over the nominal amount.

(ii) 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 equity holders 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.

(iii) 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).

(iv) 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) Distributability of reserves

Shenzhen Airlines did not have any reserves available for distribution as at 31 December 2008, 2009 and 2010.

30 Material related party transactions

(a) Directors' and supervisors' emoluments

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

	Year ended 31 December 2008				Total RMB'000
	Directors' fees RMB'000	Salaries, allowances benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	
<i>Directors</i>					
Fan Cheng	–	–	–	–	–
Li Jing	–	271	–	–	271
Li Kun	–	4,406	–	18	4,424
Li Mo	–	–	–	–	–
Li Wei	–	–	–	–	–
Li You Qiang	–	–	–	–	–
Liu Jian Ping	–	526	–	67	593
Liu Jun	–	–	–	–	–
Liu Wen Biao	–	–	–	–	–
Qin Wan Jiang	–	–	–	–	–
Song Zu Yu	–	–	–	–	–
Zhang Hui Lan	–	–	–	–	–
Zhang Yang	–	–	–	–	–
Zhao Jian	–	526	–	–	526
Zhao Jun Rong	–	–	–	–	–
Zhao Xiang	–	4,406	–	–	4,406
Directors total	–	10,135	–	85	10,220
<i>Supervisors</i>					
Guo Ying Jun	–	262	–	–	262
Liu Wang Xin	–	–	–	–	–
Xu Hai Wei	–	200	–	–	200
Zheng Bao An	–	–	–	–	–
Supervisors total	–	462	–	–	462
	–	10,597	–	85	10,682

Year ended 31 December 2009

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
<i>Directors</i>					
Fan Cheng	100	–	–	–	100
Li Jing	100	309	–	–	409
Li Kun	100	4,611	300	22	5,033
Li Mo	100	1,338	–	12	1,450
Li Wei	100	–	–	–	100
Li You Qiang	100	–	–	–	100
Liu Jian Ping	100	522	200	13	835
Liu Jun	100	–	–	–	100
Liu Wen Biao	100	–	–	–	100
Qin Wan Jiang	100	–	–	–	100
Song Zu Yu	100	–	–	–	100
Wu Wei	–	522	–	12	534
Zhang Hui Lan	100	–	–	–	100
Zhang Yang	100	–	–	–	100
Zhao Jian	100	652	–	–	752
Zhao Jun Rong	100	–	–	–	100
Zhu Xin Min	–	–	–	–	–
Directors total	1,500	7,954	500	59	10,013
<i>Supervisors</i>					
Guo Ying Jun	100	–	–	–	100
Liu Wang Xin	100	–	–	–	100
Xu Hai Wei	100	352	–	–	452
Zheng Bao An	100	–	–	–	100
Supervisors total	400	352	–	–	752
	1,900	8,306	500	59	10,765

	Year ended 31 December 2010				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
<i>Directors</i>					
Cai Jian Jiang	–	–	–	–	–
Fan Cheng	–	–	–	–	–
Feng Gang	–	–	167	–	167
Li Jing	–	–	–	–	–
Li Kun	–	384	–	–	384
Li Mo	–	–	–	–	–
Li Wei	–	–	–	–	–
Li You Qiang	–	127	–	–	127
Liu Jian Ping	–	353	–	7	360
Liu Jun	–	–	150	–	150
Liu Wen Biao	–	–	–	–	–
Qin Wan Jiang	–	–	–	–	–
Song Zu Yu	–	–	–	–	–
Wang Ming Yuan	–	–	–	–	–
Wu Wei	–	315	–	7	322
Zhang Hui Lan	–	–	–	–	–
Zhang Yang	–	–	–	–	–
Zhao Jian	–	–	–	–	–
Zhao Jun Rong	–	–	–	–	–
Zhong Wen Ya	–	–	–	–	–
Zhu Xin Min	–	–	–	–	–
Directors total	–	1,179	317	14	1,510
<i>Supervisors</i>					
Guo Ying Jun	–	–	–	–	–
Liu Wang Xin	–	–	–	–	–
Xu Hai Wei	–	–	–	–	–
Zheng Bao An	–	–	–	–	–
Supervisors total	–	–	–	–	–
	–	1,179	317	14	1,510

(b) Individuals with highest emoluments

In 2008, 2009 and 2010, three, four and none of the five individuals with the highest emoluments are directors respectively. The aggregate emoluments in respect of the two, one and five individuals who were not directors during the Relevant Period are as follows:

	Years ended 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	1,120	722	7,822
Retirement scheme contributions	21	13	88
	1,141	735	7,910

The emoluments of the two, one and five individuals who are not directors with the highest emoluments during the Relevant Period are within the following bands:

	Years ended 31 December		
	2008	2009	2010
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
Nil to HKD1,000,000	<u>2</u>	<u>1</u>	<u>–</u>
HKD1,000,001 to HKD1,500,000	<u>–</u>	<u>–</u>	<u>–</u>
HKD1,500,001 to HKD2,000,000	<u>–</u>	<u>–</u>	<u>5</u>

Remuneration for key management personnel including the directors and supervisors of Shenzhen Airlines Group is as follows:

	Years ended 31 December		
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefits	<u>17,604</u>	<u>15,747</u>	<u>21,390</u>

