Shenzhen International Holdings Limited
深圳國際控股有限公司
(Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司)
Stock Code 股份代號 : 00152

Shenzhen International
深國際

共同進步 分享快樂
Advancing Together, Harvesting Together

2010
Annual Report 年報

共 同 進 步　分 享 快 樂
Advancing Together, Harvesting Together

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

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

AUDIT COMMITTEE

Leung Ming Yuen, Simon *(Chairman)*
Ding Xun
Nip Yun Wing

NOMINATION COMMITTEE

Ding Xun *(Chairman)*
Leung Ming Yuen, Simon
Li Jing Qi

REMUNERATION COMMITTEE

Ding Xun *(Chairman)*
Leung Ming Yuen, Simon
Li Jing Qi

COMPANY SECRETARY

Tam Mei Mei

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

COMPANY WEBSITE

http://www.szihl.com

STOCK CODE

00152

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

LEGAL ADVISERS

Loong & Yeung, Solicitors *(Hong Kong Legal Adviser)*

PRINCIPAL BANKERS

Bank of China *(Hong Kong)*
Bank of Jiangsu *(PRC Domestic Bank)*
The Bank of Tokyo-Mitsubishi UFJ, Hong Kong Branch
China Merchants Bank
DBS Bank
Guangdong Development Bank *(PRC Domestic Bank)*
Hang Seng Bank
Shanghai Pudong Development Bank
(PRC Domestic Bank)
Shenzhen Development Bank *(PRC Domestic Bank)*
Standard Chartered Bank
Wing Lung Bank

PRINCIPAL SHARE REGISTRAR

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Hong Kong

INVESTOR RELATIONS CONSULTANT

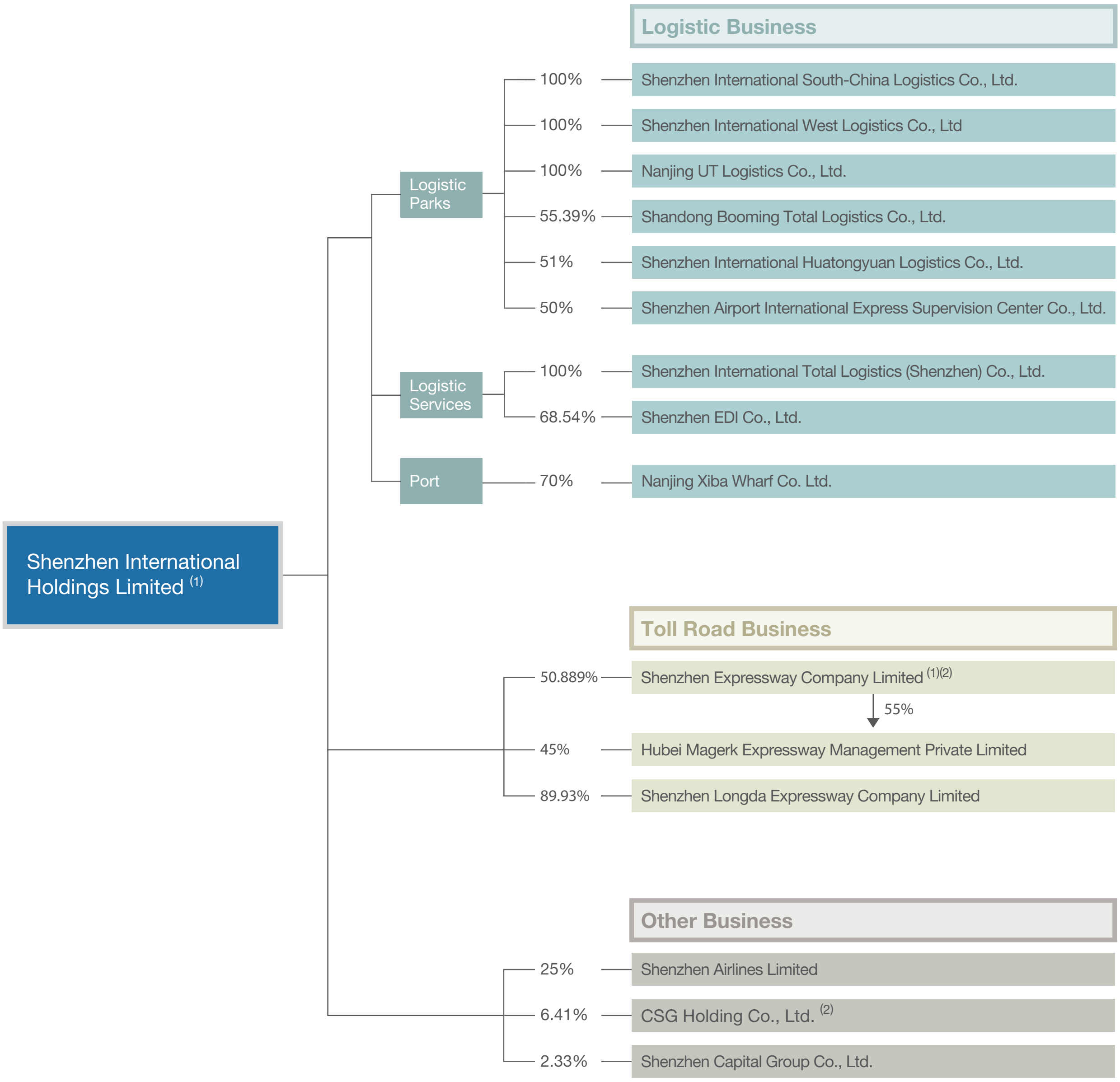
Rikes Hill & Knowlton Limited
Room 1312, Wing On Centre
111 Connaught Road Central, Hong Kong

CORPORATE PROFILE

Shenzhen International Holdings Limited is a company incorporated in Bermuda with limited liability and is listed on the main board of the Stock Exchange of Hong Kong. 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.

Shenzhen Investment Holdings Company Limited, the controlling shareholder of the Company, is a corporation wholly-owned by Shenzhen State-owned Assets Supervision and Administration Bureau and, as at the date of this report holds approximately 48.59% of the issued share capital of the Company.

The Group's development strategy defines the Pearl River Delta, the Yangtze River Delta and the Pan-Bohai Rim in the PRC as strategic regions, through acquisitions, restructuring and integration, the Group endeavours to invest, construct and operate logistic infrastructure projects such as logistic parks and toll roads and applies supply-chain management techniques and information technology to provide high-end and value-added logistic services to customers, creating greater value for its shareholders.



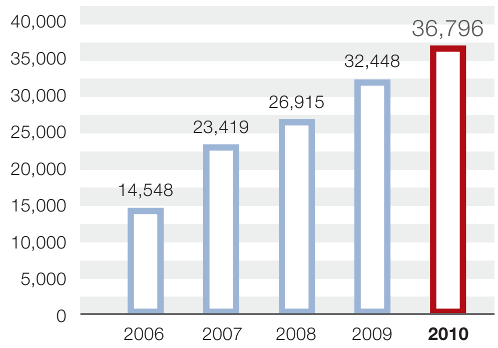
(1) Listed company in Hong Kong
(2) Listed company in the PRC

In this report, 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.

FINANCIAL HIGHLIGHTS

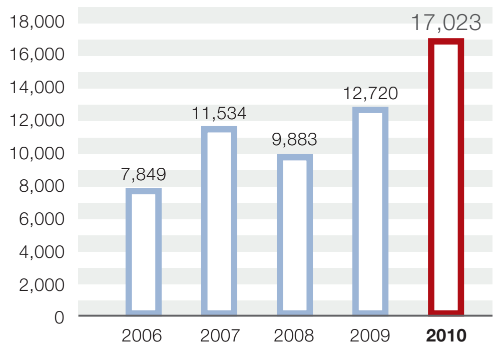
Total Assets Value

HK$ million



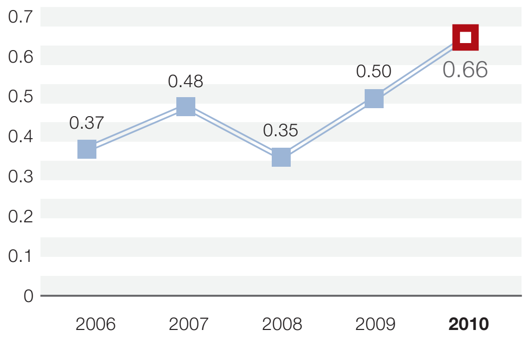
Total Equity

HK$ million



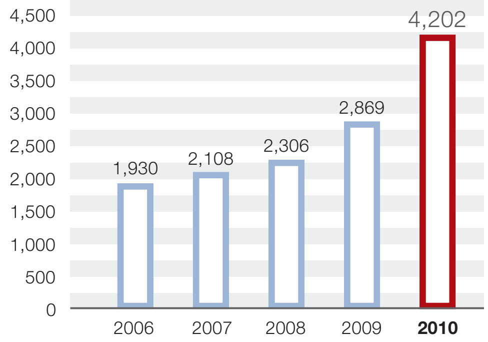
Net Asset Value Attributable To Shareholders Per Share

HK dollar



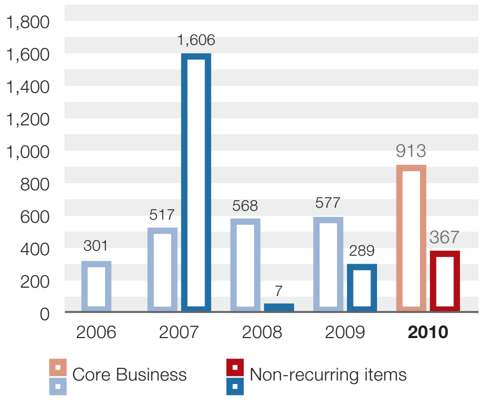
Revenue (Excluding Construction Service Revenue From Toll Road)

HK$ million



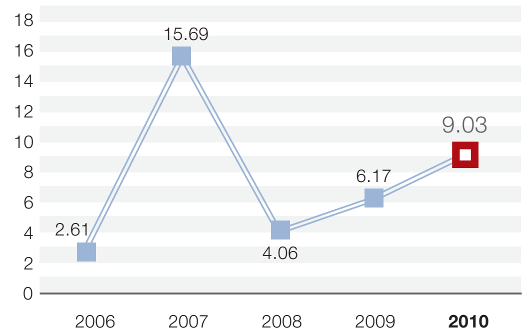
Profit Attributable To Shareholders

HK$ million



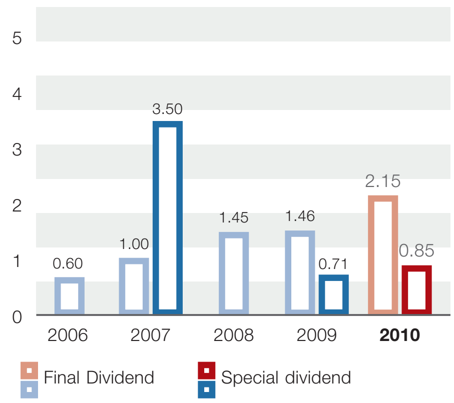
Earnings Per Share (Basic)

HK cents



Cash Dividend Per Share

HK cents



ANALYSIS OF REVENUE AND PROFIT BEFORE FINANCE COSTS AND TAX BY PRINCIPAL ACTIVITIES

(HK$ million)

	Revenue	Operating profit	Share of profit of associates and jointly controlled entities	Total
2010				
Toll Road				
– Toll revenue	**3,707**	**1,863**	**209**	**2,072**
– Construction service revenue	**910**	**–**	**–**	**–**
	4,617	**1,863**	**209**	**2,072**
Logistic Business				
– Logistic Park	**302**	**84**	**5**	**89**
– Logistic Service	**164**	**13**	**1**	**14**
– Port	**29**	**3**	**–**	**3**
	5,112	**1,963**	**215**	**2,178**
Head office	**–**	**456**	**143**	**599**
Profit before finance costs and tax	**5,112**	**2,419**	**358**	**2,777**
Finance income				**21**
Finance costs				**(653)**
Finance costs – net				**(632)**
Profit before income tax				**2,145**
2009				
Toll Road				
– Toll revenue	2,513	1,241	295	1,536
– Construction service revenue	1,212	1	–	1
	3,725	1,242	295	1,537
Logistic Business				
– Logistic Park	215	50	2	52
– Logistic Service	140	8	–	8
	4,080	1,300	297	1,597
Head office	1	388	–	388
Profit before finance costs and tax	4,081	1,688	297	1,985
Finance income				28
Finance costs				(569)
Finance costs – net				(541)
Profit before income tax				1,444

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is depicted below. The 2010 figures are extracted from the audited financial statements. The 2007 to 2009 figures are extracted from the comparatives in the 2008 to 2010 audited financial statements. The 2006 figures are adjusted by management based on the comparatives in 2007 audited financial statements.

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**5,111,806**	4,080,949	5,951,614	4,984,600	2,532,367
Profit before income tax	**2,145,341**	1,443,983	1,156,665	3,002,451	637,129
Income tax expense	**(453,068)**	(266,885)	(190,043)	(550,900)	(55,826)
Profit before non-controlling interests	**1,692,273**	1,177,098	966,622	2,451,551	581,303
Non-controlling interests	**(412,434)**	(311,239)	(391,636)	(329,010)	(280,403)
Profit attributable to shareholders	**1,279,839**	865,859	574,986	2,122,541	300,900

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Fixed assets	**4,241,871**	3,521,077	2,487,334	1,887,233	1,282,424
Investment properties	**49,989**	44,443	49,183	32,580	19,710
Investment in associates	**2,280,452**	1,455,216	1,441,731	1,423,285	3,796,711
Investment in jointly controlled entities	**306,821**	300,350	773,559	923,679	1,025,034
Available-for-sale financial assets	**147,263**	142,366	95,726	222,652	188,509
Intangible assets	**23,446,980**	22,463,694	18,125,699	13,716,069	6,278,009
Other non-current assets	**169,535**	99,170	–	–	2,356
Net current assets/(liabilities)	**1,376,075**	(1,701,065)	(1,394,310)	1,872,604	(1,827,021)
Non-current liabilities	**(14,995,461)**	(13,605,561)	(11,696,317)	(8,543,920)	(2,916,365)
Net assets	**17,023,525**	12,719,690	9,882,605	11,534,182	7,849,367
Equity					
Issued capital	**1,637,217**	1,414,193	1,402,742	1,421,818	1,208,757
Reserves	**9,206,810**	5,610,943	3,507,179	5,464,525	3,245,850
Shareholders' equity	**10,844,027**	7,025,136	4,909,921	6,886,343	4,454,607
Non-controlling interests	**6,179,498**	5,694,554	4,972,684	4,647,839	3,394,760
Total equity	**17,023,525**	12,719,690	9,882,605	11,534,182	7,849,367

KEY EVENTS IN 2010

FEBRUARY

- The construction of two new logistic centres at South China Logistic Park was completed with total operating area increased to approximately 200,000 square metres

MARCH

- Capital injection in Shenzhen Airlines with equity interests increased from 10% to 25% by the Group and became the second largest shareholder of Shenzhen Airlines

- The Group launched a new corporate brand

SEPTEMBER

- The construction of phase two logistic centre at Western Logistic Park was completed, led to an increase in operating area to over 110,000 square metres

- Headquarters of the Group in Shenzhen officially moved to Times Technology Building

OCTOBER

- The Group participated in the fourth China (Shenzhen) International Logistics and Transportation Expo, promoting the Group's brand and business

APRIL

- Nanjing Xiba Port commenced operation and two bulk cargo terminals for 50,000-ton vessels were put into operation

JUNE

- The Company adopted the Chinese name "深圳國際控股有限公司" as secondary name

- The Group were ranked sixth in the "Top 50 National General Purpose Warehouse Enterprises of 2010" organised by the China Association of Warehouse and Storage

NOVEMBER

- Shenzhen Expressway was awarded the Bronze Prize of "2010 HKMA Best Annual Reports Awards" and "Best Corporate Governance Award in Corporate Governance Evaluation of Chinese Listed Companies in 2010"

DECEMBER

- The Company completed the restructuring of HK$1,727,500,000 convertible bonds and the full principal was converted into shares

- Shenzhen Expressway was awarded the "Information Disclosure Award of Listed Companies 2010" by the Shanghai Stock Exchange

CHAIRMAN'S STATEMENT

Share the results of new heights

Profit attributable to shareholders in 2010 further increased by ***48%*** over 2009 following a **51% increase** in 2009 over 2008

Dividend payout ratio will be raised from last year's **35%** to ***38%***

Total cash dividends up ***60%***

Dear Shareholders,

I am pleased to announce that the Group achieved gratifying results in 2010, with revenue and profit reaching a new high, and the logistics and toll road operations delivering satisfactory performance. The Group's revenue in 2010 increased by 25% to HK$5,112 million from the previous year, while profit attributable to shareholders rose substantially by 48% to HK$1,280 million from the previous year.

The Board considered to raise the dividend payout ratio from 35% in last year to 38% in 2010, and recommended a final cash dividend of HK2.15 cents per share and a special cash dividend of HK0.85 cent per share to shareholders for 2010, totaling HK3 cents per share. Total cash dividends amounted to HK$491 million, an increase of 60% from the previous year.

The Group's revenue and recurring profit increased to a new height following strategic acquisitions, integration of resources and continuous completion and commencements of operation of existing resources over the past several years. It is believed that the Group's performance will continue to grow in the future, given the fact that the logistic infrastructure operations, the core business of the Group, are relatively stable.

REVIEW OVER THE PAST YEAR

The Group is now at the stage of accelerating the integration of resources and intensifying the cultivation of business. 2010 was a crucial year for the Group to lay a good foundation for development in the next five years.

Adhered to the established development strategies – In 2010, we carried out roll-over modifications and improvements to the Group's overall development strategies in line with the internal and external changes in the environment; ensured the Group would continue to focus on the logistic infrastructure operations as its main direction; and further clarified issues such as the Group's functional positioning, business profit model and strategic support measures, so as to quicken and stabilise the pace of future development.

Completed restructuring of the HK$1,727,500,000 convertible bonds – At the end of 2010, we successfully carried out the restructuring of the HK$1,727,500,000 convertible bonds with the support from controlling shareholder, Shenzhen Investment Holdings Company Limited which fully converted the convertible bonds into the shares of the Company at a conversion price of HK$0.78 per share. As a result, the shareholding of Shenzhen Investment Holdings Company Limited in the Company increased to 48.59%, and the Group could retain the funds to support its future business development, improve its capital structure and enhance its financing capacity, which laid a solid foundation for achieving the overall strategic objectives.

Carried out the investment in and construction of existing projects in an active manner to enhance profitability of the Group – To improve the traffic capacity and service standards of expressway projects, the Group carried out a number of expressway renovation and expansion projects as planned during the year, and actively pushed forward the construction of various logistic parks. The operating scale of the Group's logistic centres increased by approximately 57% to 530,000 square metres over the same period of the previous year. The first phase project of Nanjing Xiba Port commenced operation during the year. These projects are expected to contribute to the Company's results growth.

Further improvement of internal control system – The Group modified and improved the internal control system in the first half of 2010 to improve internal operations and achieve more effective management.

Built a new corporate brand – The Group launched its own corporate brand in March 2010 to link up the products and markets of its subsidiaries, establishing a unified brand positioning in a bid to further enhance its overall strengths, corporate values and capabilities for sustainable development.

Increased equity interests in Shenzhen Airlines – Shenzhen Airlines Limited decided to increase its capital in early 2010 in order to improve its financial position. To avoid its equity interests from being diluted, and holding a positive view on the development prospects of the Chinese aviation industry, the Group as a shareholder of Shenzhen Airlines increased its shareholding from 10% to 25% in April 2010 by a capital injection of RMB348 million. We have confidence in the future development of Shenzhen Airlines Limited, given the fact that the cost of this strategic investment of the Group is reasonable, the committed management resources are very limited and the overall return is in line with our expectations.

FUTURE DEVELOPMENT 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 our initiatives more positive and reasonable. As such, we will be able to access various resources required for the development of the Group in an opportune manner.

SOCIAL RESPONSIBILITIES

Adhering to the fundamental philosophy of "Advancing Together, Harvesting Together", we also contribute to the society while sharing the operating results with our shareholders and staff.

Our "paid leave for voluntary activities" campaign has been reaching out extensively, including the launch of a scheme of education and poverty relief programmes for poverty-stricken mountainous areas as well as voluntary work on cleaning and order maintenance for the communities. Such activities involved the participation of 2,800 volunteers during the year. The Group contributed donations to the quake-hit areas in Yushu County, Qinghai for the launch of a series of poverty relief and donation projects during the year.

We believe that our staff are valuable assets to the growth of the Group. To this end, a "relief fund for employees with major diseases and accidental injuries" was set up during the year, which is a fund primarily with donations from our internal staff to provide mutual-aid assurance to the work and livelihood of these staff.

Finally, on behalf of the Board, I would like to take this opportunity to express my warmest gratitude to all shareholders, investors and business partners for their continuous support and trust given to the Group. In particular, I would like to thank all the staff for their diligence and valuable contributions to the Group during the past year.

Guo Yuan
Chairman

Hong Kong, 30 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL REVIEW

In 2010, revenue from core business of the Group increased by 46% year-on-year, with revenue from logistic business and toll revenue increased by 39% and 47% respectively; profit attributable to shareholders increased by 48% year-on-year to HK$1,280 million

Operating Results	**2010 HK$'000**	2009 HK$'000	Increase/ (Decrease)
Revenue (excluding construction service revenue from toll roads)	**4,201,734**	2,869,253	46%
Construction service revenue from toll roads	**910,072**	1,211,696	(25%)
Total Revenue	**5,111,806**	4,080,949	25%
Profit before finance costs and tax	**2,776,881**	1,985,078	40%
of which: Core Business	**2,303,140**	1,619,920	42%
Profit attributable to shareholders	**1,279,839**	865,859	48%
of which: Core Business	**912,749**	576,975	58%
Basic earnings per share (HK cents)	**9.03**	6.17	46%
Dividend per share			
Final dividend (HK cents)	**2.15**	1.46	47%
Special dividend (HK cents)	**0.85**	0.71	20%

The Group continued its growth momentum in 2010, with revenue from core business increased by 46% over the corresponding period of the previous year to HK$4,202 million, and net profit from core business increased by 58% over the corresponding period of the previous year to HK$913 million.

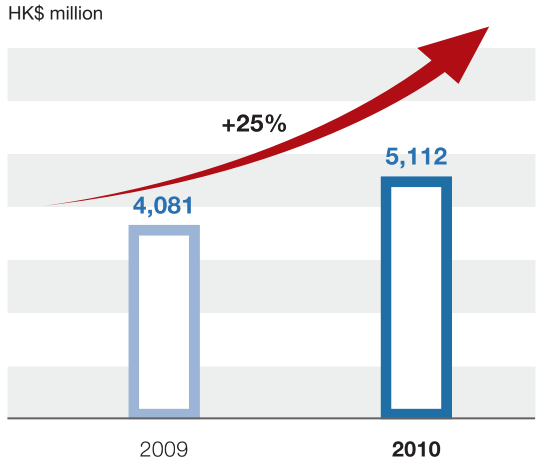
Revenue from logistic business and toll revenue of the Group increased by 39% and 47% respectively year-on-year. Benefitting from the significant rebound in the macro-economy and in imports and exports, the continued implementation of an array of favourable revitalisation plans for the automobile industry and the improving road network in China, the growth of business volume of logistic segment and traffic volume on toll roads of the Group exceeded expectations.

In respect of the logistic business, with the completion of new logistic centres representing an aggregate of approximately 190,000 square metres and put into operation successively in 2010, operating area of logistic centres increased significantly by 57%, together with the first phase of Nanjing Xiba Port which commenced operation in mid-April the same year, bringing increases in both revenue and net profit of the logistic business for the financial year ended 31 December 2010 (the "Year").

The first full year contribution of toll revenue of Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited ("Jihe East Company"), the adoption of expressway toll standards of Qinglian Project since the second half of 2009 and the successive openings and operations of a number of new toll roads in recent years contributed to a significant increase in toll revenue as compared with the corresponding period of the previous year.

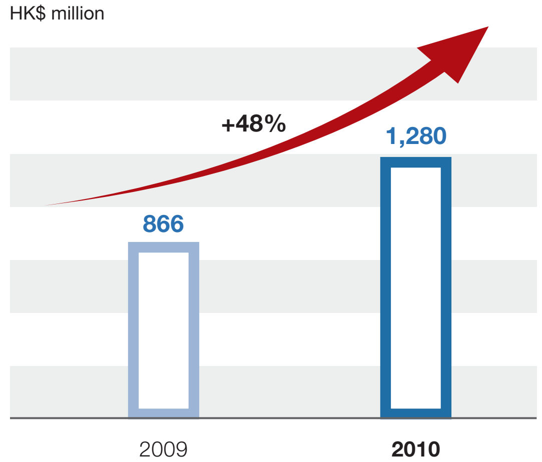
Total Revenue

HK$ million



Profit Attributable To Shareholders

HK$ million



During the Year, the Group completed the capital injection to Shenzhen Airlines Limited ("Shenzhen Airlines") which became an associate and the Group holds a 25% equity interest. Driven by continuing domestic economic growth, together with an increase in residents' consumption and an acceleration in the urbanisation process in China, the market demand for domestic air transportation maintains growth, 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 capital injection, to 31 December 2010, Shenzhen Airlines contributed a profit of HK$143 million to the Group. The Group also recorded a fair value gain after tax of approximately HK$22.36 million on the 10% equity interest in Shenzhen Airlines originally held.

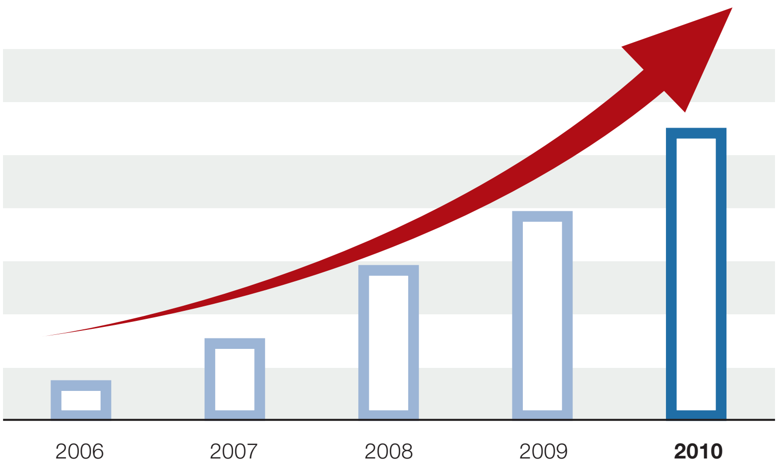
During the Year, a non-recurring gain after tax amounted to HK$367 million, as compared to HK$289 million of the corresponding period of the previous year was recorded. Based on a calculation adjusted for the conversion of capital reserve to share capital by CSG Holding Co., Ltd. ("CSG"), the Group disposed of approximately 28.7 million A shares of CSG at an average selling price of approximately RMB14.27 (HK$16.41) per share (or 16.9 million shares at approximately RMB24.26 (HK$27.90) per share before adjustment) and realised a non-recurring gain after tax of approximately HK$334 million.

DIVIDEND

The board of directors of the Company (the "Board") considered to increase the dividend payout ratio to 38% (2009: 35%) of net profit to shareholders and recommended a final cash dividend of HK2.15 cents per share for the Year (2009: HK1.46 cents), representing an increase of 47% over the corresponding period of the previous year. The Board also recommended the payment of a special cash dividend of HK0.85 cent per share (2009: HK0.71 cent) for the profit from disposal of assets. Total cash dividend for the Year was HK3.00 cents per share while total dividends amounted to HK$491 million (2009: HK$307 million), an increase of 60% over the corresponding period of the previous year.

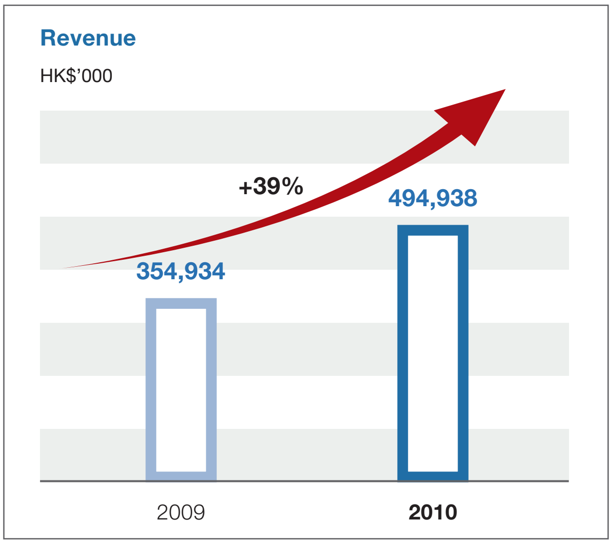
Logistic Business

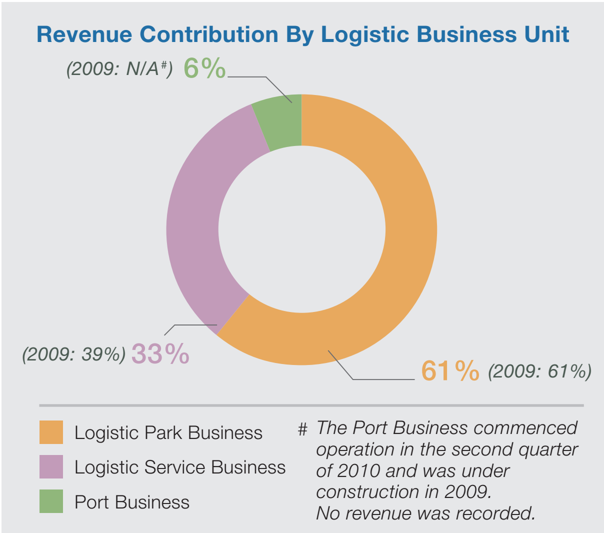
Economies of scale is achieved through enhancement of operating scale, which further strengthen long-term value growth and cost competitiveness of the logistic business, thereby providing a solid foundation for the development of logistic business of the Group

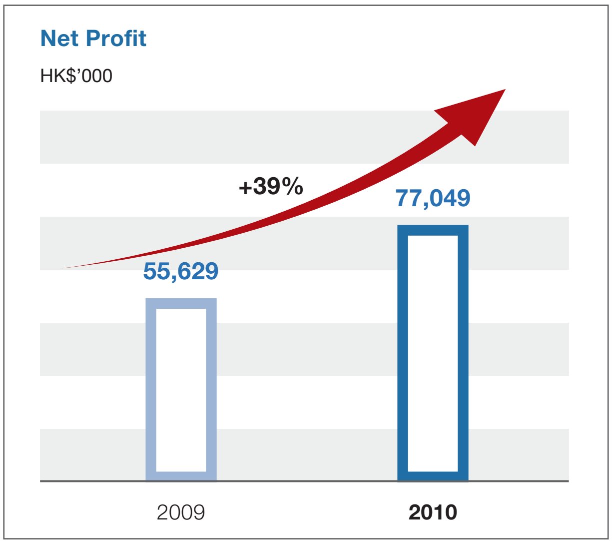


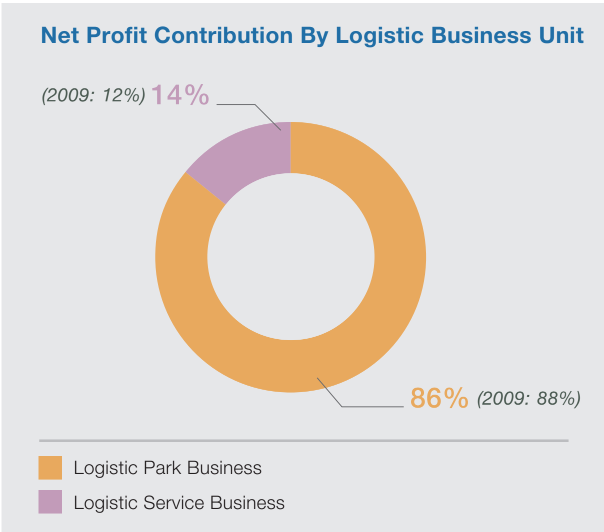
RESULTS ANALYSIS

- Revenue increased by **39%** to **HK$495 million**
- Profit before finance costs and tax increased by **72%** to **HK$105 million**
- Profit attributable to shareholders increased by **39%** to **HK$77.05 million**









OPERATING ENVIRONMENT IN 2010

In 2010, the global economy recovered at a slow pace. The growth momentum of import and export trade of China gradually resumed. According to the statistics of the General Administration of Customs of China, total export commodities amounted to US$1,577,900 million in 2010, representing a year-on-year increase of approximately 31%; while total import commodities amounted to US$1,394,800 million, representing a year-on-year increase of approximately 39%. Total export commodities of the Shenzhen region amounted to US$204,100 million, a year-on-year increase of approximately 26%; total import commodities amounted to US142,500 million, a year-on-year increase of approximately 32%. In 2010, cargo throughput at Shenzhen Port recorded a year-on-year increase of approximately 14% to 220 million tonnes, while container throughput totalled 22.5 million TEUs, an increase of approximately 23%. The steady economic growth led to strong demands for logistic facilities and logistic services, hence providing the Group with a better environment for the development of the logistic business. Driven by the economic recovery in China, business volume of each of the Group's logistic business unit achieved growth to different extents during the Year.

During the Year, the Group's logistic business achieved encouraging results, this was mainly attributable to the abovementioned positive operating environment as well as the following:

- The logistic business recorded satisfactory growth in revenue and was mainly due to an increase of 57% in the operating scale of the Group's logistic centres to 530,000 square metres as a result of the successive completions and openings of numerous new logistic centres located in South China Logistic Park and Huatongyuan Logistic Centre etc. Coupled with active efforts in marketing, all new logistic centres achieved occupancy rates of over 90% in a short period of time;

- The construction of two new logistic centres with a total area of 73,000 square metres located in South China Logistic Park were completed and put into operation during 2010 respectively and successfully attracted new customers. During the Year, revenue from the logistic centres of South China Logistic Park increased by 55% over the corresponding period of the previous year to HK$85.60 million;

- The overall construction of Huatongyuan Logistic Centre was completed in 2010 and was put into operation in the second half of the Year, which brought new contribution of revenue and profit of HK$25.82 million and HK$4.18 million respectively to the Group;

- The first phase of Nanjing Xiba Port commenced operation in mid-April 2010. During the eight months' period ended December 2010, Nanjing Xiba Port achieved a break-even result and brought new revenue contribution of approximately HK$29.76 million to the Group;

- In 2010, revenue from the logistic service business recorded satisfactory growth as a result of closely working with existing customers in their business restructuring and an expansion of its scope of service. Moreover, net profit from the logistic service business recorded a year-on-year increase of 60% to HK$10.74 million due to the improvement in gross profit margin following the withdrawal from projects with low profitability as well as effective cost control;

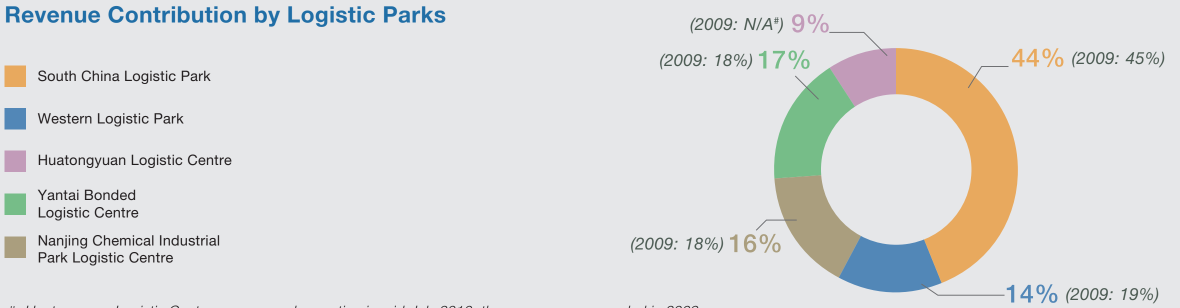
- During the Year, economies of scale is achieved as a result of a significant increase in operating scale, profit before finance costs and tax of the logistic business increased significantly by 72% over the corresponding period of the previous year. While affected by the increase in corporate income tax rate in the PRC enterprise and the expiration of preferential tax treatment of a logistic park, income tax expenses for the Year increased significantly. Moreover, the commencement of operation of the new projects of Huatongyuan Logistic Centre and Nanjing Xiba Port during the Year have brought additional finance costs to the Group, which offset part of the growth in profit before finance costs and tax and resulting in an increase of 39% in profit attributable to shareholders of the logistic business.

Revenue of each logistic business unit

For the year ended 31 December

	2010 HK$000	2009 HK$000	change
Logistic Park Business			
South China Logistic Park	**133,877**	95,749	+40%
Western Logistic Park	**42,111**	42,111	–
Nanjing Chemical Industrial Park Logistic Centre	**48,126**	38,901	+24%
Yantai Bonded Logistic Centre	**51,677**	38,255	+35%
Huatongyuan Logistic Centre	**25,821**	–	N/A
Sub-total	**301,612**	215,016	+40%
Logistic Service Business	**163,569**	139,918	+17%
Port Business	**29,757**	–	N/A
Total	**494,938**	354,934	+39%

Revenue Contribution by Logistic Parks



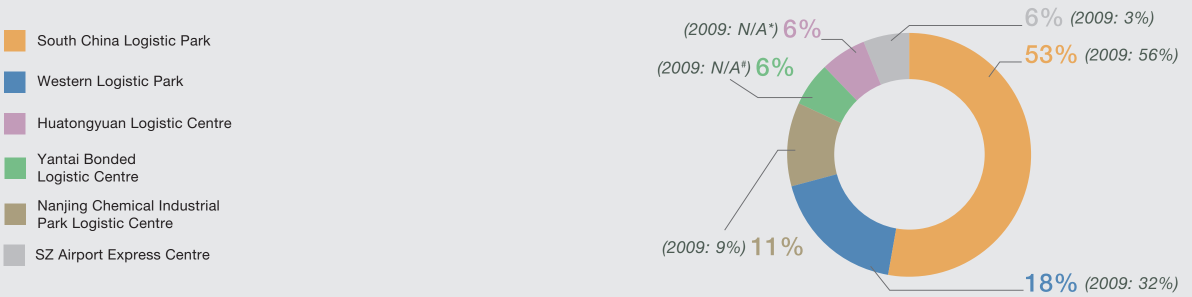
Huatongyuan Logistic Centre commenced operation in mid-July 2010, thus no revenue recorded in 2009.

Profit/(Loss) attributable to shareholders of each logistic business unit

For the year ended 31 December

	2010 HK$000	2009 HK$000	change
Logistic Park Business			
South China Logistic Park	**35,268**	27,147	+30%
Western Logistic Park	**12,105**	15,786	-23%
Nanjing Chemical Industrial Park Logistic Centre	**7,295**	4,588	+59%
Yantai Bonded Logistic Centre	**3,799**	(246)	N/A
Huatongyuan Logistic Centre	**4,185**	–	N/A
SZ Airport Express Centre	**3,658**	1,627	+125%
Sub-total	**66,310**	48,902	+36%
Logistic Service Business	**10,739**	6,727	+60%
Total	**77,049**	55,629	+39%

Net Profit Contribution by Logistic Parks



* Huatongyuan Logistic Centre commenced operation in mid-July 2010, thus no profit was recorded in 2009.
# Yantai Bonded Logistic Centre turned loss into a profit during the Year.