(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
Air China	Immediate holding company
Huirun	Non-controlling equity holder
SZ Property	Associate
Guangzhou Baiyun International Airport Ground Handling Service Co., Ltd* 廣州白雲機場地勤服務有限公司	Associate of the immediate holding company
Cathay Pacific Airways Limited	Associate of the immediate holding company
Cathay Pacific Catering Service (HK) Limited	Associate of the immediate holding company
Menzies Macau Airport Services Limited* 明捷澳門機場服務有限公司	Associate of the immediate holding company
Shandong Airlines Company Limited* 山東航空股份有限公司	Associate of the immediate holding company
China National Aviation Finance Co., Ltd.* 中國航空集團財務有限責任公司	Associate of the immediate holding company

Name of related party	Relationship
Zhengzhou Aircraft Maintenance Engineering Company Limited* 鄭州飛機維修工程有限公司	Associate
Aircraft Maintenance and Engineering Corporation, Beijing* 北京飛機維修工程有限公司	Joint venture of the immediate holding company
Sichuan S Aero-engine Maintenance Co., Ltd.* 四川國際航空發動機維修有限公司	Joint venture of the immediate holding company
Shenzhen Airlines (Xishuangbanna) Property Co., Ltd.* 深航(西雙版納)置業有限公司	Subsidiary of an associate
Shenyang Property	Subsidiary of an associate
Wuxi 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
Air China Cargo Co., Ltd.* 中國國際貨運航空有限公司	Subsidiary of the immediate holding company
Chengdu Falcon Aircraft Engineering Service Co., Ltd.* 成都富凱飛機工程服務有限公司	Subsidiary of the immediate holding company
China Air Express Limited* 民航快遞有限責任公司	Subsidiary of the ultimate holding company
China Aviation Express (HK) Ltd	Subsidiary of the ultimate holding company
ADA-Administration of Airports Limited	Subsidiary of the ultimate holding company
Zhejiang Zhongyu Aviation Development Co., Ltd.* 浙江中宇航空發展有限公司	Subsidiary of the immediate holding company
Southwest Air Catering Co., Ltd 西南航空食品有限公司	Jointly controlled entity of the ultimate holding company
Beijing Air Catering Co., Ltd* 北京航空食品有限公司	Jointly controlled entity of the ultimate holding company
Heng Shan Property	Subsidiary of an associate

* *The English translation of the above companies' names 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 with (i) China National Aviation Holding Company ("CNAHC"), the ultimate holding company, and its subsidiaries, associates and jointly controlled entities (collectively "CNAHC Group"); (ii) Huirun; (iii) its jointly controlled entities; and (iv) associates.

	Years ended 31 December		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Income from CNAHC Group			
– Flight simulation service income	2,446	7,349	14,883
– Air catering income	3,237	6,371	7,789
– Airport ground services, take-off, landing and depot income	3,246	3,340	1,757
– Income from cargo operation	–	2,488	2,472
– Others	4,571	11,222	7,162
	<u>13,500</u>	<u>30,770</u>	<u>34,063</u>
Short-term loan from CNAHC Group	<u>–</u>	<u>–</u>	<u>500,000</u>
Advance from an associate	<u>–</u>	<u>–</u>	<u>19,500</u>
Income from jointly controlled entities			
– Income from cargo operations	–	6,146	46,985
– Rental income	1,091	1,284	2,120
– Commission income	2,847	7,955	2,589
– Catering income	1,085	362	–
– Flight simulation income	584	66	275
	<u>5,607</u>	<u>15,813</u>	<u>51,969</u>
Expenses to CNAHC Group			
– Air catering expense	–	9,579	17,038
– Airport ground services, take-off, landing and depot charges	6,112	11,183	19,193
– Operating leases expense	–	–	2,749
– Repair and maintenance expense	–	–	233,823
– Others	–	–	940
	<u>6,112</u>	<u>20,762</u>	<u>273,743</u>
Assumption of amounts receivable by Huirun (note 21(a))	<u>1,320,000</u>	<u>600,000</u>	<u>–</u>
Acquisition of property, plant and equipment from CNAHC Group	<u>–</u>	<u>–</u>	<u>1,424</u>
Disposal of property, plant and equipment to CNAHC Group	<u>–</u>	<u>–</u>	<u>893</u>
Settlement received on behalf of CNAHC Group	<u>–</u>	<u>–</u>	<u>94,929</u>
Gain on disposal of a subsidiary to an associate	<u>76,039</u>	<u>–</u>	<u>–</u>

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 item 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		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Revenue			
Reportable segment revenue	10,410,077	12,143,589	16,568,535
Effects of differences between HKFRSs and PRC GAAP	79,382	(97,708)	(280,965)
Consolidated revenue	<u>10,489,459</u>	<u>12,045,881</u>	<u>16,287,570</u>
Profit/(loss)			
Reportable segment (loss)/profit before taxation	(74,570)	(769,208)	907,636
Effects of differences between HKFRSs and PRC GAAP	138,966	(7,107)	151
Consolidated profit/(loss) before taxation	<u>64,396</u>	<u>(776,315)</u>	<u>907,787</u>
Assets			
Reportable segment assets	17,656,296	22,386,553	25,994,772
Effects of differences between HKFRSs and PRC GAAP	324,698	387,234	282,595
Consolidated total assets	<u>17,980,994</u>	<u>22,773,787</u>	<u>26,277,367</u>
Liabilities			
Reportable segment liabilities	18,849,256	24,453,664	26,301,261
Effects of differences between HKFRSs and PRC GAAP	87,709	101,729	67,823
Consolidated total liabilities	<u>18,936,965</u>	<u>24,555,393</u>	<u>26,369,084</u>

The effects of differences between HKFRSs and PRC GAAP as mentioned above relate primarily to the capitalisation of exchange differences on specific loans and the related tax impact. Under HKFRSs, exchange difference are only capitalised to the extent that they are regarded as an adjustment to interest cost.