ANALYSIS OF OPERATING PERFORMANCE

Logistic Parks

The Group owns various well-equipped logistic parks in major cities including Shenzhen, Nanjing and Yantai, Shandong Province. These parks provide logistic infrastructure facilities and other value-added services such as warehousing, transportation, loading and unloading. The Group owns a land area and gross floor area (including Nanjing Xiba Port) of 1.7 million square metres and 1.47 million square metres respectively. In 2010, following the completion and openings of numerous new logistic centres, operating scale of the logistic parks significantly expanded by 57% to 530,000 square metres, representing an increase of more than 190,000 square metres over that of 2009. Through active efforts in marketing, all new logistic centres achieved occupancy rates of over 90% within a short period of time, thereby accelerating the growth in business volume and revenue of the logistic parks. In 2010, total revenue of the logistic parks amounted to HK$302 million, representing an increase of 40% over the corresponding period of the previous year, profit attributable to shareholders increased by 36% over the corresponding period of the previous year to HK$66.31 million. Through expanding operating scale, the economies of scale gradually will become more apparent, the long-term value growth and cost competitiveness will also be strengthened, thereby laying a solid foundation for the logistic business of the Group.

Logistic Service Business

During the year under review, by capitalising on the existing logistic infrastructure facilities, the Group made full use of the competitive advantages of its resources and capital in actively developing new businesses such as sea-rail combined transportation business on the basis of its traditional warehouse leasing, loading and unloading and transportation businesses. Moreover, while keeping abreast of the industry trends through market research and strengthening training for existing business development staff, the Group improved its information system and enhanced its system workflow and mode of operation, thereby upgrading the service efficiency and reducing the operating costs.

Port

In April 2010, the first phase construction of two general bulk cargo terminals for 50,000-ton vessels and the southern depot with a site area of 200,000 square metres at Nanjing Xiba Port were completed and put into operation on a trial basis. Meanwhile, the northern depot with a site area of 200,000 square metres was completed in January 2011.

As a public port, Nanjing Xiba Port primarily provides terminal loading and unloading services as well as materials storage and other integrated services for vessels carrying coal, ores, sand and other solid bulk cargo. At present, terminal handling charges are the major source of income for Nanjing Xiba Port, it also charges its customers on storage fees and other fees.

Upon completion of the first phase of Nanjing Xiba Port, five major functions of bulk cargo operation including ship unloading, depot storage, ship loading, train loading and automobile loading have realised. With an annual handling capacity of approximately 8 million tonnes, the port has terrestrial depots with a site area of 400,000 square metres, capable of a one-time storage of 1.3 million tonnes of cargo.

Despite the complex market environment, Nanjing Xiba Port achieved a break-even result after the eight months' period from the commencement of operation in April 2010. Throughput of 2.04 million tonnes and a revenue of HK$29.76 million were recorded.

MAJOR CONSTRUCTION DURING THE YEAR

- In April 2010, two public bulk cargo terminals for 50,000-ton vessels of the Xiba Wharf project at Nanjing Xiba Port were completed and put into operation. The length of the wharf is 550 metres. The depot has a site area of 200,000 square metres.

- In the first half of 2010, two logistic centres with a total operating area of 73,000 square metres at South China Logistic Park were successively completed and put into operation.

- After the core construction with an operating area of 45,000 square metres in one of the zones at Huatongyuan Logistic Centre was completed in June 2010 and put into operation in July 2010, the logistic centres with a total area of 116,000 square metres in the three zones of Huatongyuan Logistic Centre were all put into operation.

- In October 2010, the new logistic centre with an area of approximately 73,000 square metres of Stage 1 of Phase 2 of Western Logistic Park was completed and put into operation.

OUTLOOK OF 2011

Despite the various measures adopted by China recently to suppress inflation and property price hike, the domestic demands and economic growth in the country have brought plenty of development opportunities for the logistic business.

Looking forward towards 2011, the Group will further expand its investment and development in logistic infrastructure facilities; consolidate and capitalise on the development experience, talents and customers of the current logistic parks; and identify better business and profit models. With respect to logistic services, the Group will accelerate the transformation of the traditional logistic services to the new supply-chain management services. The port business will achieve a leap in development. The continued and steady growth of the logistic business of the Group is to be ensured. To this end, we plan to complete the following major tasks:

- Construction in existing logistic parks will be actively pushed forward. With the basis of sufficient research and proven data, the Group will capitalise on the changes in market demands and development trends to develop new projects in the parks, thereby ensuring a satisfactory growth of the logistic parks.

- The construction of a new logistic centre and an exhibition centre at South China Logistic Park with a gross floor area of approximately 107,000 square metres is expected to commence in 2011.

- Western Logistic Park will initiate relevant projects to take part in the development of the Qianhai area when the development plan of the Qianhai area takes effect.

- Efforts in developing the supply-chain management business will be strengthened so as to explore new income bases.

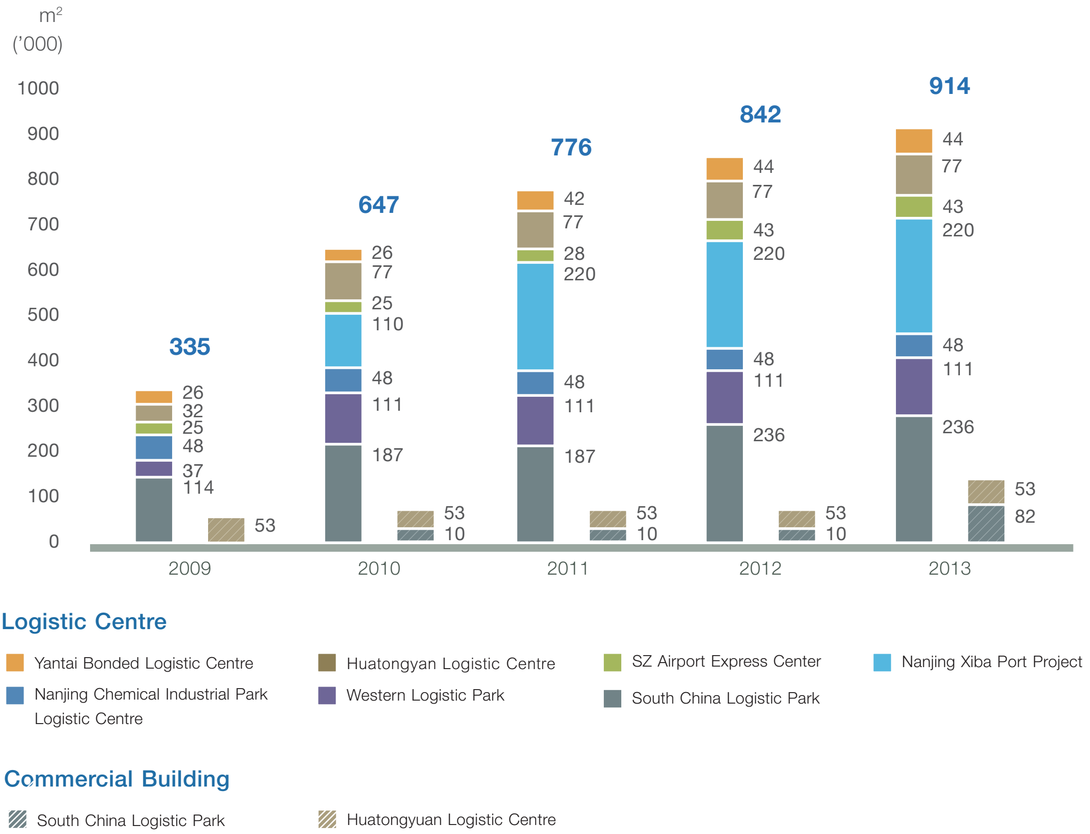
- The consolidation of the Pan-Bohai Rim logistic business will be accelerated; the setting up of the distribution centre for drop-and-pull transportation will be initiated; development works on the second phase of drop-and-pull information platform will be launched and the electronic business functions will be fully implemented.

- Nanjing Xiba Port will expand its business coverage area and business types; and to enhance loading and unloading efficiency and service quality.

The logistic businesses operated by the Group are scarce strategic resources in respect of geographical locations and business nature. The operating areas of currently completed logistic centres and depots account for merely one-half of the total buildable area. Therefore, the Group believes that there is still ample room for further development and growth.

Moreover, through the Xiba Port project, the Group acquired scarce logistic infrastructure resources in Nanjing, an important city in the Yangtze River Delta region. The project has also enlarged the scope of the Group's logistic business, expanded the room for new developments and helped the formation of the Group's resources network and assets deployment. Nanjing Xiba Port is expected to become a profit growth driver for the Group.

AREA IN OPERATION



Note: (1) *Data for 2011 to 2013 are figures estimated by the Management.*

(2) *The land area and gross floor area from 2011 to 2013 are expected to be approximately 1.7 million square metres and 1.47 million square metres respectively.*

(3) *The operating area of Nanjing Xiba Port represents the area of depots.*

Location Map

1 South China Logistic Park
Located in Shenzhen Longhua Logistic Park

Land area: 611,000 square metres
Gross floor area: 399,000 square metres
Operating area: 197,000 square metres

2 Western Logistic Park
Located in Shenzhen Qianhaiwan Logistics Park

Land area: 380,000 square metres
Gross floor area: 420,000 square metres
Operating area: 111,000 square metres

3 Huatongyuan Logistic Centre
Located in the vicinity of Meilin gateway of Shenzhen

Land area: 116,000 square metres
Gross floor area: 133,000 square metres
Operating area: 130,000 square metres

4 SZ Airport Express Center
Located in Shenzhen Baoan International Airport

Land area: 32,000 square metres
Gross floor area: 25,000 square metres
Operating area: 25,000 square metres

5 Nanjing Chemical Industrial Park Logistic Centre
Located in Nanjing Chemical Industrial Park

Land area: 95,000 square metres
Gross floor area: 48,000 square metres
Operating area: 48,000 square metres

6 Yantai Bonded Logistic Centre
Located in the economic and technology development zone in Yantai City

Land area: 70,000 square metres
Gross floor area: 50,000 square metres
Operating area: 26,000 square metres

7 Nanjing Xiba Port
Located in Nanjing Chemical Industrial Park

Land area: 400,000 square metres
Operating area: 110,000 square metres

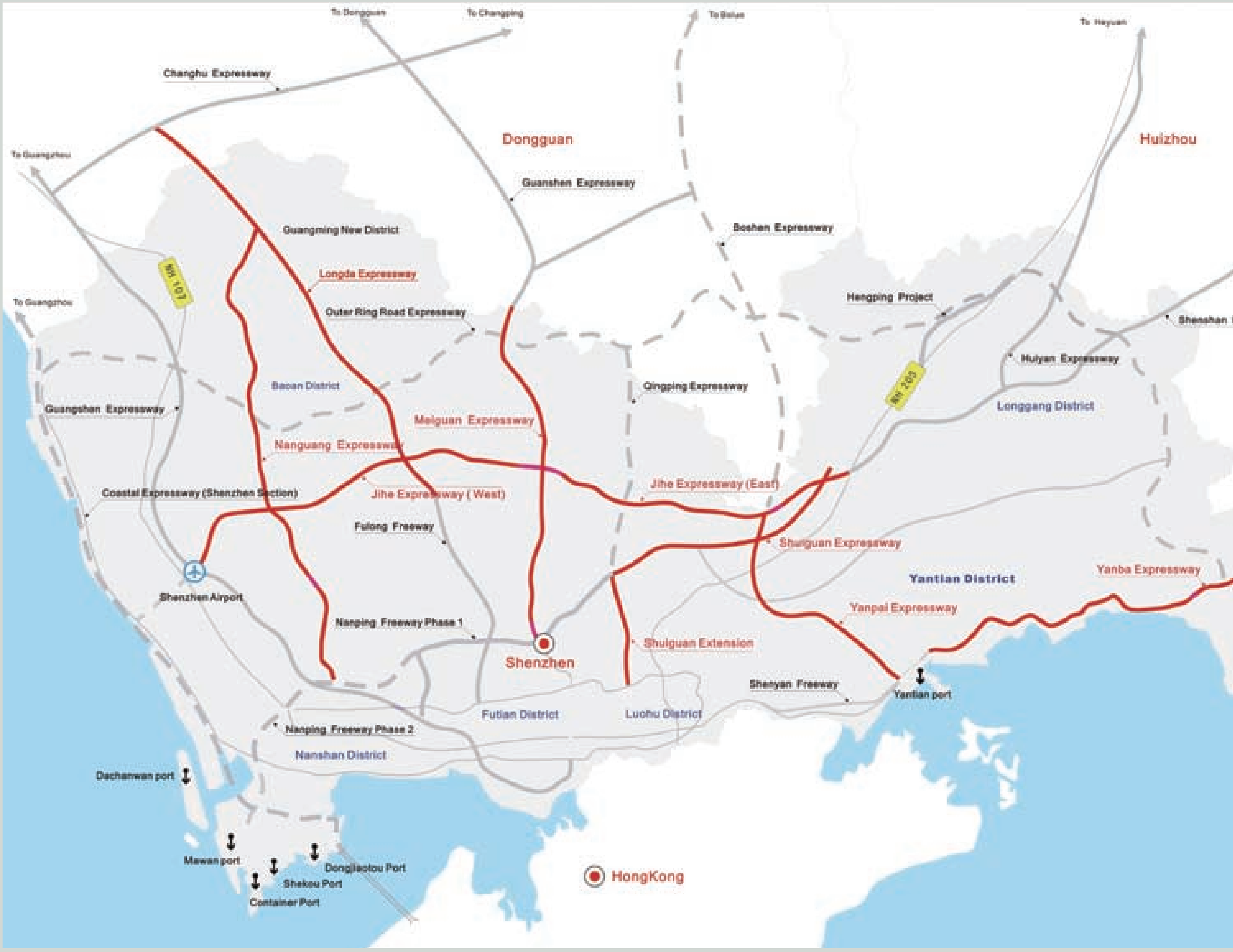
Toll Road Business

Benefitting from the significant rebound in the macro-economy, the implementation of an array of favourable revitalisation plans for the automobile industry and the improving road network in China, the operating results of each toll road of the toll road business recorded a strong growth, contributing significantly to the profit growth of the toll road business

OVERVIEW

The Group's toll road operations span over the Shenzhen region, other regions in Guangdong Province and other provinces in China. The Group operates the toll road business mainly through Shenzhen Expressway Company Limited ("Shenzhen Expressway") in which the Group held 50.889% equity interests. Shenzhen Expressway's H shares and A shares are listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange respectively. The Group holds or controls a total of 16 expressway projects through Shenzhen Expressway with total mileage of toll roads calculated on the basis of equity interests amounted to approximately 152 kilometres, 216 kilometres and 22 kilometres in the Shenzhen region, other regions in Guangdong Province and other provinces in China respectively. In addition, the Group directly holds 89.93% equity interests in Longda Expressway and 45% equity interests in Wuhuang Expressway (with the remaining 55% interests owned by Shenzhen Expressway). The total lengths of Longda Expressway and Wuhuang Expressway are 28 kilometres and 70.3 kilometres respectively.

ROAD NETWORK OF SHENZHEN

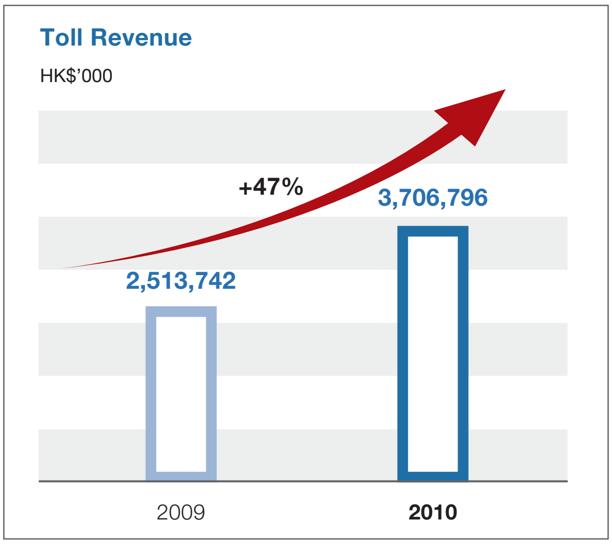


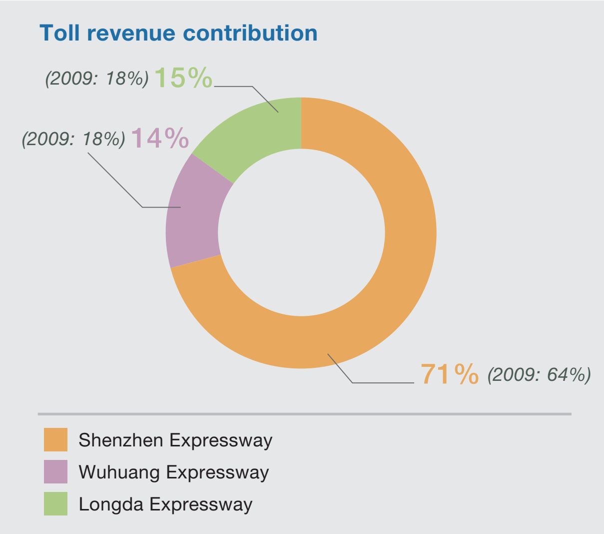
ROAD NETWORK OF OTHER REGIONS IN GUANGDONG PROVINCE

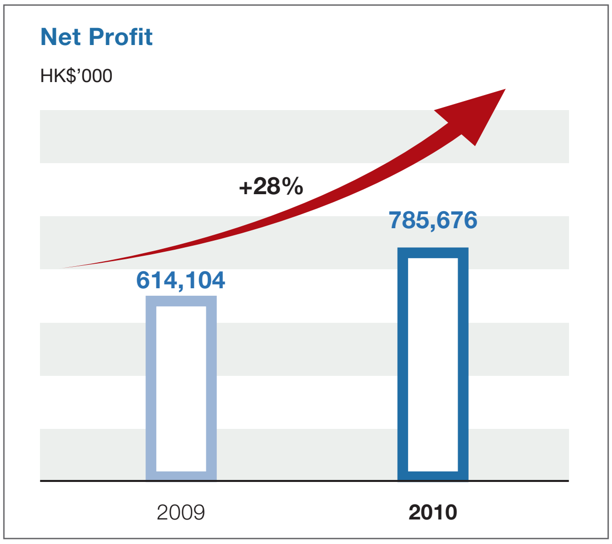
ROAD NETWORK OF HUBEI PROVINCE

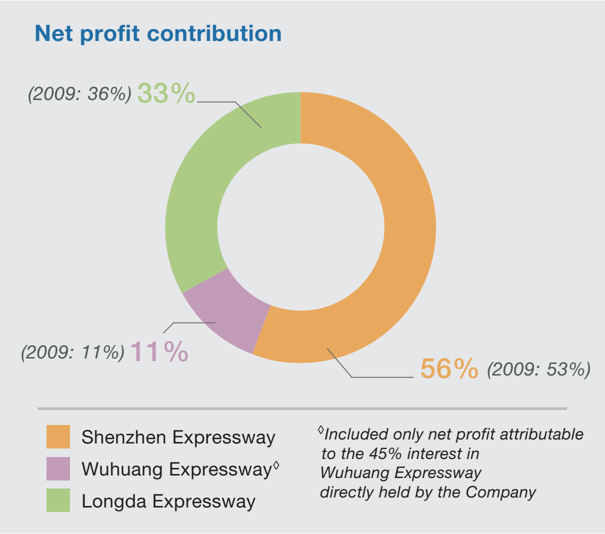
RESULTS ANALYSIS

- Toll revenue increased by **47%** to **HK$3,707 million**
- Profit before finance costs and tax increased by **35%** to **HK$2,072 million**
- Profit attributable to shareholders increased by **28%** to **HK$786 million**









OPERATING ENVIRONMENT IN 2010

Although the overall world economy has not shrugged off the impact of the financial crisis, the toll road business of the Group has been benefitted from the following favourable operating environment which offset the negative impact brought by industry competition and the implementation of the "Green Passage Toll-Free Policy" on all toll road projects in China from December 2010:

- In 2010, China's GDP increased by 10.3% over the corresponding period of the previous year; the GDP of Guangdong Province and Shenzhen City both grew by 12%. In addition, total values of imports and exports of Guangdong Province and Shenzhen City were US$784,700 million and US$346,800 million respectively, both representing increases of 28% over 2009;
- More comprehensive road network and continuation of favourable policies such as tax reduction for the purchase of small-displacement vehicles, subsidies on the purchase of energy-saving automobiles and cancellation of toll fees for Class II toll roads by the Government in China; and
- Ownership of private cars and small cars was further increased as a result of rising income levels of Chinese residents, which driving up the demand for road network and convenient travel, which is conducive to the development of the expressway sector.

The total toll revenue of the Group for the Year increased by 47% to approximately HK$3,707 million over the previous year. In addition to the presence of the abovementioned favourable operating environment, the significant increase was also attributable to the following:

- The Luotian toll station on Longda Expressway has been reconstructed into a beacon station since January 2010, leading to a further increase in traffic volume on Longda Expressway and thereby driving the increase in its toll revenue;
- The entire Hubei section of Hurong West Expressway was opened to traffic and merged into the interlinked road network in December 2009. The subsequent openings and operations of a number of expressways in Hubei Province successively in 2010 enable the run-through between Shanghai and Chongqing. These led to a satisfactory growth in traffic volume and toll revenue of Wuhuang Expressway for the Year;
- The consolidation of toll revenue of Jihe East Company which became a wholly-owned subsidiary of the Group after completion of the acquisition of its 45% interest in the third quarter of 2009, bringing in an increase in toll revenue of HK$457 million;
- The main trunk of Qinglian Project adopted expressway toll standards in the second half of 2009 and implemented the toll-by-weight standards on a trial basis in November the same year, whereas in 2010, Qinglian Project was operated as an expressway and implemented the toll-by-weight standards for the whole year. Thus its toll revenue recorded a rapid growth as compared to the corresponding period of the previous year;
- The successive openings and operations of a number of new toll roads including Nanguang Expressway and Yanba (Section C) in recent years driving an increase in toll revenue.

Net profit of the toll road business of the Group for the Year amounted to HK$786 million, representing an increase of 28% over the corresponding period of the previous year. The level of increase in net profit was not as high as that in toll revenue was mainly attributable to:

- The recognition of amortisation cost due to the acquisition premium of Jihe East Company for the first full year and the commencement of overall maintenance of Qinglian Class II Road during the Year led to an increase in operating costs, including depreciation and amortization costs, as compared with the corresponding period of the previous year;
- The recognition of loan interest of Qinglian Project in the income statement led to a significant increase in finance costs during the Year over the corresponding period of the previous year;
- The increase in China's corporate income tax rate from 20% to 22% in the previous year led to a significant increase in income tax expenses.

ANALYSIS OF OPERATING PERFORMANCE

The operating performance of the Group's toll roads during the Year were as follows:

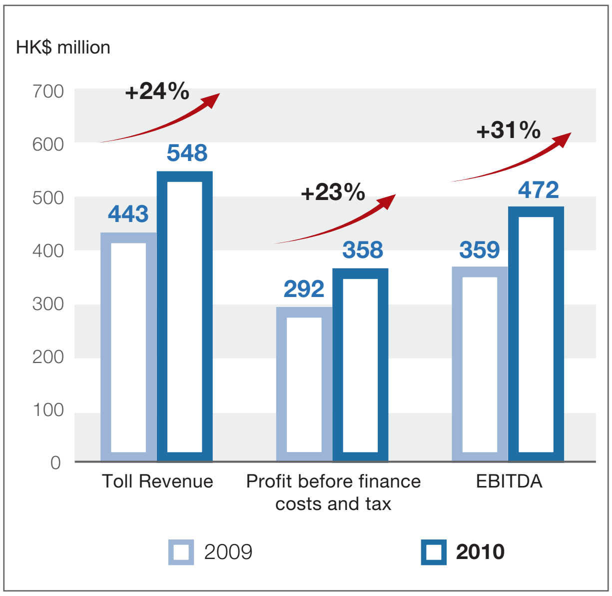
Toll roads	Interest held by the Group	Operation period	Length (approximate km)	Daily Traffic Volume 2010 (Vehicle/ Thousands)	Daily Traffic Volume Increase as compared to 2009	Average Daily Toll Revenue 2010 (HK$'000)	Average Daily Toll Revenue Increase as compared to 2009
Shenzhen region:							
Longda Expressway	89.93%	2005.10-2027.10	28	73	28%	1,502	24%
Meiguan Expressway	100%	1995.05-2027.03	19.3	117	19%	1,094	18%
Jihe East	100%	1997.10-2027.03	23.9	112	20%	1,627	15%
Jihe West	100%	1999.05-2027.03	21.7	91	25%	1,344	25%
Yanpai Expressway	100%	2006.05-2027.03	15.2	40	18%	493	13%
Yanba Expressway *	100%	2001.04-2031.03	29.1	24	47%	385	59%
Nanguang Expressway	100%	2008.01-2033.01	33.1	51	57%	603	76%
Shuiguan Expressway	40%	2002.02-2025.12	20.1	135	14%	1,415	16%
Shuiguan Extension	40%	2005.10-2025.12	5.2	40	25%	289	26%
Other regions in Guangdong Province:							
Qinglian Expressway **	76.37%	2009.07-2034.07	215	18	14%	1,193	27%
Yangmao Expressway	25%	2004.11-2027.07	79.7	20	13%	1,259	15%
Guangwu Project	30%	2004.12-2027.11	39.8	17	56%	543	56%
Jiangzhong Project	25%	2005.11-2027.08	37.5	68	35%	1,001	25%
Guangzhou Western Second Ring	25%	To be approved by the relevant authority	42	29	94%	773	44%
Other provinces in China:							
Wuhuang Expressway	100%	1997.09-2022.09	70.3	38	18%	1,459	18%
Changsha Ring Road	51%	1999.11-2029.12	34.5	8.6	17%	84	15%
Nanjing Third Bridge	25%	2005.10-2035.10	15.6	22	10%	901	18%

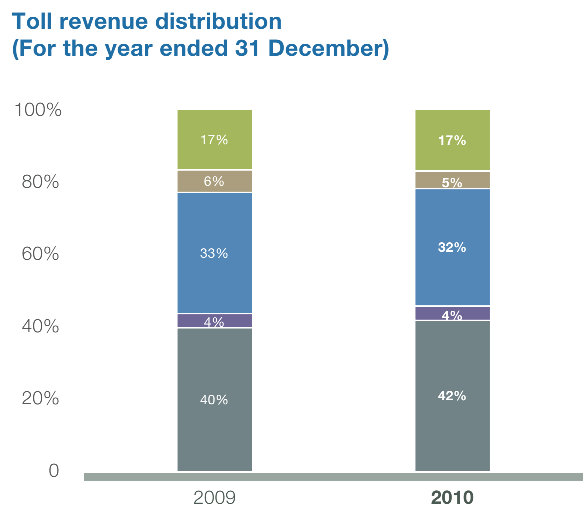
Notes:

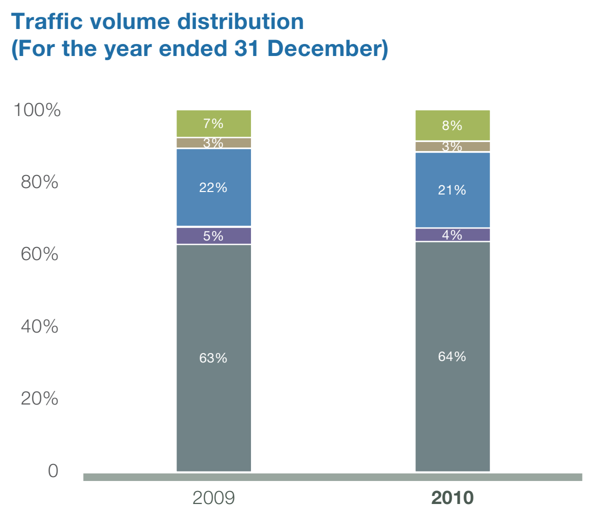
* *Yanba (Section C) opened and commenced operation on 25 March 2010. The "Yanba Expressway' in the above table has already included the operational statistics of Yanba (Section C).*

** *The main trunk of Qinglian Project has collected toll based on expressway toll standards since 1 July 2009. Data in the table above does not include the operational statistics of Liannan Section and Qinglian Class II Road, both of which are still collecting toll based on Class I toll standards. The overall average daily toll revenue of Qinglian Company amounted to HK$1.24 million during the Year.*

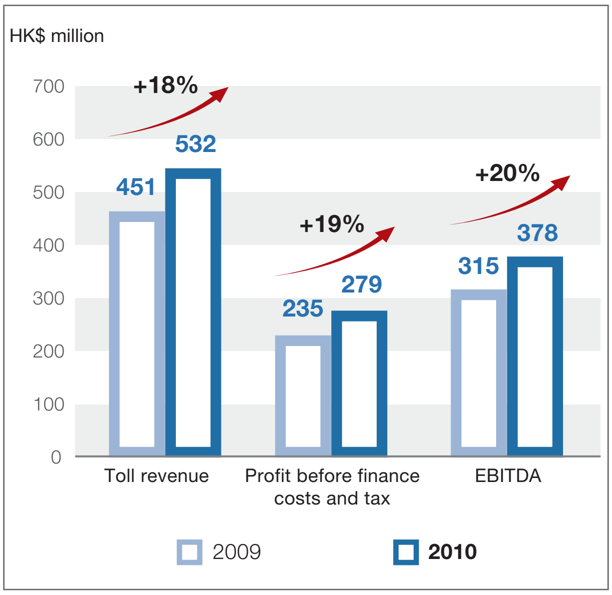
Longda Expressway – After the opening of Huiguan Expressway, traffic heading to Dongguan and Guangzhou from Huizhou turns to Huiguan Expressway gradually, while traffic heading to Huizhou from Dongguan and Guangzhou (via Heao station of Jihe Expressway) via Longda Expressway reduces slowly. Although this affects the toll revenue of Longda Expressway to a certain extent, the reconstruction of Luotian toll station into a beacon station following the official implementation of the regional inter-network tolling on the expressways in the Shenzhen area and the Pearl River Delta area since 8 January 2010 further improves the traffic flows within the region's network, thereby stimulating the growth in toll revenue on Longda Expressway.

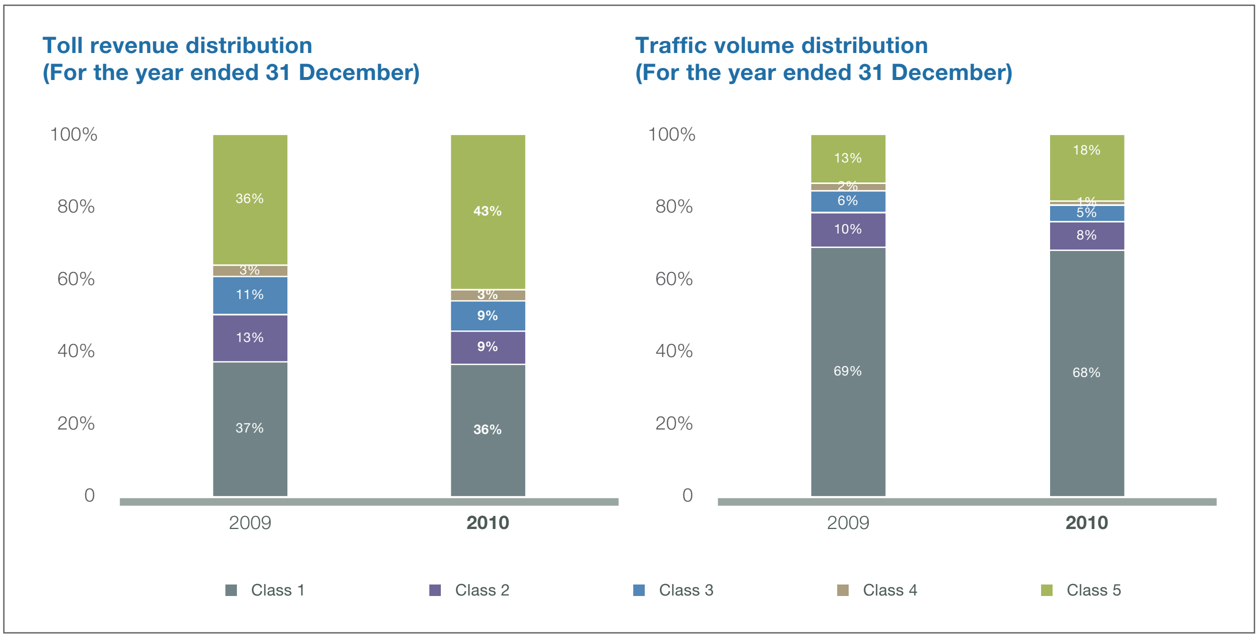






Wuhuang Expressway – A number of expressways and developments, including the southern section of Suiyue Expressway in Hubei, Wujing Expressway and Edong-Yangtze River Bridge, were put into operation successively in 2010. This makes the road network of the nearby area of Wuhan more comprehensive. After the opening of the Hubei Section of Hurong West Expressway, the main trunk of national expressways connecting Shanghai with Chengdu is now operational all the way. The entire Huyu Expressway (G50) has also opened to traffic. All these brought significant stimulating effects to the growth of traffic volume on Wuhuang Expressway.





Shenzhen Expressway and its expressway projects – During the Year, Shenzhen Expressway recorded a toll revenue of HK$2,627 million (2009: HK$1,619 million), representing an increase of 62% over the previous year. Profit before finance costs and tax amounted to HK$1,435 million (2009: HK$1,009 million), representing an increase of 42% over the previous year and profit attributable to shareholders amounted to HK$447 million (2009: HK$329 million), representing an increase of 36% over the previous year.

The traffic volume and toll revenue of each expressway project operated and investd by Shenzhen Expressway recorded a year-on-year double-digit growth, of which the growths of Yanba Expressway and Nanguang Expressway were significant:

- Yanba Expressway: benefitting from the commencement of operation of Yanba (Section C) and the synergistic effects from the road network, average daily toll revenue of Yanba Expressway during the period from April to December 2010 increased by approximately 80% as compared to that of the first quarter of the same year;

- Nanguang Expressway: the expansion and reconstruction since 2009 of Songbai Road, a road which is parallel to Nanguang Expressway, brought positive impacts to the operating performance of Nanguang Expressway. The implementation of an array of business strategies including tailor-made marketing and management measures also enhanced the performance of Nanguang Expressway.

MAJOR CONSTRUCTION DURING THE YEAR

During the Year, the Group's toll road business undertook a number of construction projects, of which:

- The expansion works on Shuiguan Expressway are proceeding with satisfaction and is expected to complete in mid-2011. The expanded Shuiguan Expressway will become a two-way 10-lane expressway;

- The northern section of Meiguan Expressway (Qinghu to Liguang, approximately 11 kilometres) is also undergoing expansion works to enhance traffic flow and service standards. During the Year, the approval, construction drawings design and most of the tender invitation work have been completed. The project is expected to complete in early 2013;

- Shenzhen Expressway is conducting preliminary studies and carrying out relevant negotiations on the Shenzhen Outer Ring Expressway project. As at the end of the reporting period, the toll proposal for the Outer Ring Expressway has been approved and the application for such as site selection and pre-approval of land use have been submitted to the relevant government authorities of Guangdong Province. The preliminary design work is expected to start in early 2011.

OUTLOOK OF 2011

Expressway conversion works on the Liannan Section of Qinglian Expressway were completed in January 2011. Yi Lian Expressway, which connects Qinglian Expressway and the Hunan Section of Jing-Zhu Expressway, is also expected to commence operation in 2011. This will tremendously enhance the traffic flow of the whole Qinglian Expressway, enabling the expressway fully leverage its advantage as a cross-border hub between Guangdong and Hunan, and is expected to bring significant positive impact on the growth of traffic volume. The core construction of Nanguang Expressway-Nanping (Phase 2) is expected to complete and put into operation by the end of 2011, which will then connect Nanguang Expressway, Baoan District of Shenzhen and Hong Kong-Shenzhen Western Corridor, thereby enhancing the operating performance of Nanguang Expressway. In addition, the Longhua extension section of Longda Expressway was completed in February 2011. The construction enlarged the expressway from two-way 4-lane to two-way 8-lane, which effectively eases the traffic flows towards Buji, Longhua and Guanlan in Shenzhen and plays a positive role in the growth of traffic volume on this section.

In 2011, the capital expenditure on the toll road business of the Group is expected to be approximately RMB1,686 million, mainly for the expansion works of Qinglian Project, Nanguang Expressway Project and the northern section of Meiguan Expressway, as well as for the lighting works on Longda Expressway and expansion works of various road sections. Looking forward towards 2011, the traffic volumes of newly opened projects will grow rapidly and the Group's toll road business will maintain a sound growth momentum.

Other Business

In respect of the other business, the Group will take active measures in accordance with the market conditions so as to maximise shareholders' interests

SHENZHEN AIRLINES

After completion of capital injection of RMB348 million to Shenzhen Airlines on 19 April 2010, the Group's equity interests in Shenzhen Airlines increased from 10% to 25% and Shenzhen Airlines became an associate of the Group. The financial position and operating conditions of Shenzhen Airlines had been improved through the capital injection and reinforcement of its management team during the Year. Moreover, through fostering a closer relationship with Air China Limited ("Air China"), the new controlling shareholder, Shenzhen Airlines and Air China co-operate in all aspects, optimising the former's route network structure progressively for an improvement in transport efficiency and creating synergies in a number of areas, thereby strengthening the market competitiveness and profitability of Shenzhen Airlines and enhancing the interests of Shenzhen Airlines and its shareholders as a whole.

The total revenue of Shenzhen Airlines amounted to RMB16,568 million (HK$19,055 million) for the Year (2009: RMB12,143 million (HK$13,780 million)); profit attributable to shareholders amounted to RMB743 million (HK$854 million) for the Year (2009: loss of RMB864 million (loss of HK$981 million)). Since the completion of capital injection by the Group, Shenzhen Airlines contributed a profit of HK$143 million to the Group for the eight months ended 31 December 2010.

During the Year, both the passenger and cargo transport operations of Shenzhen Airlines performed well, achieving passenger traffic of 22,910 million passenger-km (2009: 20,550 million passenger-km) and passenger transport revenue of RMB14,308 million (2009: RMB11,208 million), up 11% and 28% respectively over the corresponding period of the previous year. The airlines carried 16.49 million passenger rides (2009: 15.11 million passenger rides), up 9% over the corresponding period of the previous year; cargo traffic reached 356 million tonne-km (2009: 306 million tonne-km) and cargo transport revenue was RMB627 million (2009: RMB486 million), up 16% and 29% respectively over the corresponding period of the previous year; and cargo and mail traffic was 228,500 tonnes (2009: 195,300 tonnes), up approximately 17% over the corresponding period of the previous year. As at 31 December 2010, Shenzhen Airlines operated a total of 93 passenger aircrafts, of which 13 were introduced during 2010. At present, it operates approximately 114 domestic and international routes, of which 106 are domestic routes, 4 are international routes and 4 are regional routes.

Despite the continued surge in international oil prices during the Year, 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.