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 2010, Shenzhen Airlines Group's and Shenzhen Airlines' 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 cash flow 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' 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 certain bank and other loans of Shenzhen Airlines have been classified as current liabilities as at 31 December 2009 due to the breach of the loan covenants as disclosed in note 24(a), 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		
	2008	2009	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans			
Within 1 year of on demand	4,143,977	4,635,503	4,808,140
More than 1 year but less than 2 years	1,320,113	1,649,143	1,572,557
More than 2 years but less than 5 years	3,338,249	3,459,301	4,547,018
More than 5 years	6,532,020	8,704,090	8,966,141
	<u>15,334,359</u>	<u>18,448,037</u>	<u>19,893,856</u>
Total contractual undiscounted cash flow			
	<u>15,334,359</u>	<u>18,448,037</u>	<u>19,893,856</u>
Carrying amount	<u>12,045,042</u>	<u>16,554,952</u>	<u>16,801,695</u>

	Shenzhen Airlines		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Bank loans			
Within 1 year of on demand	4,143,977	4,626,185	4,797,329
More than 1 year but less than 2 years	1,320,113	1,638,332	1,560,415
More than 2 years but less than 5 years	3,338,249	3,447,159	4,547,018
More than 5 years	6,532,020	8,704,090	8,966,141
Total contractual undiscounted cash flow	<u>15,334,359</u>	<u>18,415,766</u>	<u>19,870,903</u>
Carrying amount	<u>12,045,042</u>	<u>16,524,952</u>	<u>16,779,695</u>

(b) Interest rate risk

The interest rates and maturity information of bank and other loans and finance lease obligations of Shenzhen Airlines Group and Shenzhen Airlines 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 profit or loss.

At 31 December 2008, 2009 and 2010, 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's and Shenzhen Airlines' profit or loss after tax and accumulated losses by approximately RMB96,090,000, RMB113,733,000 and RMB125,331,000 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 RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB 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's and Shenzhen Airlines' obligations under finance leases (*note 25*) and bank and other loans (*note 24*) are denominated in foreign currencies, principally United States dollars ("USD") and Hong Kong dollars ("HKD"). These borrowings are used to settle the payments for purchase of aircraft that are principally denominated in USD.

The following table details Shenzhen Airlines Group's and Shenzhen Airlines' 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		Shenzhen Airlines	
	At 31 December 2008		At 31 December 2008	
	USD In RMB'000	HKD In RMB'000	USD In RMB'000	HKD In RMB'000
Cash and cash equivalents	40,276	9,510	40,273	9,506
Bank and other loans	(8,499,346)	—	(8,499,346)	—
Gross exposure arising from recognised assets and liabilities	(8,459,070)	9,510	(8,459,073)	9,506
Notional amounts of foreign exchange forward contracts	248,098	—	248,098	—
Net exposure arising from recognised assets and liabilities	<u>(8,210,972)</u>	<u>9,510</u>	<u>(8,210,975)</u>	<u>9,506</u>
	Shenzhen Airlines Group		Shenzhen Airlines	
	At 31 December 2009		At 31 December 2009	
	USD In RMB'000	HKD In RMB'000	USD In RMB'000	HKD In RMB'000
Cash and cash equivalents	88,452	21,769	87,635	21,757
Bank and other loans	(11,170,600)	(76,628)	(11,170,600)	(76,628)
Gross exposure arising from recognised assets and liabilities	(11,082,148)	(54,859)	(11,082,965)	(54,871)
Notional amounts of foreign exchange forward contracts	1,572,619	—	1,572,619	—
Net exposure arising from recognised assets and liabilities	<u>(9,509,529)</u>	<u>(54,859)</u>	<u>(9,510,346)</u>	<u>(54,871)</u>

	Shenzhen Airlines Group At 31 December 2010		Shenzhen Airlines At 31 December 2010	
	USD	HKD	USD	HKD
	In RMB'000	In RMB'000	In RMB'000	In RMB'000
Cash and cash equivalents	60,703	17,028	58,429	16,680
Bank and other loans	(10,374,269)	—	(10,374,269)	—
Gross exposure arising from recognised assets and liabilities	(10,313,566)	17,028	(10,315,840)	16,680
Notional amounts of foreign exchange forward contracts	425,102	—	425,102	—
Net exposure arising from recognised assets and liabilities	<u>(9,888,464)</u>	<u>17,028</u>	<u>(9,890,738)</u>	<u>16,680</u>

(ii) Sensitivity analysis

	Appreciation/ (depreciation) of RMB against currency	2008	
		Shenzhen Airlines Group increase/ (decrease) on profit after tax and accumulated losses RMB'000	Shenzhen Airlines increase/ (decrease) on profit after tax and accumulated losses RMB'000
USD	10%	650,358	650,358
HKD	10%	<u>761</u>	<u>761</u>
	Appreciation/ (depreciation) of RMB against currency	2009	
		Shenzhen Airlines Group decrease/ (increase) on loss after tax and accumulated losses RMB'000	Shenzhen Airlines decrease/ (increase) on loss after tax and accumulated losses RMB'000
USD	10%	698,280	698,344
HKD	10%	<u>4,279</u>	<u>4,280</u>

		2010	
	Appreciation/ (depreciation) of RMB against currency	Shenzhen Airlines Group increase/ (decrease) on profit after tax and accumulated losses RMB'000	Shenzhen Airlines increase/ (decrease) on profit after tax and accumulated losses RMB'000
USD	10%	701,182	701,343
HKD	10%	<u>(1,207)</u>	<u>(1,183)</u>

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of Shenzhen Airlines Group entities' and Shenzhen Airlines' profit/loss after tax and equity measured in the respective functional currencies, translated into RMB 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's and Shenzhen Airlines' operating costs is jet fuel cost. Shenzhen Airlines Group's and Shenzhen Airlines' financial performance is affected by jet fuel price fluctuation. Shenzhen Airlines Group's and Shenzhen Airlines' 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 2008, 2009 and 2010 respectively. The jet fuel price of the PRC is regulated by the PRC government and the introduction of fuel surcharges and the extension of the duration of the same will help relieve, to a certain extent, the burden of jet fuel cost.

As at 31 December 2008, 2009 and 2010, if jet fuel price were to rise by RMB1,000 per tonne, with other variables held constant, Shenzhen Airlines Group's and Shenzhen Airlines' jet fuel costs for the year would increase by approximately RMB561,298,000, RMB712,129,000 and RMB800,974,000; and RMB561,298,000, RMB686,608,000 and RMB752,022,000 for each year respectively.

(e) Credit risk

Shenzhen Airlines Group's and Shenzhen Airlines' credit risk is primarily attributable to cash and cash equivalents and trade receivables.

A significant portion of Shenzhen Airlines Group's and Shenzhen Airlines' 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 RMB115,718,000, RMB121,946,000 and RMB225,309,000 as at 31 December 2008, 2009 and 2010 respectively. The credit risk exposure to BSP and the remaining trade receivables balance are monitored by Shenzhen Airlines Group's 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's and Shenzhen Airlines' 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

2008

	Shenzhen Airlines Group			Total
	Level 1	Level 2	Level 3	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets				
Trading securities	5,936	–	–	5,936
Available-for-sale equity securities at fair value	–	54,743	–	54,743
Interest rate swap	–	6,547	–	6,547
	<u>5,936</u>	<u>61,290</u>	<u>–</u>	<u>67,226</u>
Liabilities				
Interest rate swap	–	44,940	–	44,940
Foreign exchange forward contracts	–	713	–	713
	<u>–</u>	<u>45,653</u>	<u>–</u>	<u>45,653</u>

2009

	Shenzhen Airlines Group			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Assets				
Trading securities	17,322	–	–	17,322
Available-for-sale equity securities at fair value	–	125,870	–	125,870
Interest rate swaps	–	12,757	–	12,757
	<u>17,322</u>	<u>138,627</u>	<u>–</u>	<u>155,949</u>
Liabilities				
Interest rate swaps	–	74,386	–	74,386
Foreign exchange forward contracts	–	18,297	–	18,297
	<u>–</u>	<u>92,683</u>	<u>–</u>	<u>92,683</u>

2010

	Shenzhen Airlines Group			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Assets				
Trading securities	21,485	–	–	21,485
Available-for-sale equity securities at fair value (note (v))	–	–	9,600	9,600
Interest rate swaps	–	5,894	–	5,894
	<u>21,485</u>	<u>5,894</u>	<u>9,600</u>	<u>36,979</u>
Liabilities				
Interest rate swaps	–	73,469	–	73,469
Foreign exchange forward contracts	–	13,811	–	13,811
	<u>–</u>	<u>87,280</u>	<u>–</u>	<u>87,280</u>

2008

	Shenzhen Airlines			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Assets				
Available-for-sale equity securities at fair value	–	54,743	–	54,743
Interest rate swaps	–	6,548	–	6,548
	<u>–</u>	<u>61,291</u>	<u>–</u>	<u>61,291</u>
Liabilities				
Interest rate swaps	–	44,940	–	44,940
Foreign exchange forward contracts	–	713	–	713
	<u>–</u>	<u>45,653</u>	<u>–</u>	<u>45,653</u>

2009

	Shenzhen Airlines			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Assets				
Available-for-sale equity securities at fair value	–	125,870	–	125,870
Interest rate swaps	–	12,757	–	12,757
	<u>–</u>	<u>138,627</u>	<u>–</u>	<u>138,627</u>
Liabilities				
Interest rate swaps	–	74,386	–	74,386
Foreign exchange forward contracts	–	18,297	–	18,297
	<u>–</u>	<u>92,683</u>	<u>–</u>	<u>92,683</u>

2010

	Shenzhen Airlines			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Assets				
Available-for-sale equity securities at fair value (note (v))	–	–	9,600	9,600
Interest rate swaps	–	5,894	–	5,894
	<u>–</u>	<u>5,894</u>	<u>9,600</u>	<u>15,494</u>
Liabilities				
Interest rate swaps	–	73,469	–	73,469
Foreign exchange forward contracts	–	13,811	–	13,811
	<u>–</u>	<u>87,280</u>	<u>–</u>	<u>87,280</u>

- (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.

- (v) The movement during the year ended 31 December 2010 in the balance of Level 3 fair value measurements is as follows:

	Shenzhen Airlines Group and Shenzhen Airlines <i>RMB'000</i>
Unlisted available-for-sale equity securities:	
At 1 January 2010	–
Transfer from Level 2	9,600
At 31 December 2010	9,600

During the year ended 31 December 2010 available-for-sale equity securities with a carrying amount of RMB9,600,000 were transferred from Level 2 to Level 3 because comparable transactions in the market for such equity securities were no longer regularly available.