CSG

In accordance with CSG's 2009 profit distribution plan, 7 shares were issued for every 10 shares held by conversion of its capital reserve to share capital by CSG. As at the date of the profit distribution (ex-entitlement date), the Group held 89,300,000 shares and was distributed 62,510,000 A shares of CSG. During the Year, based on a calculation adjusted for the above-mentioned conversion of capital reserve to share capital by CSG, the Group disposed of approximately 28.7 million A shares of CSG at an average selling price of approximately RMB14.27 (HK$16.41) per share (or 16.9 million shares at approximately RMB24.26 (HK$27.90) per share before adjustment) and realised a non-recurring gain after tax of approximately HK$334 million. As at the date of this report, the Group beneficially owned 133,170,000 CSG A shares, representing approximately 6.41% in the total issued share capital of CSG. All CSG A shares held by the Group are freely tradable on the Shenzhen Stock Exchange.

Profit attributable to shareholders of CSG for the Year increased by 74.92% over the corresponding period of the previous year to RMB1,455 million. The operating performance in 2010 was sound, with the results of flat glass business and fine glass business, in particular, recorded significant growths over the corresponding period of the previous year, and the profit of solar energy business also recorded a significant increase. The Group will continue with its established disposal strategies on CSG. While anticipating a positive future business development of CSG, the Group will take into consideration the actual conditions of the capital market in seizing the right opportunities for disposing of CSG's shares so as to maximise the profits of the Group.

Financial Position

	31 December 2010 HK$ million	2009 HK$ million	Increase/ (Decrease)
Total Assets	**36,796**	32,448	13%
Total Liabilities	**19,773**	19,728	–
Total Equity	**17,023**	12,720	34%
Net Asset Value attributable to shareholders	**10,844**	7,025	54%
Net Asset Value per share attributable to shareholders (HK dollar)	**0.66**	0.50	32%
Cash	**2,079**	1,683	24%
Bank Borrowings			
Short Term Bank Loans	**1,607**	1,624	(1%)
Long Term Bank Loans due for repayment within one year	**534**	461	16%
Long Term Bank Loans	**8,461**	8,666	(2%)
	10,602	10,751	(1%)
Other Borrowings	**42**	39	8%
Medium Term Notes and Bond	**1,756**	899	95%
Convertible Bonds	**1,549**	3,203	(52%)
Total Borrowings	**13,949**	14,892	(6%)
Net Borrowings	**11,870**	13,209	(10%)
Debt Asset Ratio (Total Liabilities/Total Assets)	**54%**	61%	(7%)#
Ratio of Total Borrowings to Total Assets	**38%**	46%	(8%)#
Ratio of Net Borrowings to Total Equity	**70%**	104%	(34%)#
Ratio of Total Borrowings to Total Equity	**82%**	118%	(36%)#

Change in percentage point

CASH BALANCE

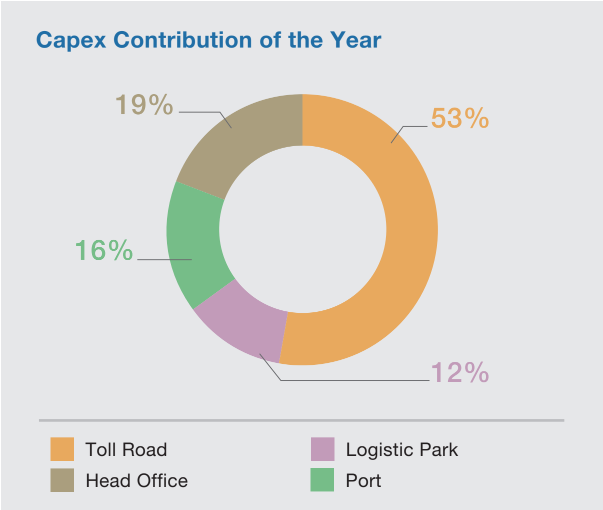
Cash balance of the Group amounted to HK$2,079 million as at 31 December 2010 (31 December 2009: HK$1,683 million), representing a significant increase of 24% over 2009. The increase was mainly attributable to the strong operating net cash inflow during the Year at HK$2,056 million. Nearly all cash held by the Group was denominated in Renminbi. The Group possesses adequate capital with a sound financial position, and has sufficient financial resources for business development.

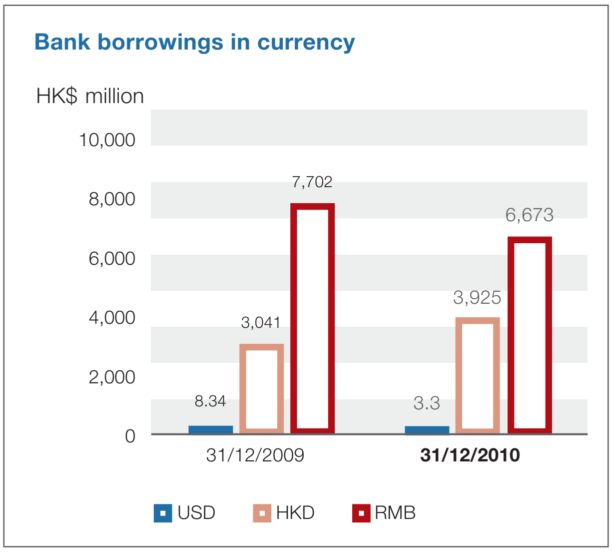
BORROWINGS

Bank Loan

As at 31 December 2010, total bank loans of the Group amounted to approximately HK$10,600 million (31 December 2009: HK$10,751 million), of which 20.2%, 11.1% and 68.7% were due for repayments within one year, the second year and the third year or afterwards respectively. Of such loans, approximately HK$3,925 million are repayable in Hong Kong dollars, HK$3.3 million are repayable in US dollars and the remaining balance of approximately HK$6,673 million are borrowings from banks in the PRC and repayable in Renminbi. During the Year, the capital expenditures of the Group amounted to HK$2,660 million (RMB2,261 million). Total bank loans for the Year maintained at similar level over 2009 as different financing channels were established to settle part of the capital needs. Furthermore, the increase in the strong operating net cash inflow also reduced the needs of bank loans.

Currently, the Group has cash in hand and standby banking facilities of approximately HK$11,800 million, while utilized banking facilities amounted to HK$10,600 million. The Group has adequate cash reserve and standby facilities for future working capital and capital expenditure.





Medium Term Notes and Bond

As at 31 December 2010, the Group held medium term notes and bond of approximately HK$823 million and HK$933 million respectively (31 December 2009, Bond： HK$899 million). During the Year, the Group's subsidiary, Shenzhen Expressway, issued a three years floating rate medium term notes, for the purpose of financing the construction of its projects and repayment of part of the current bank loans.

Convertible Bond

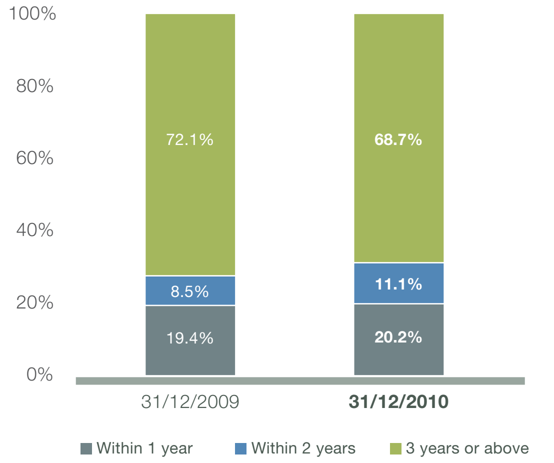
On 29 December 2007, the Company issued zero coupon convertible bond of HK$1,727,500,000 to Shenzhen Investment Holdings Company Limited ("SIHCL"), as consideration for the acquisition of 89.93% equity interest in Longda Expressway. On 11 November 2010, the Company entered into the Modification Deed with SIHCL to amend the conversion price from HK$1.20 per share to the revised conversion price of HK$0.78 per share. SIHCL has exercised the conversion rights at the revised conversion price of HK$0.78 per share in full, and 2,214,743,589 new conversion shares have been allotted and issued by the Company to Ultrarich International Ltd. (a wholly-owned subsidiary of SIHCL) on 29 December 2010 pursuant to the terms and conditions of the Modification Deed.

Gearing Ratio

The Group's ratio of net borrowings to total equity was 70% as at 31 December 2010, representing a substantial decline of 34% over the same period of the previous year. This was primarily due to the zero coupon convertible bond with a face value of HK$1,727,500,000 had been fully converted into equity on 29 December 2010. As a result, the issued share capital of the Company had been increased, at the same time reducing the debt, and lowering the gearing ratio substantially.

During the Year, the Group has completed the conversion of the convertible bond. As a result, the gearing ratio of the Group was substantially declined and the total equity was increased, thereby enhancing the Company's ability in financing for future development of the Group.

Bank borrowings repayment period



THE GROUP'S FINANCIAL POLICY

Locking up interest rates, lowering financial risks

The logistic infrastructure industry of which the Group engages is a capital intensive business with stable return. New projects usually take a relatively longer time period from its initial investment and construction stage before generating revenue. Nonetheless, after years of development, such revenues can sustain steadily for a longer time. During such period, financial costs constitute a major part of the results of the project while the volatility of the market interest rate will directly affect the operating results, leading to a material investment risk on the project.

Bank borrowings are a major source of interest rate risk of the Group. Bank borrowings bearing floating rate interest expose the Group to interest rate risk. To lower the relevant risk, the management of the Company makes use of interest rate hedging which has the economic effect of converting the medium and long term bank loans from floating rate loans to fixed rate loans, thereby lowering the impact brought by interest rate volatility. The management regularly review the appropriate ratio of fixed rate and floating rate loans. As at 31 December 2010, the Group maintained a loan portfolio with fixed rate bank loans accounting for approximately 62% of the total amount of loans.

Exchange Rate Risk

The Group's cash inflow is primarily denominated in Renminbi, and cash outflow denominated in Hong Kong dollars mainly comprises cash dividend payments to shareholders and scheduled repayments of bank loans. The cash and assets held by the Group are primarily denominated in Renminbi. The Renminbi currency appreciated by approximately 3.5% in 2010 and lowered the value of the Group's Hong Kong dollar-denominated bank loans. The foreign exchange gain directly reduced finance costs during the Year by approximately HK$98.45 million. In the short run, the exchange rate risk between Renminbi and Hong Kong dollars is expected to be at a lower level. The Group will review and monitor from time to time the risks relating to foreign exchanges.

Abundant Capital, Increasing Shareholders' Return

The Group maintained sufficient banking facilities to enhance liquidity of capital. It also aims to increase the overall returns for its shareholders through channels such as providing a steady growth in cash dividends, and to share its fruitful results.

Liquidity Risk

The management of the Group regularly reviews the short-term and the long-term capital plans of the Group in each year, to ensure the Company meeting the need of future development and enhance the utilization efficiency of funds. The Group's policy is that it will maintain financing flexibility through maintaining sufficient cash flow and banking facilities, and from time to time to follow and study other financing instruments such as other bonds、notes, in order to reduce the liquidity risk.

Pledge of assets, financial guarantees and contingent liabilities

For details of the Group's pledge of assets, financial guarantees and contingent liabilities as at 31 December 2010, please refer to notes 21 and 38 of the consolidated financial statements respectively.

Human Resources

The Group always considers talents as an important resource and a component of its strategy. The Group places emphasis on talent recruitment for the enhancement of the overall quality of the management team and professional team. Through staff internal training and improvement of the performance management and remuneration systems, it aims to encourage the pro-activeness and creativity of staff, thus promoting the future development of the Company. In 2010, professionals in the areas of capital operation, asset management and logistics were recruited into the Group, thereby enhancing its staff structure. As at 31 December 2010, the Group had 4,788 staff in total.

The Group also attaches importance to individual career development of staff. The human resources training system is reviewed on an annual basis while annual training targets and plans are formulated. In 2010, the Group has stepped up its training efforts by hiring lecturers from professional institutes to conduct a series of training sessions for the enhancement of management capability and professional quality of its staff. At the same time, it provided training to its staff and encouraged them to pursue continuing education and self-enhancement.

Staff remunerations of the Group are determined according to position values, the qualifications and experiences, capabilities and work performances of the staff with reference to market trends. In September 2010, the Group granted options to the Group's management, subsidiaries' management and certain key staff of the Group according to its share option scheme. The scope of participants in such options granting had been expanded. In addition, the criteria on results and individual performance for exercising share options have been set out, thereby further reinforcing the close linkage between the incentive purpose of the share option scheme and the achievement of strategic objectives of the Group.

The Group has also set up a performance management system for the assessment and improvement of staff performance. Performance results are regarded as a primary reference for the determination of the staff's year-end bonus, promotion and salary adjustment. With reference to staff's performance and career development plans, the Group will promote staff with outstanding performance at the appropriate time, thereby promoting the co-development of both the staff and the Group.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

MEMBERS OF THE BOARD

EXECUTIVE DIRECTORS

Mr. Guo Yuan
Chairman

Mr. Guo, aged 57, was appointed in August 2006 as the Chairman of the Company. Mr. Guo is responsible for devising the Group's overall development strategy and important systems, as well as supervising the implementation of resolutions of the general meetings and the board. Mr. Guo holds a bachelor's degree in law from Zhengzhou University and served as an associate professor and a deputy head of the Law Faculty of Zhengzhou University. Mr. Guo had successively worked as legal consultant and deputy division head of Shenzhen Investment Holding Corporation, the department head, assistant to the director and deputy director of Shenzhen State-owned Assets Administration Office, chairman of Shenzhen Accord Pharmaceutical Co., Ltd., deputy director of Shenzhen Municipal State-owned Assets Supervision and Administration Commission, a director of Shenzhen Energy Corporation Limited and Shenzhen Yantian Port Group Co., Ltd. Mr. Guo is currently a director of Ultrarich International Limited. Mr. Guo has over 20 years of extensive experience in corporate management, capital operations and the legal profession.

Mr. Li Jing Qi
Chief Executive Officer, Member of the Nomination Committee and Remuneration Committee

Mr. Li, aged 54, was appointed in March 2000 as an Executive Director and Vice President of the Company, and was appointed in August 2006 as the Chief Executive Officer of the Company. Mr. Li is responsible for the overall daily operations of the Group and the implementation of the Group's development strategies and the resolutions of the general meetings and the board. Mr. Li is a graduate of Shanghai International Studies University with a Bachelor of Arts degree. He had successively worked at the Anhui Branch of Bank of China, Bank of China Hongkong-Macau Regional Office, Shenzhen Branch of Bank of China and as an executive director of Shenzhen High-Tech Holdings Limited. Mr. Li is currently a director of CSG Holding Co., Ltd., Shenzhen Expressway Company Limited and Ultrarich International Limited. He has over 20 years of experience in international banking and corporate management.

Mr. Liu Jun
Vice President

Mr. Liu, aged 47, joined the Group as a Vice President in April 2000 and was appointed in May 2004 as an Executive Director of the Company. Mr. Liu is responsible for assisting the Chief Executive Officer on the operation and management of the Group. Mr. Liu graduated from Nanjing University of Science and Technology with a bachelor's degree in computer software and a master's degree in management system engineering. Mr. Liu was a director of CSG Holding Co., Ltd. and Shenzhen Expressway Company Limited and is currently a director of Shenzhen Airlines Limited and Ultrarich International Limited. Mr. Liu has over 20 years of experience in corporate development, financial management and foreign enterprise investment and management.

Mr. Yang Hai

Mr. Yang, aged 50, was appointed in August 2007 as an Executive Director of the Company. Mr. Yang obtained a bachelor's degree from the Department of Roads and Bridges of Chongqing Architecture University and is a senior engineer. As nominated by the Company in April 2005, Mr. Yang is currently the chairman of Shenzhen Expressway Company Limited. He had been the section head, department head and assistant to the head of the Second Road Engineering Bureau of Ministry of Communications in China. Mr. Yang had been a Vice President of the Company from June 2004 to July 2006 and the deputy general manager of Shenzhen Expressway Company Limited from August 1997 to March 2000. Mr. Yang is currently the chairman of the supervisory committee of CSG Holding Co., Ltd. Mr. Yang has extensive experience in the construction management of road engineering and corporate management.

NON-EXECUTIVE DIRECTORS

Mr. To Chi Keung, Simon

Mr. To, aged 59, was appointed in June 2000 as a Non-Executive Director of the Company. Mr. To holds a First Class honours degree in Mechanical Engineering from the Imperial College of Science and Technology (London University) and a Master's degree in Business Administration from Standford University's Graduate School of Business. Mr. To is currently the managing director of Hutchison Whampoa (China) Limited and the chairman of Hutchison China MediTech Limited (whose shares are listed on the Alternative Investment Market operated by London Stock Exchange plc). He joined Hutchison Whampoa (China) Limited in 1980 as the divisional manager of industrial project division and was appointed as managing director in the following year. Mr. To has over 36 years of management experience.

Mr. Wang Dao Hai

Mr. Wang, aged 45, was appointed in June 2008 as a Non-Executive Director of the Company. Mr. Wang obtained a master's degree in Accounting from the Southwestern University of Finance and Economics in the PRC and is a Senior Accountant in the PRC. Mr. Wang is currently the financial controller and head of finance department of Shenzhen Yuanzhi Investment Co. Ltd., a wholly-owned subsidiary of Shenzhen State-owned Assets Supervision and Administration Bureau. He was successively a director and the financial controller of Shenzhen Shahe Industry (Group) Co., Ltd., the assistant to president and the head of finance department, as well as the secretary of the board of directors of Shenzhen SEG Hi-Tech Industrial Co., Ltd., and the chief accountant, director and vice president of Gintian Industry (Group) Co., Ltd. He had been a director of Shahe Industrial Co., Ltd. from June 2007 to April 2008. Mr. Wang has extensive experience in corporate financial management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Ming Yuen, Simon
Chairman of the Audit Committee, Member of the Nomination Committee and Remuneration Committee

Mr. Leung, aged 62, was appointed in March 2000 as an Independent Non-Executive Director of the Company. Mr. Leung is an associate member of The Chartered Institute of Bankers and has over 30 years of experience in the banking sector including worked as the head of Credit Risk Management of Greater China at Deutsche Bank AG.

Mr. Ding Xun
Chairman of the Nomination Committee and Remuneration Committee, Member of the Audit Committee

Mr. Ding, aged 51, was appointed in October 2001 as an Independent Non-Executive Director of the Company. He is currently the managing director of Concord Investment Holdings Limited. Mr. Ding graduated from Maritime Transportation University of Shanghai. He has worked in the Ministry of Communications of the PRC and Guangdong Enterprises (Holdings) Limited. He was also a director of Guangdong Investment Limited, the vice-chairman of Guangdong Brewery Holdings Limited and an independent non-executive director of Dragonite International Limited (formerly known as Ruyan Group (Holdings) Limited). Mr. Ding has extensive experience in corporate development and management.

Mr. Nip Yun Wing
Member of the Audit Committee

Mr. Nip, aged 57, was appointed in August 2004 as an Independent Non-Executive Director of the Company. Mr. Nip is currently an executive director and the financial controller of China Overseas Land & Investment Limited. He is a Fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Nip is a MBA graduate of The Chinese University of Hong Kong. He has extensive experience in corporate finance, investment and management and had served as an executive director for several listed companies in Hong Kong.

SENIOR MANAGEMENT

Mr. Zhong Shan Qun
Vice President

Mr. Zhong, aged 46, was appointed as a Vice President of the Company in June 2007. Mr. Zhong graduated from Changsha Communications University with a bachelor's degree in highway engineering and a bachelor's degree in communications and transportation management. He also obtained a master's degree in management science and engineering from Hunan University. Mr. Zhong joined Xin Tong Chan Development (Shenzhen) Company Limited (formerly Shenzhen Freeway Development Company Limited and became a subsidiary of the Group in October 2001) in January 1994 and was appointed as chairman and general manager in 2005, and was a director of Shenzhen Expressway Company Limited. Mr. Zhong is currently the chairman of Shenzhen International South-China Logistics Co., Ltd. and chairman of the supervisory committee of Shenzhen Expressway Company Limited. Mr. Zhong has extensive experience in construction project management, logistic management and corporate management.