Although Shenzhen Airlines Group believes that its estimates of fair value based on unobservable inputs are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, a one percentage point decrease/(increase) in the discount rate would have the following effects:

	Effect on other comprehensive income	
	Favourable	(Unfavourable)
	<i>RMB'000</i>	<i>RMB'000</i>
2010		
Available-for-sale equity securities	1,860	(1,860)

The favourable and unfavourable effects of using reasonably possible alternative assumptions have been calculated by recalibrating the model values using expected cash flow and risk-adjusted discount rates based on the probability weighted average of Shenzhen Airlines Group's ranges of possible outcomes. Key inputs and assumptions used in the models at 31 December 2010 include:

Discount Rate

The discount rate applied to the cash flow of the available-for-sale equity securities is based on the risk-free rate for the PRC government bonds, adjusted for a risk premium to reflect both the increased risk of investing in equities, the systematic risk of the investee and the entity specific risk to the extent not already reflected in the cash flows.

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		
	2008 RMB'000	2009 RMB'000	2010 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000
Commitments in respect of aircraft and flight equipment – authorised and contracted for	27,380,015	23,341,565	21,429,478	27,324,096	23,341,565	21,429,478
Other commitments – authorised and contracted for	44,744	81,807	877,076	44,744	81,807	877,076
	<u>27,424,759</u>	<u>23,423,372</u>	<u>22,306,554</u>	<u>27,368,840</u>	<u>23,423,372</u>	<u>22,306,554</u>

As at 31 December 2008, 2009 and 2010, in respect of Shenzhen Airlines' interest in jointly controlled entities (*see note 15*), the jointly controlled entities are committed to incur capital expenditure of RMB9,180,859,000, RMB8,778,959,000 and RMB8,540,421,000 respectively, of which Shenzhen Airlines Group's share of these commitments are RMB4,682,238,000, RMB4,477,269,000 and RMB4,355,615,000 respectively.

(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		
	2008 RMB'000	2009 RMB'000	2010 RMB'000
Within 1 year	903,264	906,474	794,308
After 1 year but within 5 years	2,714,040	2,941,939	2,606,344
After 5 years	2,938,502	2,653,767	1,876,497
	<u>6,555,806</u>	<u>6,502,180</u>	<u>5,277,149</u>

(c) Investment commitments

Shenzhen Airlines Group committed to make capital contributions in respect of:

	Shenzhen Airlines Group		
	At 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Jointly controlled entities	204,000	204,000	204,000
Associates	–	35,000	35,000
Subsidiaries	220,000	156,000	156,000
	<u>424,000</u>	<u>395,000</u>	<u>395,000</u>

34 Contingent liabilities*(a) Henan Airlines accident*

On 24 August 2010, Henan Airlines Flight VD8387 crashed on approach to Yichun Lindu Airport, the PRC. There were 42 fatalities including 3 crew members and 54 injured including 2 crew members. An investigation was conducted by the State Council of the PRC (“the State Council”) and the Civil Aviation Administration of China, but the investigation has yet to be finished at the date of this Financial Information. Shenzhen Airlines Group cannot predict the outcome of the investigation or the likelihood of commencement of court proceedings to seek damages by the injured passengers or families of the deceased passengers and crew members. Up to 31 December 2010, Henan Airlines and its insurer had paid an aggregate amount of approximately RMB57,475,000 in respect of passenger and crew members liabilities and other auxiliary costs, of which RMB54,167,000 was paid by the insurer. The directors of Shenzhen Airlines believe that the compensation made or to be made by Henan Airlines and the auxiliary costs are within insured limits, and that there will not be any material adverse impact on Shenzhen Airlines Group’s financial position.

(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 2008, 2009 and 2010, Shenzhen Airlines has outstanding guarantees for employees residential mortgages amounting to RMB14,451,000, RMB10,139,000 and RMB281,476,000 respectively and for pilot trainees amounting to RMB112,173,000, RMB231,702,000 and RMB354,706,000 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 notes 21(a) and 24(a), 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 Immediate and ultimate controlling party

As at 31 December 2010, the directors of Shenzhen Airlines consider the immediate parent and ultimate controlling party of Shenzhen Airlines Group to be Air China and CNAHC, a PRC state-owned enterprise under the supervision of the State Council, respectively. Air China produces financial statements available for public use.

As at 31 December 2009 and 2008, the directors of Shenzhen Airlines consider the immediate parent and ultimate controlling party of Shenzhen Airline Group to be Huirun, a private entity established in the PRC. Huirun does not produce financial statements available for public use.

36 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 significant judgement is required by the board of directors in assessing Shenzhen Airlines Group's ability to continue as a going concern.

(b) Impairment of receivables

Shenzhen Airlines Group estimates impairment loss for 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.

37 Possible impact of amendments, new standards and interpretations issued but not effective for the year ended 31 December 2010

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 2010 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.

38 Subsidiaries

The particulars of Shenzhen Airlines Group's principal subsidiaries are as follows:

Name of company	Issued and fully paid up/ registered capital RMB'000	Attributable equity interest		Principal activities
		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	90%	10%	Tickets agent
Shenzhen Airport Catering Co., Ltd. 深圳航空港配餐有限公司(Notes (ii))	10,000	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	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	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	96%	4%	Aviation advertising services
Shenzhen Kunpeng International Flight Academy 深圳鯤鵬國際飛行學校 (Notes (i) and (iii))	89,000	100%	–	Flight Academy
Huizhou Airport Management Co., Ltd. 惠州機場管理有限公司 (Notes (i) and (iii))	100,000	90%	–	Airport operator

Name of company	Issued and fully paid up/ registered capital RMB'000	Attributable equity interest		Principal activities
		Direct	Indirect	
Shenzhen Airlines Investment Co., Ltd. 深圳市深航投資有限公司 (Notes (i) and (iii))	30,000	100%	–	Investment holding
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	–	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	–	51%	Travel services
Kunming Airlines Co., Ltd. 昆明航空有限公司 (Notes (i) and (iii))	80,000	80%	–	Airline operations
Shenzhen Airlines Zunpeng Investment Co., Ltd. 深圳市深航尊鵬投資有限公司 (formerly known as 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	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	100%	–	Hotel management

Notes:

- (i) These entities are limited liability companies established in the PRC.
- (ii) This entity is a sino-foreign joint venture company established in the PRC.
- (iii) The English translation of the above companies' names 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 2010.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

**MANAGEMENT DISCUSSION AND ANALYSIS OF SHENZHEN AIRLINES FOR THE THREE
YEARS ENDED 31 DECEMBER 2010****For the year ended 31 December 2010 (“Year 2010”)*****Business Review***

In Year 2010, the total operating revenue of Shenzhen Airlines was RMB16,288 million, representing a growth of approximately 35% over 2009. In Year 2010, total operating expenses excluding impairment losses of Shenzhen Airlines was RMB14,716 million, representing a growth of approximately 33% over 2009; income tax expense was RMB161 million, representing an increase of approximately RMB69 million over 2009. In Year 2010, net profit was about RMB747 million (2009: net loss of RMB869 million).

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 RMB12,046 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 approximately RMB101 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 RMB180 million). In Year 2008, net profit was about RMB73 million (2007: net loss of RMB1,818 million).

Liquidity and Financial Resources

As at 31 December 2010, cash and cash equivalents of Shenzhen Airlines was RMB447 million, and were RMB617 million and RMB267 million as at 31 December 2009 and 31 December 2008, respectively. As at 31 December 2010, the loan balance of Shenzhen Airlines was RMB16,802 million, and were RMB16,555 million and RMB12,045 million, respectively in 2009 and 2008. 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 RMB30,974 million from various banks in China as at 31 December 2010, of which approximately RMB21,578 million has been utilised. In 2010, Shenzhen Airlines had sufficient liquidity to satisfy its requirements in working capital and capital expenditure.

Capital Structure

As at 31 December 2010, total assets of Shenzhen Airlines amounted to RMB26,277 million and total liabilities amounted to RMB26,369 million, with shareholders' deficit of RMB92 million. In respect of the total liabilities, current liabilities amounted to RMB11,609 million, representing approximately 44% of total liabilities, and non-current liabilities amounted to RMB14,760 million, representing approximately 56% of total liabilities.

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 RMB1,782 million. In respect of the total liabilities, current liabilities amounted to RMB22,535 million, representing approximately 92% of total liabilities, and non-current liabilities amounted to RMB2,020 million, representing approximately 8% of total liabilities.

As at 31 December 2008, total liabilities of Shenzhen Airlines were RMB18,937 million, of which, current liabilities amounted to RMB8,823 million, representing approximately 47% of total liabilities, and non-current liabilities amounted to RMB10,114 million, representing approximately 53% 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 2008, 2009 and 2010, Shenzhen Airlines introduced 18, 14 and 13 new aircrafts for its core passenger aviation business, respectively, among which 17 aircrafts were under operating leases, and 28 aircrafts were purchased for own use or under finance lease. In 2010, the average number of aircrafts of Shenzhen Airlines reached 93. 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 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.

Employees and Remuneration Policy

As at 31 December 2010, 31 December 2009 and 31 December 2008, the employees of Shenzhen Airlines were 12,589, 13,094 and 12,762 with labor cost expenditure of RMB1,834 million, RMB1,239 million and RMB1,061 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 2010, Shenzhen Airlines pledged its aircrafts and flight simulators with a total net book value of approximately RMB18,976 million under certain bank loans and finance lease agreements. In addition, bank deposit of Shenzhen Airlines of approximately RMB518 million was pledged as security for operating leases and financial derivatives of Shenzhen Airlines.

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: RMB457 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 2011 is expected to be approximately RMB5,688 million, of which about 85% is expected to be expenditure for purchase of aircrafts, and the remaining is expected to be expenditure for infrastructure construction, etc.

Capital expenditure related to aircraft will be funded through bank loans and finance leases and capital expenditures related to other assets will be funded by short-term bank borrowings and internal financial resources.

Gearing Ratio

The gearing ratios (calculated as total liabilities/total assets) of Shenzhen Airlines as at 31 December 2010, 31 December 2009 and 31 December 2008 were approximately 100%, 108% and 105%, respectively.

Foreign Exchange Risk

As at 31 December 2010, total foreign currency interest-bearing borrowings of Shenzhen Airlines were RMB10,374 million which were all denominated in US dollar. As at 31 December 2009, total foreign currency interest-bearing borrowings of Shenzhen Airlines were RMB11,247 million which were all denominated in US dollar. As at 31 December 2008, total foreign currency interest-bearing borrowings of Shenzhen Airlines were RMB8,499 million which were all denominated in US dollar.