Mr. Zhao Jun Rong
Vice President

Mr. Zhao, aged 46, joined the Group as legal consultant, assistant to the Chief Executive Officer and manager of the Strategic Development Department in October 2001 and was appointed as a Vice President of the Company in June 2007. He is also the Company's chief legal consultant. Mr. Zhao graduated from Xiamen University with a master's degree in international economic law and is a practicing lawyer. Mr. Zhao worked successively at China Ping An Insurance Co. and Shenzhen Investment Holding Corporation. Mr. Zhao has extensive experience in corporate management and the legal profession. Mr. Zhao is currently a non-executive director of Shenzhen Expressway Company Limited.

Mr. Tse Yat Hong
Chief Financial Officer

Mr. Tse, aged 41, joined the Group as Chief Financial Officer in June 2000. Mr. Tse is responsible for the Group's financial management and planning, investors' relations, as well as coordinating the Group's major transactions and corporate governance matters. Mr. Tse graduated from Monash University in Australia with a bachelor's degree in accounting and computer science. He is currently a Fellow of the Hong Kong Institute of Certified Public Accountants and a certified public accountant of CPA Australia. Mr. Tse was the Company Secretary of the Company from August 2000 to March 2008 and was the joint company secretary of Shenzhen Expressway Company Limited from September 2004 to September 2007. Prior to joining the Company, Mr. Tse worked in the audit profession in one of the international accounting firms for years. Mr. Tse has extensive experience in accounting, finance and corporate governance matters of listed companies and has broad knowledge in accounting and financial rules and regulations in Hong Kong and China. Mr. Tse is currently a non-executive director of Shenzhen Expressway Company Limited.

REPORT OF THE DIRECTORS

The board of directors of the Company (the “Board”) herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2010 (the “Year”).

ADOPTION OF “深圳國際控股有限公司” AS THE SECONDARY NAME OF THE COMPANY

As resolved during the annual general meeting of the Company held on 19 May 2010 and approved by the Registrar of Companies in Bermuda on 2 June 2010, the Company formally adopted “深圳國際控股有限公司” as its secondary name on 2 June 2010.

PRINCIPAL ACTIVITIES

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. Particulars of the principal activities of the Company’s principal subsidiaries are set out in note 42 to the financial statements.

RESULTS OF THE GROUP

The Group’s results for the Year and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 70 to 148.

DIVIDENDS

The Board recommended a final cash dividend of HK2.15 cents per share for the Year (2009: final dividend of HK1.46 cents per share). The Board also recommended the payment of a special cash dividend of HK0.85 cent per share (2009: special dividend of HK0.71 cent per share). Total cash dividend for the Year was HK3.00 cents per share while the total dividends amounted to HK$491 million (2009: HK$307 million). Such dividend shall be subject to approval by shareholders of the Company at the forthcoming annual general meeting.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on pages 5 to 7 of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Year are set out in note 6 to the financial statements.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the Year are set out in note 7 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the share capital and share options of the Company during the Year, together with the reasons thereof, are set out in note 19 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the Companies Act of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

RESERVES

Details of the movements in the reserves of the Company and the Group during the Year are set out in note 20 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company's reserves available for distribution to shareholders, comprising contributed surplus, retained earnings and other distributable reserves, amounted to approximately HK$1,645,732,000 (2009: HK$2,157,255,000). The share premium of the Company may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

Both the revenue attributable to the largest five customers combined and the purchases attributable to the largest five suppliers combined of the Group accounted for less than 30% of the Group's total revenue and purchases respectively for the Year.

DIRECTORS

The directors of the Company (the "Directors") during the Year and up to the date of this report were:

Executive Directors

Mr. Guo Yuan *(Chairman)*
Mr. Li Jing Qi
Mr. Liu Jun
Mr. Yang Hai

Non-executive Directors

Mr. To Chi Keung, Simon
Mr. Wang Dao Hai

Independent non-executive Directors

Mr. Leung Ming Yuen, Simon
Mr. Ding Xun
Mr. Nip Yun Wing

In accordance with the Company's Bye-Law 109(A), Messrs. Li Jing Qi, Yang Hai and Ding Xun will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as Directors of the Company. In addition, Mr. To Chi Keung, Simon will retire at the conclusion of the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

DIRECTORS' INTERESTS IN SECURITIES

The interests in securities of the Directors are separately disclosed in the section headed "**DISCLOSURE OF INTERESTS**" on pages 67 to 68 of this Annual Report. In addition, the interests of the Directors in the share options of the Company are disclosed in the section headed "**SHARE OPTION SCHEME**" below.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") at a special general meeting held on 30 April 2004. The Scheme is valid and effective for a period of 10 years commencing on 30 April 2004 and is a share incentive scheme to reward and motivate the eligible participants whose contributions are important to the long-term growth and profitability of the Group.

Eligible participants of the Scheme include person being (a) any full-time employee of the Group, (b) any director (including executive, non-executive or independent non-executive directors) of the Group, associates and jointly controlled entities of the Group or (c) any substantial shareholder of the Company, to be determined by the Board.

The total number of shares of the Company available for issue under the Scheme is 1,143,281,162 shares which represent approximately 7% of the issued share capital of the Company as at the date of this Annual Report. The total number of shares of the Company issued and to be issued upon exercise of the share options granted to each eligible participant (including both exercised and outstanding share options) under the Scheme in any 12-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of share options to an eligible participant would result in the shares of the Company issued and to be issued upon exercise of all share options granted and to be granted to such eligible participant (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares of the Company in issue, such further grant must be separately approved by the shareholders of the Company in general meeting.

An offer of a grant of share options under the Scheme may be accepted within 7 days from the date of the offer with a cash consideration of HK$1 payable by the grantee to the Company. The period for the exercise of a share option is determined by the Board, but in any event such period shall not go beyond 5 years from the date of offer.

Under the Scheme, the subscription price is solely determined by the Board and shall be at least the higher of: (i) the closing price of the shares of the Company as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

The following table lists the details of the outstanding share options which were granted under the Scheme and their movements during the Year:

				Number of unlisted share options (physically settled equity derivatives)					Share price of the Company (Note 4)	
Name and category of participants	**Date of grant of share options**	**Exercise period of share options**	**Exercise price of share option** (Note 3)	**As at 1 January 2010**	**Granted during the Year**	**Exercised during the Year**	**Cancelled/ lapsed during the Year**	**As at 31 December 2010**	**As at the date of grant of share options**	**As at the date of exercise of share options**
			HK$						HK$	HK$
Directors										
Mr. Guo Yuan	6 February 2007 (Note 1)	6 February 2007 to 5 February 2012	0.532	35,000,000	–	–	–	35,000,000	0.530	N/A
	28 September 2010 (Note 2)	28 September 2012 to 27 September 2015	0.580	–	17,900,000	–	–	17,900,000	0.590	N/A
Mr. Li Jing Qi	19 January 2005 (Note 1)	19 January 2005 to 11 January 2010	0.282	9,000,000	–	9,000,000	–	–	0.285	0.600
	28 September 2010 (Note 2)	28 September 2012 to 27 September 2015	0.580	–	17,000,000	–	–	17,000,000	0.590	N/A
Mr. Liu Jun	19 January 2005 (Note 1)	19 January 2005 to 11 January 2010	0.282	6,000,000	–	6,000,000	–	–	0.285	0.600
	28 September 2010 (Note 2)	28 September 2012 to 27 September 2015	0.580	–	14,300,000	–	–	14,300,000	0.590	N/A
Mr. Yang Hai	28 September 2010 (Note 2)	28 September 2012 to 27 September 2015	0.580	–	14,300,000	–	–	14,300,000	0.590	N/A
				50,000,000	63,500,000	15,000,000	–	98,500,000		
Other employees										
In aggregate	19 January 2005 (Note 1)	19 January 2005 to 11 January 2010	0.282	500,000	–	500,000	–	–	0.285	0.640
	28 September 2010 (Note 2)	28 September 2012 to 27 September 2015	0.580	–	223,100,000	–	–	223,100,000	0.590	N/A
				500,000	223,100,000	500,000	–	223,100,000		
				50,500,000	286,600,000	15,500,000	–	321,600,000		

Notes:

(1) *There is no vesting period for these share options.*

(2) *40% of these share options granted will be vested on the date which is 24 months after 28 September 2010 (the "Date of Grant"); another 30% of these share options granted will be vested on the date which is 36 months after the Date of Grant; and the remaining 30% of these share options will be vested on the date which is 48 months after the Date of Grant. Vesting of these share options is subject to the individual performance of these employees and their achievement of certain performance targets of the Group.*

(3) *The exercise price of the share options was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

(4) *The share price of the Company disclosed as at the date of the grant of the share options was the closing price as quoted on the Stock Exchange of the trading day immediately prior to the date of the grant of the share options. The share price of the Company disclosed as at the date of exercise of the share options was the weighted average closing price of the shares immediately before the date on which the share options with the disclosure category were exercised.*

In accordance with the requirements under Hong Kong Financial Reporting Standard 2 "Share-based Payments", the cost of approximately HK$4.76 million in respect of the share options granted by the Company during the Year was recognised in the consolidated income statement of the Group. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which lapse or are cancelled prior to the expiration of their exercise date are deleted from the register of outstanding share options.

Details of the model and significant assumptions used to estimate the fair value of the share options granted by the Company to eligible participants during the Year are set out in note 19 to the consolidated financial statements. Such option pricing model requires input of subjective assumptions. Any changes in the subjective input assumptions may materially affect the estimation of the fair value of the share options.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SECURITIES

The interests in securities of substantial shareholders and other persons are separately disclosed in the section headed "**DISCLOSURE OF INTERESTS**" on pages 67 to 68 of this Annual Report.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

During the Year, the Group has entered into certain related party transactions as disclosed in note 40 to the financial statements. Such transactions do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the connected transactions entered into by the Group during the Year and up to the date of this Annual Report. During the aforesaid period, the connected transactions entered into by the Group with Shenzhen State-owned Assets Supervision and Administration Bureau ("Shenzhen SASAB"), Shenzhen Investment Holdings Company Limited ("SIHCL") or their respective associates are as follows:–

Date	Name of Connected Person and Relationship	Details of the Transactions
11 February 2010	Shenzhen Nongke Real Estate Development Co., Ltd. (an indirect wholly-owned subsidiary of Shenzhen SASAB (Note) and hence is an associate of Shenzhen SASAB)	Shenzhen International Holdings (SZ) Limited, a wholly-owned subsidiary of the Company (as the purchaser), entered into a provisional sale and purchase agreement with Shenzhen Nongke Real Estate Development Co., Ltd. (as the vendor) in relation to the acquisition of an office premises comprising 11 units on 10th Floor of Times Technology Building located in Futian District, Shenzhen, the PRC for a consideration of RMB54,963,587. The office premises are used as the headquarter of the Group in Shenzhen. For further information of the connected transaction, please refer to the Company's announcement dated 11 February 2010.
11 November 2010	SIHCL (Note)	The Company entered into a modification deed with 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 (the "Convertible Bond"). SIHCL shall exercise the conversion rights attached to the Convertible Bond in the principal amount at the revised conversion price of HK$0.78 per share in full. For further information of the connected transaction, please refer to the Company's announcement dated 16 November 2010.

Note: SIHCL is wholly-owned by Shenzhen SASAB which supervises and manages Shenzhen Investment Holding Corporation ("SIHC"). At the time of entering into the relevant connected transactions, SIHC is the controlling shareholder of the Company. Accordingly, pursuant to Chapter 14A of the Listing Rules, Shenzhen SASAB, SIHCL and their respective associates are connected persons of the Group.

COMPLIANCE WITH CHAPTER 13 OF THE LISTING RULES

The following information is disclosed pursuant to rules 13.18 and 13.21 of Chapter 13 of the Listing Rules.

On 31 July 2008, the Company, as borrower, entered into a loan agreement (the "Loan Agreement") relating to a HK$1,340,000,000 term loan facility with a syndicate of banks (the "Lenders"). The Loan Agreement shall have a maturity of 5 years.

Pursuant to the Loan Agreement, the Company undertakes to procure that the controlling shareholder of the Company, namely Shenzhen SASAB shall at all times during the continuance of the Loan Agreement (i) beneficially own, directly or indirectly, not less than 35% of the issued share capital of the Company; (ii) be the single largest shareholder of the Company (in terms of the percentage ownership of the issued share capital of the Company); (iii) maintain control over the management of the Company; and (iv) beneficially own, directly or indirectly, 100% of the equity interest in SIHCL.

Failure to comply with any of the aforesaid undertakings will constitute an event of default under the Loan Agreement. Upon the occurrence of an event of default under the Loan Agreement, the Lenders may declare that the outstanding loan, interest and other sums payable to be immediately due and payable; and/or declare that the facility under the Loan Agreement be terminated.

EVENTS AFTER THE BALANCE SHEET DATE

Details of events after the balance sheet date of the Group are set out in note 41 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report on pages 55 to 66 of this Annual Report.

AUDITOR

There have been no changes of the auditor of the Company during the past three years. Messrs. PricewaterhouseCoopers will retire and a resolution for their re-appointment as the auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Guo Yuan
Chairman

Hong Kong, 30 March 2011

The Company believes that sound corporate governance goes beyond merely meeting the requirements of the regulatory authorities for listed companies' operation. More importantly, it fulfils the Company's internal development needs. The Company continuously enhances corporate governance standards and reviews and improve it through practice, several governance guidelines and procedures have been established over the years, including "Constitution of the Board of Directors", "Terms of reference of Executive Board Committee" and "Rules Governing Information Disclosure", these rules aim to clearly define the duties, scope of authority and standards of conduct.

The Company had applied the principle and complied, throughout the year ended 31 December 2010 (the "Year"), with all the applicable code provisions and, where appropriate, the applicable recommended best practice of the Code on Corporate Governance Practices as set out in the Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company aims to continually enhances its corporate governance practices, thereby laying a good foundation for driving the Company's development and maximising value for the shareholders.

Below are the corporate governance practices adopted by the Group:

THE BOARD

The board of directors of the Company (the "Board") is responsible for leading the Group's development, establishing the Group's strategic goals, and ensuring the availability of necessary financial and other resources for the Group to achieve pre-set strategic goals. The principal duties of the Board are to exercise management and decision-making authorities in respect of the Company's development strategies, management structures, investment and financing, planning, financial control and human resources, etc.

Significant matters of the Group are required to be approved by the Board, including the following:

- formulating corporate development planning;
- formatting the Company's operational and management strategies;
- approval of financial statements;
- approval of notifiable transactions and connected transactions of the Group as required under the Listing Rules;
- formulation and approval of the internal control and risk management systems; and
- distribution of dividend.

The Board comprises nine directors, including four executive directors: Messrs. Guo Yuan, Li Jing Qi, Liu Jun and Yang Hai; two non-executive directors: Messrs. To Chi Keung, Simon and Wang Dao Hai; and three independent non-executive directors: Messrs. Leung Ming Yuen, Simon, Ding Xun and Nip Yun Wing. Biographical details of the directors are set out in the section headed "**BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT**" on pages 45 to 47 of this Annual Report.

Board Meetings

The Board convenes at least four regular meetings annually and approximately one in each quarter. The Company will convene Board meetings to discuss and consider all contemplated significant transactions, connected transactions or notifiable transactions as required under the Listing Rules so as to give all directors an opportunity to attend in person and provide their comments before the Group proceeds with the same. If a substantial shareholder or a director has a conflict of interest in a material matter, a Board meeting shall be held and the relevant director shall abstain from voting.

Six Board meetings were held in 2010 and at least fourteen days formal notice are given for all regular Board meetings, and at least seven days are given for meetings other than regular meetings. To ensure all directors are given opportunities to make suggestions on agenda items to be discussed in Board meetings, all draft agendas for Board meetings are provided to all directors for their comment prior to the meetings. The Chairman and non-executive directors (including the Independent non-executive directors) meet at least once every year without the presence of the executive directors and the management and such meeting was held in November 2010.

The following major issues were discussed in the Board meetings in 2010:

- to consider and approve 2009 annual results and the payment of dividend;
- to consider and approve 2010 interim results;
- to review the results and business operations of the first and third quarters of 2010;
- to approve the adoption of "深圳國際控股有限公司" as secondary name of the Company;
- to approve a major transaction in relation to the capital injection to Shenzhen Airlines Limited;
- to approve a connected transaction in relation to the acquisition of the office premises in Shenzhen; and
- to approve a connected and discloseable transaction in respect of the amendment to the terms of the zero coupon HK$1,727,500,000 convertible bond and whitewash waiver application.

Specialised Committees of the Board

In order to assist the Board to discharge their duties and promote effective operation, the Board has established three specialised committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee with respective terms of reference and clearly defined duties. They are required to review and monitor matters in specific areas of the Company and make recommendations to the Board while the right to make decision for all matters hinges on the Board. Each specialised committee has its terms of reference and such terms of reference have been approved by the Board.

The written terms of reference of all specialised committees specify that upon reasonable requests, the directors may seek independent professional advice so that directors can properly discharge their responsibilities to the Company. The costs for engaging professional advice shall be borne by the Company. In the case of professional fees exceeding HK$500,000, prior discussion with the Executive Board Committee is required.

The responsibilities and the work done by each specialised Committee during 2010 are set out below:

Audit Committee (established in 1995)

The current members are all independent non-executive directors, namely Mr. Leung Ming Yuen, Simon (Chairman), Mr. Ding Xun and Mr. Nip Yun Wing.

Responsibilities and work done in 2010

Under the terms of reference of the Audit Committee, main duties of the Committee include the following:

- to discuss and make recommendation to the Board on the appointment, replacement and removal of the auditor of the Company, and to approve the remuneration and terms of engagement of the auditor, and any matters of resignation or dismissal of the auditor;

- to monitor the integrity of financial statements of the Group and to review significant opinions in respect of the financial reporting contained in them;

- to review the Group's financial controls, internal control and risk management systems and also review the Group's statement on internal control systems contained in the annual report; and

- to discuss with the management on the internal control system and to ensure that the management has discharged its duty to establish an effective internal control system, including, to review the adequacy of resources, qualifications and experiences of staff of the Group's accounting and financial reporting function.

In 2010, the Committee held 4 meetings during which the following matters were reviewed and discussed:

- to review the annual results of 2009 and the interim results of 2010, and to consider the completeness, accuracy and fairness of relevant disclosure in the financial statements and recommended the same to the Board for approval;

- to approve the auditor's fees for the audit of 2009 financial statements and fees for the review of 2010 interim financial statements;

- to re-appoint auditor of the Company;

- to review the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programme and budget; and

- to review the relevant procedure of internal control and risk management.

The Audit Committee meets the auditor of the Company at least once every year in the absence of the management.

Nomination Committee (established in December 2003)

A majority of the members are independent non-executive directors. The current members are Mr. Ding Xun (Chairman) Mr. Leung Ming Yuen, Simon and Mr. Li Jing Qi.

Responsibilities and work done in 2010

Under the terms of reference of the Nomination Committee, the main duties of the Committee include the following:

- identify individuals suitably qualified to be a director;

- assess the qualification and experience of candidates for directors and the independence for independent non-executive directors; and

- assess and review the qualification and experience of directors who are subject to retirement by rotation and re-election at each annual general meeting.

In 2010, the Nomination Committee has evaluated and made recommendation as to the performance of the directors who were subject to retirement by rotation and re-election at the 2010 annual general meeting.

Remuneration Committee (established in December 2003)

A majority of the members are independent non-executive directors. The current members are Mr. Ding Xun (Chairman), Mr. Leung Ming Yuen, Simon and Mr. Li Jing Qi.

Responsibilities and work done in 2010

Under the terms of reference of the Remuneration Committee, the main duties of the Committee include the following:

- to determine the level, policy and structure of remuneration of directors and senior management, and to establish a formal and transparent procedure for developing policy on such remuneration;

- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

- to review and make recommendations in respect of the remuneration level of directors and senior management, and to ensure that no director or management or any of their associates is involved in deciding his/her own remuneration; and

- to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension fund and compensation payments (including any compensation payable for loss or termination of their office or appointment).

The emoluments payable to executive directors of the Company are determined by reference to their experiences and duties with the Company and the fees payable to non-executive directors are determined by reference to the estimated time spent by them on the Company's matters. The Remuneration Committee has consulted the Chief Executive Officer on the remuneration proposals of executive directors. Details of the directors' fee and other emoluments of the directors of the Company are set out in note 31 to the financial statements.

In 2010, the Committee held 2 meetings during which the following matters were reviewed and discussed:

- to consider the appropriation of the bonus payment for the year 2009 of senior management; and

- to approve the entering into of new service contract with an executive director.

Meetings held in 2010 by the Board and the Specialised Committees of the Board

Details of the directors' attendance at the Board meetings and Committee meetings held in 2010 are set out in the following table.

		Number of Meetings Attended/ Number of Meetings Held		
Directors	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**
Executive directors				
Mr. Guo Yuan *(Chairman)*	**6**/6			
Mr. Li Jing Qi	**6**/6		**1**/1	**1**/2
Mr. Liu Jun	**6**/6			
Mr. Yang Hai	**6**/6			
Non-executive directors				
Mr. To Chi Keung, Simon	**4**/6			
Mr. Wang Dao Hai	**6**/6			
Independent Non-executive Directors				
Mr. Leung Ming Yuen,	**6**/6	**4**/4	**1**/1	**2**/2
Mr. Ding Xun	**6**/6	**4**/4	**1**/1	**2**/2
Mr. Nip Yun Wing	**6**/6	**4**/4		

SUPPLY OF AND ACCESS TO INFORMATION

Agendas of all Board meeting and the accompanying Board papers are sent to all directors in a timely manner and at least seven days before the intended date of the meetings.

The management of the Company supplies the Board and its specialised committees with adequate, complete and reliable information in a timely manner to enable directors to make informed decisions. The Board and each director have separate and independent access to the Company's senior management.

To enhance communications, the Company has established an on-line intranet system for the directors of the Company and the members of all specialised committees under the Board to have access to meeting materials and documents of the Board and related committees.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and the Chief Executive Officer of the Company are two distinct and separate positions, which are held by Mr. Guo Yuan and Mr. Li Jing Qi respectively, and they are both executive directors. The Chairman is responsible for the effective running of the Board whereas the Chief Executive Officer is responsible for day-to-day business operations of the Group. The respective responsibilities of the Chairman and Chief Executive Officer have been clearly established and set out in written form as "The Roles of the Chairman and Chief Executive Officer" of the Company.

APPOINTMENT OF DIRECTORS

Each director of the Company entered into a service contract with the Company for a term of three years and is subject to retirement by rotation but is eligible for re-election at the annual general meeting in accordance with the Bye-Laws of the Company. None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The Company's Bye-Laws have specified that each director appointed to fill a casual vacancy or appointed during the year shall be subject to election by shareholders at the first annual general meeting after their appointments. Each director shall be subject to retirement by rotation at least once every three years pursuant to the Company's Bye-Laws.

RESPONSIBILITIES OF DIRECTORS

The Company has established "An Induction for Newly Appointed Directors" to provide every newly appointed director with related materials and documents to ensure proper understanding of director's duties and responsibilities and operations of the Company. The Company is responsible for keeping all directors updated on the Listing Rules and other statutory requirements.

INDEPENDENCE

The Board has received from each independent non-executive director a written annual confirmation of their independence and the Company considers that all independent non-executive directors are independent pursuant to the requirements as set out in the Listing Rules.

SECURITIES TRANSACTIONS BY DIRECTORS

The Board adopted a code of conduct the ("Code of Conduct") in respect of securities transactions of the Company by directors and relevant employees of the Group on terms more stringent than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under the Listing Rules. Relevant employees include any employees of the Company or directors or employees of subsidiaries of the Company who, as a result of their office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Group.

The Company, having made specific enquiry to all directors, confirms that all directors have complied with the standards set out in the Model Code and the Code of Conduct at all times throughout the Year.

INSURANCE ON DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged for liability insurance cover to indemnify the Board, directors and certain senior management. Purchase of liability insurance for the Directors can enhance the Company's ability to resist risks. The insurance coverage is reviewed on an annual basis.

DIVISION OF AUTHORITIES BETWEEN THE BOARD AND THE MANAGEMENT

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group and the Board delegates its management and administration functions to the management, and establishes the Executive Board Committee to manage and monitor, on behalf of the Board, the day-to-day operations of the Group and to implement all decisions made by the Board.

Executive Board Committee

Members of the Executive Board Committee were appointed by the Board. The Committee consists of four executive directors, namely Mr. Guo Yuan, Mr. Li Jing Qi, Mr. Liu Jun and Mr. Yang Hai. The Committee was duly authorised by the Board.

Responsibilities and work done in 2010

The duties and authorities of the Executive Board Committee are set out in its written terms of reference, mainly including:

(1) to monitor all business operations of the Group;

(2) to prepare and approve the Group's business plans and annual budget;

(3) to deal with the ordinary business of the Group and to authorise the Chief Executive Officer taking the lead of the management for the day-to-day operations of the Group, and to authorise individual executive directors to deal with the daily operation of various business of the Group;

(4) to consider and review notifiable transactions of the Group as required under the Listing Rules and advise the Board thereon;

(5) to provide information and reports of the Group upon requests by the Audit Committee, to attend and to arrange the management staff of the Group and professional advisors attending the Audit Committee meetings, and answering questions raised by the Audit Committee at such meetings;

(6) to arrange appointment of professional advisors and institutions to provide assistance and advices for specialised committees under the Board; and

(7) to handle all other duties assigned by the Board and to exercise the authorities delegated to it by the Board.

The Executive Board Committee reports its decisions and recommendations to the Board in a timely manner, and the minutes of meetings of the Committee in relation to material matters and decisions are circulated to members of the Board for information within reasonable time.

During 2010, the Executive Board Committee convened 33 meetings. The major items discussed and considered at the meetings include the Company's annual and interim results, business development, proposed connected transactions and notifiable transactions, and recommendations thereon to the Board. Such meetings also involved discussion of business development plans of the subsidiaries, capital expenditure and loans, property valuation, changes of senior management; budgets for year 2011; and the entering into of agreements in respect of bank loans and interest rate swaps, adjustment plans for financing, opening and cancellation of bank accounts, and changes of Group's logo and brand structure.

FINANCIAL REPORTING

The management had provided the results and financial statements for 2010 to the Audit Committee for review in accordance with the stated requirements of the Audit Committee. The Audit Committee confirmed that the financial statements for 2010 and the related information disclosed therein were complete, accurate and fair and thereafter the 2010 financial statements had been submitted to the Board for approval to ensure the Board is able to make an informed assessment.

The directors acknowledge their responsibility for preparing financial statements that give a true and fair view of the financial position, results and cash flow of the Group. In preparing the financial statements for the year ended 31 December 2010, the Board has selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent and reasonable and have prepared the financial statements on a going concern basis. For details of the basis of preparation of the financial statements, please refer to Note 2.1 to the consolidated financial statements in this Report.

The Board and the Audit Committee conducted an annual review of the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, and training programmes and budget.

The responsibilities of the auditor to the shareholders are set out in this annual report. For the announcement in relation to the price-sensitive information and other financial disclosures required under the Listing Rules are disclosed pursuant to statutory requirements.

INTERNAL CONTROL AND RISK MANAGEMENT

By working out an overall strategy on enterprise development, the Group leads and supports its subsidiaries to achieve enterprise development in accordance with the Group's strategic plans. The Group achieves sustainable development based on good and regulated management by adjusting, improving and enhancing the internal management mode of its subsidiaries.

CORPORATE INTERNAL MANAGEMENT AND CONTROL MODE

Function Positioning of Headquarters of the Group

Based on the respective industries' characteristics, maturity levels of businesses and corporate development stages of its subsidiaries, the Group positions the headquarters' function as the core of investment, financing, decision-making and backup support.

Adjustment and Improvement of Strategic Plans

Through adjusting and improving its overall long and medium term strategic plans, as well as implementing acquisitions and reorganisation, capital operation, resources allocation, structure adjustment, operation management, financial control and financial planning and other means, the Group has guided and supported its subsidiaries to develop and operate in an orderly manner.

Management Control

Based on the needs of its strategic management control, the Group has ensured that its subsidiaries' material operating activities are conducted in accordance with the Group's strategic plans and objectives by controlling, supporting and guiding important economic activities such as budget management, performance appraisal, investment management, capital management, construction management, remuneration management, assets and equity structure, human resources and information management of its subsidiaries, thereby ensuring an effective implementation of the Group's strategic plans.

Systems Build-up

Based on the content of the management control regime, the Group has created clearly defined standards. With such standards, the Group has set up a strict authorisation system and a rationalised operation workflow to ensure that various operating activities are properly authorised; to safeguard the Company's assets and the interests of shareholders; and to continuously enhance implementation efficiency through a regime on system amendment and improvement.

Risk Management

The Company's internal controls and risk management systems was established in 2005 which comprises control environment, financial control, operational control, compliance control, and risk management functions. In 2009, based on the Company's governance requirements, the Company revised and improved various procedures and control systems and established "Comprehensive Risk Management Regulations", thereby clarifying the risk management procedures, setting out requirements for risk control and management, and setting up risk management organisation and information systems. For probable risk, through carrying out adequate risk identification and assessment and formulating risk coping measures, and the Group has specifically drawn up processes for material risk management while setting up warning indicators for material losses.

The Board requires the management to review the implementation of internal control and risk management at the end of each year. Through a comprehensive assessment on the Company and its subsidiaries conducted by the internal audit department based on continuous standards, the management will judge whether the internal control and risk management systems are able to meet the expected objectives, and will make recommendations for improving any control deficiency in the systems.

The Company believes that the implementation of such internal control and risk management measures shall effectively manage any material risk the Group may face, and will mitigate the impact of risk incidents on the Group, thereby protecting shareholders' interests and the Company's assets and attaining the long-term strategic objectives of the Company.

The Board has comprehensively reviewed the Group's internal control and risk management systems in year 2010, and found that the implementation thereof progressed well and that there were no significant control failures or weaknesses. The Board considered that the relevant systems were effective and sufficient to ensure the Group to achieve its operation and governance objectives. The Board will continue to press the management of the Company to continue to enhance the internal control and risk management systems in order to ensure an effective operation of the systems.

Functions of Internal Audit Department

In 2002, the Group set up an internal audit department in order to improve the overall reporting and internal control regime of the Group. Main functions of the internal audit department are as follows :

- assessment on internal control and risk management systems
- financial due diligence in respect of investment projects
- auditing and supervision of financial projects

INDEPENDENT AUDITORS

During the Year, the fees paid and payable to the Company's auditor, PricewaterhouseCoopers, for audit services and non-audit services, were approximately HK$3,200,000 and HK$830,000 respectively.

The Audit Committee has reviewed the audit fees, procedures and effectiveness, and assessed independence and objectivity of PricewaterhouseCoopers and recommended to the Board the reappointment of PricewaterhouseCoopers as the Company's auditor for 2011 at the forthcoming annual general meeting.

COMPANY SECRETARY

The Company has appointed the Company Secretary who is responsible for providing secretarial services to the directors and ensuring the operation of the Company is properly complied with Hong Kong listed companies' regulatory requirements as well as enhancing its corporate governance standards.

All directors have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Minutes of Board meetings and meetings of all specialised committees under the Board are kept by the Company Secretary and are available for inspection by the directors at all times.

Minutes of Board meetings and meetings of all specialised committees under the Board are recorded by the Company Secretary (who is also the secretary of each of specialised committees) in sufficient details on the matters considered by all directors and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft minutes of Board meetings and meetings of all specialised committees under the Board are provided to relevant directors for their comments and the final version of the same are given to relevant directors for their records within reasonable time.

GENERAL MEETINGS

Each annual or special general meeting provides a channel of direct communication between the Board and the shareholders of the Company. Therefore, the Company puts high regard to general meetings and all directors and senior management are requested to make their best effort to attend. In respect of each issue (including re-election of directors) at general meetings of the Company, separate resolutions are proposed by the Chairman of that meeting. At general meetings, all shareholders are entitled to provide recommendations or conduct inquiries to directors and senior management regarding issues about the Group's business and operating activities. Directors and senior management shall explain and illustrate on shareholders' inquiries and recommendations.

The Chairmen of the Board and the Audit Committee, and members of Remuneration Committee and Nomination Committee attended the annual general meeting held in 2010 to answer questions raised by shareholders.

The Company convened three general meetings during the Year. The major items discussed are summarised below:

Date 2010	Details of resolutions passed at the general meetings
16 April	• the proposed capital injection of RMB348 million to Shenzhen Airlines Limited.
19 May	• the audited Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 December 2009; • declaration of the final dividend and special dividend for the year ended 31 December 2009; • re-election of the retiring directors and to authorise the Board to fix the directors' remuneration; • re-appointment of the Auditor of the Company and to authorise the Board to fix their remuneration; • granting a repurchase mandate to the Directors to repurchase shares in the Company; • granting a general mandate to the Directors to allot, issue and otherwise deal with the shares in the Company; • extension of the general mandate granted to the Directors to allot, issue and otherwise deal with the shares in the Company; and • the proposed adoption of Chinese name "深圳國際控股有限公司" as secondary name of the Company.
20 December	• the proposed amendments to the terms of the zero coupon HK$1,727,500,000 convertible bond; and • the whitewash waiver application made by Shenzhen Investment Holdings Company Limited and parties acting in concert as a result of the transactions contemplated under the modification deed.

Voting by poll on shareholders' resolutions

All resolutions at the general meetings of the Company shall be decided by way of poll so as to allow shareholders of the Company to have one vote for every share held. Before commencement of general meetings, the Chairman of the general meetings explained clearly to shareholders present the detailed procedures for conducting a poll. The Company posted the poll results on the websites of the Stock Exchange and the Company on the dates of the general meetings.

Information Disclosure

Information disclosure is not merely an ongoing responsibility and obligation that a listed company must fulfill. Credible information disclosure can effectively build a bridge of communication and understanding between investors, regulatory authorities, the public and the Company. This can facilitate a broader and more thorough understanding of the Company's values. To regulate information disclosure of the Company and protect the legal rights of the Company and its shareholders, creditors and related interested parties, the Company constituted the "Rules Governing Information Disclosure Matters" pursuant to the Listing Rules and the circumstances of the Company and it was adopted by the Board in August 2009.

During the Year, the Company released over 20 announcements/notices including annual and interim results, major transactions, connected transactions, voluntary disclosure, notices of general meetings, etc. In addition, the Company released over 60 overseas regulatory announcements in relation to the information disclosed by Shenzhen Expressway Company Limited, a subsidiary of the Company, on the Shanghai Stock Exchange.

INVESTOR RELATIONS

During the Year, the management of the Company participated in various conferences and investors' meetings organised by analysts and fund managers, other than presentations on annual and interim results held by the Company. Details of the activities are as follows:

2010	Activities
March	Conducting an Investor presentation of the 2009 Annual Results of the Company
April	Attending the "China Conference 2010" organised by Macquarie in Hong Kong
May	Attending "Conference on Hong Kong Equity Investment Strategy" organised by Shenyin Wanguo Securities in Hong Kong
August	Conducting an Investor presentation of the 2010 Interim Results of the Company and participated in roadshow in Hong Kong
October	Attending the Regional Infrastructure & Utilities Conference organised by J.P. Morgan in Hong Kong
	Participating in face-to-face conferences with investors organised by UBS Investment Bank in Hong Kong, Australia and Singapore
November	Attending "Transport and Infrastructure Corporate Access Day" organised by Standard Chartered Equities in Hong Kong
December	Attending "Asia-Pacific Infrastructure & Transportation Conference" organised by Macquarie in Singapore

The Company publishes on its website www.szihl.com in respect of the general information, information of disclosure, biographies of directors and senior management, business, financial and other affairs of the Group from time to time in order to promote the communications with its shareholders.

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2010, the interests and short positions of the directors (the "Directors") and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of The Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in The Rules Governing the Listing of Securities on the Stock Exchange 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%

Save as disclosed above and in the section headed "**SHARE OPTION SCHEME**" as set out in the Report of the Directors on pages 48 to 54 of this Annual Report, as at 31 December 2010, none of the Directors or chief executives of the Company had any interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "**DIRECTORS' INTERESTS IN SECURITIES**" above and "**SHARE OPTION SCHEME**" as set out in the Report of the Directors on pages 48 to 54 of this Annual Report, at no time during the year ended 31 December 2010 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Directors, chief executives or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, chief executives, their spouse or children under 18 years of age to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2010, the interests and short positions of the substantial shareholders, other than the Directors or chief executives of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO are set out below:

Long positions in ordinary shares of the Company

Name of shareholders	Number of ordinary shares held	Capacity	Approximate % of issued share capital of the Company
Shenzhen Investment Holdings Company Limited ("SIHCL") – Note (1)	7,955,216,814	interest of controlled corporations	48.59%
Ultrarich International Limited ("Ultrarich") – Note (2)	7,955,216,814	beneficial owner	48.59%

Notes:

(1) *Ultrarich holds an aggregate of 7,955,216,814 shares of the Company and is a wholly-owned subsidiary of SIHCL. Accordingly, SIHCL is deemed to be interested in the 7,955,216,814 shares of the Company owned by Ultrarich.*

(2) *Messrs. Guo Yuan, Li Jing Qi and Liu Jun are the directors of Ultrarich 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.*

Save as disclosed above, as at 31 December 2010, the Company had not been notified by any substantial shareholders, other than the Directors and chief executives of the Company, who had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept under section 336 of Part XV of the SFO.

OTHER PERSONS' INTERESTS IN SECURITIES

As at 31 December 2010, the interests and short positions of other persons who had interests and short positions in the shares and underlying shares of the Company, which are required to be recorded in the register kept by the Company under section 336 of Part XV of the SFO are set out below:

Long positions in ordinary shares of the Company

Name of shareholder	Number of ordinary shares held	Capacity	Approximate % of issued share capital of the Company
RARE Infrastructure Limited	981,688,500	Investment manager	6.00%

Save as disclosed above, as at 31 December 2010, the Company had not been notified by any other persons who had interests or short positions in the shares and underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of Part XV of the SFO.