In addition, Shenzhen Airlines also had sales income and expenses in foreign currencies. Shenzhen Airlines tries to minimise 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 2010 were as follows:

(a) External guarantee 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 2008, 2009 and 2010, Shenzhen Airlines has outstanding guarantees for employees residential mortgages amounting to RMB14 million, RMB10 million and RMB281 million respectively and for pilot trainees amounting to RMB112 million, RMB232 million and RMB355 million respectively.

As at 31 December 2009, Shenzhen Airlines has provided financial guarantee over bank loans obtained by Henan Airlines amounting to RMB50 million. Henan Airlines fully repaid the bank loans on 23 March 2010 and Shenzhen Airlines has been released from the guarantee.

(b) Henan Airlines accident

On 24 August 2010, Henan Airlines Flight VD8387 crashed on approach to Yichun Lindu Airport, the PRC. There were 42 fatalities including 3 crew members and 54 injured including 2 crew members aboard the crashed aircraft. An investigation was conducted by the State Council of the PRC and the Civil Aviation Administration of China, but the investigation has yet to be finished as at 31 December 2010. Shenzhen Airlines cannot predict the outcome of the investigation or the likelihood of commencement of court proceedings to seek damages by the injured passengers or families of the deceased passengers and crew members. Up to 31

December 2010, Henan Airlines and its insurer had paid an aggregate amount of approximately RMB57 million in respect of passenger and crew members liabilities and other auxiliary costs, of which RMB54 million was paid by the insurer. The directors of Shenzhen Airlines believe that the compensation made or to be made by Henan Airlines and the auxiliary costs are within insured limit, and that there will not be any material adverse impact on Shenzhen Airlines' financial position.

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. 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 17 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 2010, Shenzhen Airlines had an average number of 93 unit of aircrafts, annual passengers throughput of 16.49 million, cargo throughput of 228,500 tonnes and transportation income of RMB14,308 million. All operation indicators had maintained satisfactory double-digit growth rates.

Driven by continuing domestic economic growth, together with an increase in PRC residents' consumption and acceleration in the urbanisation of the PRC, the market demand for domestic air transportation continues to grow, contributing to a sound operating environment and thereby good operating results of Shenzhen Airlines.

Moreover, 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.

Despite the continued surge in international oil prices during 2010, the cost pressure brought by the increase in oil prices was mitigated to a certain extent by the strict oil prices control by the Chinese Government, the fuel surcharge mechanism and various measures including energy conservation and emissions reduction implemented by Shenzhen Airlines. In 2011, Shenzhen Airlines will continue to implement an array of specific measures including optimisation of its routes and flight connection as well as enhancement of utilisation rate of aircrafts so as to reduce consumption of aviation oil in daily operation and the possible impacts arising from the increase in oil prices.

Looking forward, in 2011, Shenzhen Airlines will further strengthen its business co-operation and resources integration with Air China, drive to improve its domestic and international route network and reinforce its market position in the Pearl River Delta region. Through the synergies created from the co-operation with Air China in all aspects, the competitiveness of Shenzhen Airlines will be further enhanced.

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 2010 after making pro forma adjustments as set out in Note (b) below.

This unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effects of the Acquisition, as if the Acquisition had taken place on 31 December 2010. 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 Acquisition been completed as at 31 December 2010 or any future date.

(a) Unaudited pro forma consolidated assets and liabilities of the Enlarged Group

	Audited consolidated assets and liabilities of the Group as at 31 December 2010 <i>HKD'000</i> <i>Note 1</i>	Pro forma adjustment <i>HKD'000</i> <i>Note 2</i>	Unaudited pro forma consolidated assets and liabilities of the Enlarged Group <i>HKD'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	3,226,152	–	3,226,152
Investment properties	49,989	–	49,989
Land use rights and other leased assets	647,623	–	647,623
Construction in progress	368,096	–	368,096
Intangible assets	23,446,980	–	23,446,980
Investments in associates	2,280,452	928,350	3,208,802
Investments in jointly controlled entities	306,821	–	306,821
Available-for-sale financial assets	147,263	–	147,263
Deferred income tax assets	115,485	–	115,485
Other non-current assets	54,050	–	54,050
	<u>30,642,911</u>	<u>928,350</u>	<u>31,571,261</u>
Current assets			
Available-for-sale financial assets	3,435,965	–	3,435,965
Trade and other receivables	623,300	–	623,300
Restricted bank deposits	349,573	–	349,573
Cash and cash equivalents	1,729,590	(928,350)	801,240
	<u>6,138,428</u>	<u>(928,350)</u>	<u>5,210,078</u>
Assets held for sale	15,055	–	15,055
Total assets	<u><u>36,796,394</u></u>	<u><u>–</u></u>	<u><u>36,796,394</u></u>

	Audited consolidated assets and liabilities of the Group as at 31 December 2010 <i>HKD'000</i> <i>Note 1</i>	Pro forma adjustment <i>HKD'000</i> <i>Note 2</i>	Unaudited pro forma consolidated assets and liabilities of the Enlarged Group <i>HKD'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings	10,259,423	–	10,259,423
Derivative financial instruments	83,476	–	83,476
Provision for maintenance/ resurfacing obligations	1,083,835	–	1,083,835
Convertible bonds	1,549,341	–	1,549,341
Deferred income tax liabilities	2,019,386	–	2,019,386
	<u>14,995,461</u>	<u>–</u>	<u>14,995,461</u>
Current liabilities			
Trade and other payables	2,308,267	–	2,308,267
Income tax payable	296,232	–	296,232
Provision for maintenance/ resurfacing obligations	26,877	–	26,877
Borrowings	2,140,954	–	2,140,954
Derivative financial instruments	5,078	–	5,078
	<u>4,777,408</u>	<u>–</u>	<u>4,777,408</u>
Total liabilities	<u>19,772,869</u>	<u>–</u>	<u>19,772,869</u>
Net Assets	<u>17,023,525</u>	<u>–</u>	<u>17,023,525</u>

(b) Notes to unaudited pro forma financial information of the Enlarged Group

- The amounts are extracted from the audited consolidated balance sheet of the Group as at 31 December 2010.
- The adjustment represents the total consideration for the Acquisition amounting to RMB788,633,000 (equivalent to HKD928,350,000). The consideration will be financed by internal resources.
- Upon Completion, Total Logistics will increase its equity interest in Shenzhen Airlines from 25% to 49% and Shenzhen Airlines will remain as an associate of the Company.
- 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 HKD 1 = RMB 0.8495, the closing rate as at 31 December 2010.

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
22nd Floor, 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 IV-1 to IV-2 under the heading of "Unaudited Pro Forma Financial Information of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix IV of the circular dated 24 May 2011 (the "Circular") of Shenzhen International Holdings Limited (the "Company"), in connection with the proposed acquisition of 24% equity interest in 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 "Acquisition"). 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 Acquisition 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 IV-1 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 consolidated statement of assets and liabilities as at 31 December 2010 with the audited consolidated financial statements of the Group for the year ended 31 December 2010 as set out in the 2010 annual report of the Company, 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 adjustment is 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 2010 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 adjustment is 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, 24 May 2011

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular 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	0.12%
Liu Jun	19,000,000	Beneficial owner	Personal	0.12%

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	52,900,000	Beneficial owner	Personal	0.32%
Li Jing Qi	17,000,000	Beneficial owner	Personal	0.10%
Liu Jun	14,300,000	Beneficial owner	Personal	0.09%
Yang Hai	14,300,000	Beneficial owner	Personal	0.09%

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. Messrs. Guo Yuan, Li Jing Qi and Liu Jun are the directors of Ultrarich International Limited which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO.

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 Group which is subsisting at the date of this circular and which is significant in relation to the business of the Group. None of the Directors has any direct or indirect interest in any assets which have been, since 31 December 2010, 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 Group, or are proposed to be acquired or disposed of by, or leased to any member of the 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 2010, 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 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 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 2010 (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 II to this circular.
- (f) The unaudited pro forma financial information of the Enlarged Group is set out in Appendix IV 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 Group within the two years immediately preceding the date of this circular and are, or may be, material:

- (a) the Acquisition Agreement;
- (b) a conditional modification deed dated 11 November 2010 entered into between the Company and Shenzhen Investment Holdings Company Limited (深圳市投資控股有限公司) ("SIHCL") to amend certain terms of the zero coupon convertible bond in the principal amount of HK\$1,727,500,000 issued by the Company to SIHCL on 29 December 2007;
- (c) a capital increase agreement dated 21 March 2010 entered into between Total Logistics, Air China and Huirun in relation to the Capital Injection;
- (d) sale and purchase agreements dated 15 March 2010 entered into between Shenzhen International Holdings (SZ) Limited (深國際控股(深圳)有限公司) (a wholly owned subsidiary of the Company) 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;
- (e) a subscription agreement dated 25 November 2009 entered into between Shenzhen Expressway Company Limited ("Shenzhen Expressway") (a non-wholly owned subsidiary of the Company) 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;
- (f) a contract dated 24 November 2009 entered into between Nanjing Xiba Wharf Co. Ltd. (南京西壩碼頭有限公司) ("Nanjing Xiba Wharf Company") (a non-wholly owned subsidiary of the 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;

- (g) a master agreement dated 6 November 2009 entered into between Shenzhen Expressway and 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);
- (h) 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) (“XTC”) (a wholly-owned subsidiary of the Company) and Shenzhen Capital Group Co., Ltd (深圳市創新投資集團有限公司) (a company in which XTC then owned 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; and
- (i) 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.

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 memorandum of association and Bye-Laws of the Company;
- (b) the audited financial statements of the Group for the two years ended 31 December 2009 and 2010;
- (c) the letters of consent from each of PwC and KPMG;
- (d) the accountant’s report of Shenzhen Airlines, the text of which is set out in Appendix II to this circular;
- (e) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular; and
- (f) the material contracts referred to in this Appendix.

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.

NOTICE OF SGM



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 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, 10 June 2011 at 11:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the entering into of the acquisition agreement dated 7 May 2011 (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), a company established under the laws of the PRC and a wholly-owned subsidiary of the Company and Shenzhen Huirun Investment Co. Ltd. (深圳市匯潤投資有限公司) in relation to the acquisition of 24% equity interest in Shenzhen Airlines Limited (深圳航空有限責任公司) for a consideration of RMB788,632,500, and the transactions contemplated thereunder be hereby approved, confirmed and ratified; and
- (b) the board of directors of the Company be and is hereby authorised to do all such acts and things, execute all such documents and exercise all powers 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 including without limitation to the execution, amendment, supplement, delivery, waiver, submission and implementation of any further documents or agreements.”

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

Hong Kong, 24 May 2011

NOTICE OF SGM

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.