PricewaterhouseCoopers

羅兵咸永道會計師事務所

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Independent Auditor's Report
To the shareholders of Shenzhen International Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Shenzhen International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 70 to 148, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 March 2011

CONSOLIDATED BALANCE SHEET

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 December 2010	2009 (Restated)	As at 1 January 2009 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment	6	**3,226,152**	2,280,609	1,706,526
Investment properties	7	**49,989**	44,443	49,183
Land use rights and other leased assets	8	**647,623**	604,012	439,266
Construction in progress	9	**368,096**	636,456	341,542
Intangible assets	10	**23,446,980**	22,463,694	18,125,699
Investments in associates	12	**2,280,452**	1,455,216	1,441,731
Investments in jointly controlled entities	13	**306,821**	300,350	773,559
Available-for-sale financial assets	14	**147,263**	142,366	95,726
Deferred income tax assets	25	**115,485**	45,923	–
Other non-current assets	15	**54,050**	53,247	–
		30,642,911	28,026,316	22,973,232
Current assets				
Available-for-sale financial assets	14	**3,435,965**	2,311,475	1,134,638
Financial assets at fair value through profit or loss		**–**	–	149,827
Trade and other receivables	17	**623,300**	412,421	573,899
Restricted bank deposits	18	**349,573**	556,920	160,168
Cash and cash equivalents	18	**1,729,590**	1,126,402	1,901,000
Derivative financial instruments		**–**	–	7,143
		6,138,428	4,407,218	3,926,675
Assets held for sale	16	**15,055**	14,528	14,717
Total assets		**36,796,394**	32,448,062	26,914,624
EQUITY				
Equity attributable to equity holders of the Company				
Share capital	19	**4,919,854**	2,973,698	2,941,407
Other reserves	20	**1,219,263**	252,447	(1,374,813)
Retained earnings				
– Proposed dividends	36	**491,165**	306,880	203,398
– Others		**4,213,745**	3,492,111	3,139,929
		10,844,027	7,025,136	4,909,921
Non-controlling interests		**6,179,498**	5,694,554	4,972,684
Total equity		**17,023,525**	12,719,690	9,882,605

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 December 2010	2009 (Restated)	As at 1 January 2009 (Restated)
LIABILITIES				
Non-current liabilities				
Borrowings	21	**10,259,423**	9,604,665	7,302,217
Derivative financial instruments	22	**83,476**	51,608	51,460
Provision for maintenance/resurfacing obligations	23	**1,083,835**	829,180	366,426
Convertible bonds	24	**1,549,341**	1,426,402	3,066,685
Deferred income tax liabilities	25	**2,019,386**	1,684,619	875,921
Deferred income		**–**	–	33,608
Other non-current liabilities		**–**	9,087	–
		14,995,461	13,605,561	11,696,317
Current liabilities				
Trade and other payables	26	**2,308,267**	2,086,141	3,233,979
Income tax payable		**296,232**	172,718	159,875
Provision for maintenance/resurfacing obligations	23	**26,877**	–	–
Convertible bonds	24	**–**	1,776,430	–
Borrowings	21	**2,140,954**	2,084,829	1,941,848
Derivative financial instruments	22	**5,078**	2,693	–
		4,777,408	6,122,811	5,335,702
Total liabilities		**19,772,869**	19,728,372	17,032,019
Total equity and liabilities		**36,796,394**	32,448,062	26,914,624
Net current assets/(liabilities)		**1,376,075**	(1,701,065)	(1,394,310)
Total assets less current liabilities		**32,018,986**	26,325,251	21,578,922

The notes on pages 78 to 148 are an integral part of these consolidated financial statements.

The financial statements on page 70 to 148 were approved by the Board of Directors on 30 March 2011 and were signed on its behalf.

Li Jing Qi
Director

Liu Jun
Director

BALANCE SHEET

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 December 2010	2009
ASSETS			
Non-current assets			
Investments in subsidiaries	11(a)	**5,117,790**	6,147,943
Amount due from a subsidiary	11(b)	**1,635,366**	–
		6,753,156	6,147,943
Current assets			
Other receivables	17	**1,321**	1,019
Dividends due from subsidiaries	11(c)	**2,982,473**	2,842,923
Cash and cash equivalents	18	**38,595**	48,136
		3,022,389	2,892,078
Total assets		**9,775,545**	9,040,021
EQUITY			
Share capital	19	**4,919,854**	2,973,698
Other reserves	20	**823,926**	651,690
Retained earnings	34		
– Proposed dividends	36	**491,165**	306,880
– Others		**1,096,052**	1,582,337
Total equity		**7,330,997**	5,514,605
LIABILITIES			
Non-current liabilities			
Borrowings	21	**1,353,430**	1,478,750
Derivative financial instruments	22	**53,227**	51,608
		1,406,657	1,530,358
Current liabilities			
Other payables	26	**10,189**	10,070
Borrowings	21	**1,019,375**	205,625
Convertible bonds	24	**–**	1,776,430
Derivative financial instruments	22	**5,078**	–
Amount due to a subsidiary	11(c)	**3,249**	2,933
		1,037,891	1,995,058
Total liabilities		**2,444,548**	3,525,416
Total equity and liabilities		**9,775,545**	9,040,021
Net current assets		**1,984,498**	897,020
Total assets less current liabilities		**8,737,654**	7,044,963

The notes on pages 78 to 148 are an integral part of these consolidated financial statements.

The financial statements on page 70 to 148 were approved by the Board of Directors on 30 March 2011 and were signed on its behalf.

Li Jing Qi
Director

Liu Jun
Director

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2010	2009
Revenue	27	**5,111,806**	4,080,949
Cost of sales	30	**(2,993,949)**	(2,635,576)
Gross profit		**2,117,857**	1,445,373
Other gains – net	28	**489,849**	391,840
Other income	29	**82,961**	86,059
Distribution costs	30	**(27,366)**	(23,052)
Administrative expenses	30	**(244,266)**	(201,637)
Other operating expenses	30	**–**	(10,774)
Operating profit		**2,419,035**	1,687,809
Share of profit of jointly controlled entities	13	**7,685**	204,763
Share of profit of associates	12	**350,161**	92,506
Profit before finance costs and tax		**2,776,881**	1,985,078
Finance income	32	**21,858**	27,952
Finance costs	32	**(653,398)**	(569,047)
Finance costs – net	32	**(631,540)**	(541,095)
Profit before income tax		**2,145,341**	1,443,983
Income tax expense	33	**(453,068)**	(266,885)
Profit for the year		**1,692,273**	1,177,098
Attributable to:			
Equity holders of the Company		**1,279,839**	865,859
Non-controlling interests		**412,434**	311,239
		1,692,273	1,177,098
Earnings per share for the profit attributable to equity holders of the Company during the year (expressed in HK cents per share)			
– Basic	35	**9.03**	6.17
– Diluted	35	**8.66**	6.03

The notes on pages 78 to 148 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2010	2009
Dividends	36	**491,165**	306,880

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2010	2009
Profit for the year		**1,692,273**	1,177,098
Other comprehensive income:			
Fair value gains on available-for-sale financial assets, net of tax	20	**1,048,580**	1,005,013
Transfer of fair value gains to income statement upon disposal of available-for-sale financial assets, net of tax	20	**(276,729)**	(81,410)
Fair value losses on derivative financial instruments, net of tax		**(20,236)**	(5,640)
Derecognition of cash flow hedge, net of tax	20	**–**	5,210
Revaluation surplus arising from business combination, net of tax		**–**	978,170
Share of other comprehensive income of an associate		**(10)**	–
Currency translation differences		**565,121**	10,013
Other comprehensive income for the year, net of tax		**1,316,726**	1,911,356
Total comprehensive income for the year		**3,008,999**	3,088,454
Total comprehensive income attributable to:			
Equity holders of the Company		**2,389,440**	2,266,520
Non-controlling interests		**619,559**	821,934
Total comprehensive income for the year		**3,008,999**	3,088,454

The notes on pages 78 to 148 are an integral part of these consolidated financial statements.

(All amounts in HK dollar thousands unless otherwise stated)

	Attributable to equity holders of the Company					
	Share capital and share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2009	2,941,407	(1,374,813)	3,343,327	4,909,921	4,972,684	9,882,605
Comprehensive income						
Profit for the year	–	–	865,859	865,859	311,239	1,177,098
Other comprehensive income						
Fair value gains on available-for-sale financial assets, net of tax	–	1,005,013	–	1,005,013	–	1,005,013
Transfer of fair value gain to income statement upon disposal of available-for-sale financial assets, net of tax	–	(81,410)	–	(81,410)	–	(81,410)
Fair value losses on derivative financial instruments, net of tax	–	(5,640)	–	(5,640)	–	(5,640)
Derecognition of cash flow hedge, net of tax	–	5,210	–	5,210	–	5,210
Revaluation surplus arising from business combination, net of tax	–	471,385	–	471,385	506,785	978,170
Currency translation differences	–	6,103	–	6,103	3,910	10,013
Total other comprehensive income	–	1,400,661	–	1,400,661	510,695	1,911,356
Total comprehensive income	–	1,400,661	865,859	2,266,520	821,934	3,088,454
Transactions with owners						
Employee share options – proceeds from shares issued	32,291	–	–	32,291	–	32,291
Transfer to reserves	–	206,786	(206,786)	–	–	–
Dividend relating to 2008	–	–	(203,409)	(203,409)	–	(203,409)
Dividend paid to non-controlling interests by subsidiaries	–	–	–	–	(171,058)	(171,058)
Acquisition of non-controlling interests	–	19,316	–	19,316	(88,041)	(68,725)
Non-controlling interests arising on business combination	–	–	–	–	50,036	50,036
Injection by non-controlling interests	–	497	–	497	108,999	109,496
Total transactions with owners	32,291	226,599	(410,195)	(151,305)	(100,064)	(251,369)
Balance at 31 December 2009	2,973,698	252,447	3,798,991	7,025,136	5,694,554	12,719,690

(All amounts in HK dollar thousands unless otherwise stated)

	Attributable to equity holders of the Company					
	Share capital and share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2010	2,973,698	252,447	3,798,991	7,025,136	5,694,554	12,719,690
Comprehensive income						
Profit for the year	–	–	1,279,839	1,279,839	412,434	1,692,273
Other comprehensive income						
Fair value gains on available-for-sale financial assets, net of tax	–	1,048,580	–	1,048,580	–	1,048,580
Transfer of fair value gain to income statement upon disposal of available-for-sale financial assets, net of tax	–	(276,729)	–	(276,729)	–	(276,729)
Fair value losses on derivative financial instruments, net of tax	–	(12,849)	–	(12,849)	(7,387)	(20,236)
Share of other comprehensive income of an associate	–	(10)	–	(10)	–	(10)
Currency translation differences	–	350,609	–	350,609	214,512	565,121
Total other comprehensive income	–	1,109,601	–	1,109,601	207,125	1,316,726
Total comprehensive income	–	1,109,601	1,279,839	2,389,440	619,559	3,008,999
Transactions with owners						
Employee share options						
– proceeds from shares issued	4,371	–	–	4,371	–	4,371
– value of employee services	4,762	–	–	4,762	–	4,762
Transfer to reserves	–	66,704	(66,704)	–	–	–
Dividend relating to 2009	–	–	(307,216)	(307,216)	–	(307,216)
Dividend paid to non-controlling interests by subsidiaries	–	–	–	–	(172,181)	(172,181)
Acquisition of non-controlling interests	–	34	–	34	(481)	(447)
Injection by non-controlling interest	–	–	–	–	38,047	38,047
Conversion of convertible bonds	1,937,023	(209,523)	–	1,727,500	–	1,727,500
Total transactions with owners	1,946,156	(142,785)	(373,920)	1,429,451	(134,615)	1,294,836
Balance at 31 December 2010	4,919,854	1,219,263	4,704,910	10,844,027	6,179,498	17,023,525

The notes on pages 78 to 148 are an integral part of these consolidated financial statements.

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2010	2009
Cash flows from operating activities			
Cash generated from operations	37(a)	**2,927,261**	1,834,500
Proceeds from disposals of financial assets at fair value through profit or loss		**–**	246,405
Interest paid		**(429,011)**	(404,407)
Income tax paid		**(442,185)**	(373,622)
Net cash generated from operating activities		**2,056,065**	1,302,876
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**–**	(2,131,521)
Acquisition of non-controlling interests		**(447)**	(68,725)
Purchases of property, plant and equipment, construction in progress, and intangible assets		**(1,806,383)**	(2,078,015)
Purchases of land use rights and other leased assets		**(51,595)**	(195,122)
Increase in investments in associates		**(501,301)**	(51,119)
Purchases of available-for-sale financial assets		**–**	(46,564)
Proceeds from disposals of property, plant and equipment	37(b)	**43,252**	11,643
Proceeds from disposals of investment properties		**–**	4,040
Proceeds from disposals of land use rights and other leased assets		**14,161**	37,547
Proceeds from disposal of available-for-sale financial assets		**467,454**	288,677
Interest received		**21,858**	27,952
Dividends received		**227,993**	310,281
Net cash used in investing activities		**(1,585,008)**	(3,890,926)
Cash flows from financing activities			
Proceeds from derivative financial instruments		**10,006**	4,117
Proceeds from issuance of ordinary shares	19	**4,371**	32,291
Capital contribution by non-controlling interest		**38,047**	109,496
Proceeds from borrowings		**3,934,461**	6,474,860
Proceeds from medium-term notes		**820,868**	–
Repayments of borrowings		**(4,407,201)**	(4,036,054)
Decrease/(increase) in restricted bank deposits		**207,347**	(396,752)
Dividends paid to the Company and subsidiaries' shareholders		**(479,397)**	(374,467)
Net cash generated from financing activities		**128,502**	1,813,491
Net increase/(decrease) in cash and cash equivalents		**599,559**	(774,559)
Cash and cash equivalents at beginning of year		**1,126,402**	1,901,000
Exchange gain/(loss)		**3,629**	(39)
Cash and cash equivalents at end of year	18	**1,729,590**	1,126,402

The notes on pages 78 to 148 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

– Toll Roads; and

– Logistic Business.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

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

In October 2009, Shenzhen Investment Holding Corporation ("SIHC"), the largest shareholder of the Company, entered into a share transfer agreement with Shenzhen Investment Holdings Company Limited ("SIHCL") for the transfer of 100% equity interest in SIHC's wholly-owned subsidiary, Ultrarich International Limited ("Ultrarich"), which owned 4,836,363,636 ordinary shares in the Company (the "Ultrarich Share Transfer"). On 17 November 2010, the Ultrarich Share Transfer was completed. Subsequent to the completion of the Ultrarich Share Transfer, SIHC transferred its direct owned 904,109,589 ordinary shares in the Company to Ultrarich on 17 November 2010 (the "Direct Owned Share Transfer"). Upon the completion of the Ultrarich Share Transfer and the Direct Owned Share Transfer, Ultrarich totally owned 5,740,473,225 ordinary shares in the Company. As SIHCL held the 100% equity interests in Ultrarich, it had a deemed interest in the 5,740,473,225 ordinary shares in the Company held by Ultrarich and became the largest shareholder of the Company.

On 29 December 2010, SIHCL converted all of its convertible bonds to 2,214,743,589 ordinary shares of the Company through Ultrarich. Further details are given in Note 24(i). The total number of issued shares of the Company increased to 16,372,173,064 ordinary shares. SIHCL and Ultrarich hold an aggregate of 7,955,216,814 ordinary shares in the Company indirectly and directly, representing approximately 48.59% of issued shares.

SIHC and SIHCL are both supervised and managed by Shenzhen State-owned Assets Supervision and Administration Bureau ("Shenzhen SASAB"), which is a state-owned authority of the People's Republic of China ("PRC"). As SIHCL controls the financial and operating policies of the Company, the directors of the Company regard SIHCL as the de facto controller of the Company. Since Shenzhen SASAB supervises and manages SIHCL, it controls the financial and operating policies of SIHCL. As a result, the Company is also de facto controlled by Shenzhen SASAB.

These consolidated financial statements are presented in Hong Kong dollars ("HKD"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 March 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010, which are relevant to and have impact on the Group:

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  For a business combination achieved in stages, it applies acquisition method at the acquisition date. The previously held interest is remeasured to fair value at the acquisition date and a gain or loss is recognised in the income statement. Goodwill is calculated by deducting the fair value of identifiable net assets from the fair value of the previously held interest, the consideration and non-controlling interest.

  The Group has changed its accounting policy for step acquisition of an associate from 1 January 2010 when revised HKFRS 3, "Business combinations", became effective. The cost of an associate acquired in stages is measured as the sum of the fair value of the interest previously held plus the fair value of any additional consideration transferred as of the date when the associate became an associate. A gain or loss on re-measurement of the previously held interest is taken to the profit or loss. Any other comprehensive income recognised in prior periods in relation to the previously held interest is also taken to the profit or loss. Any acquisition-related costs are expensed in the period in which the costs are incurred.

  Previously, the cost of an associate acquired in stages is measured as the sum of the consideration paid for each purchase plus a share of investee's profits and other equity movements. Any existing gains or losses recognised in the available-for-sale revaluation reserve in respect of the previously held interest are reversed in other comprehensive income restating the investment to cost. Any acquisition-related costs are treated as part of the investment in the associate.

  On 19 April 2010, the Group completed the capital increase to Shenzhen Airlines Limited ("Shenzhen Airlines"). The Group increased its equity interest in Shenzhen Airlines from 10% to 25% ("Capital Increase") and Shenzhen Airlines became an associate of the Group. The Group has applied the new accounting policy for the step acquisition of Shenzhen Airlines and further details are given in Note 12.

  As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'consolidated and separate financial statements', at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. This is consistent with the Group's existing accounting policy in this respect. The standard also specifies the accounting treatment when control is lost. Any remaining interest in the entity need to be re-measured to fair value, and a gain or loss is recognised in profit or loss.

  HKAS 27 (revised) has had no impact on the current year, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity.

(All amounts in HK dollar thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010, which are relevant to and have impact on the Group: (continued)

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest title of which is not expected to be passed to the Group by the end of the lease term was classified as operating lease under "Land use rights and other leased assets", and amortised over the lease term.

  HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land from operating lease to finance lease.

  If the land interest is held for own use, that land interest classified as finance lease is accounted for as property, plant and equipment and is depreciated from the land interest available for its intended use over the shorter of the useful live of the asset and the lease term.

  The effect of the adoption of this amendment is as below:

	As at		
	31 December 2010	31 December 2009	1 January 2009
Decrease in land use rights and other leased assets	**(64,518)**	(66,250)	(70,390)
Increase in property, plant and equipment	**64,518**	66,250	70,390

  There is no impact on opening retained earnings at 1 January 2009, and the profit and earnings per share for each of the years ended 31 December 2009 and 2010 from the adoption of this amendment.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 which are relevant to but have no impact on the Group, or not currently relevant to the Group (although they may affect the accounting for future transactions and events):

- HKAS 1 (amendment), 'Presentation of financial statements'
- HKAS 7 (amendment), 'Statement of Cash Flows'
- HKAS 18 (amendment), 'Revenue'
- HKAS 36 (amendment), 'Impairment of assets'
- HKAS 38 (amendment), 'Intangible assets'
- HKAS 39 (amendment), 'Financial instruments: Recognition and measurement'
- HKFRS 1 (revised), 'First-time adoption of HKFRSs'
- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions'
- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'
- HK Interpretation 5 'Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause'
- HK(IFRIC)-Int 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement'
- HK(IFRIC)–Int 16, 'Hedges of a net investment in a foreign operation'
- HK(IFRIC)-Int 17, 'Distribution of non-cash assets to owners'
- HK(IFRIC)-Int 18, 'Transfers of assets from customers'

(All amounts in HK dollar thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

		Effective for annual periods beginning on or after
HKFRS 9	Financial instruments	1 January 2013
HK(IFRIC) 19	Extinguishing financial liabilities with equity instruments	1 July 2010
Amendments to HKAS 1	Presentation of Financial Statements	1 January 2011
Amendments to HKAS 27	Consolidated and Separate Financial Statements	1 July 2010
Amendments to HKAS 32	Classification of rights issues	1 February 2010
Amendments to HKAS 34	Interim Financial Reporting	1 January 2011
Amendments to HKFRS 1	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards	1 January 2011
Amendments to HKFRS 3 (Revised)	Business Combinations	1 July 2010
Amendments to HKFRS 7	Financial Instruments: Disclosures	1 January 2011
Amendments to HK (IFRIC) 13	Customer Loyalty Programmes	1 January 2011
Amendments to HK (IFRIC) 14	Prepayments of a minimum funding requirement	1 January 2011
Amendments to HKAS 12	Income taxes	1 January 2012

The Group has commenced an assessment of the impact of the new standards, amendments to the standards and interpretations but is not yet in a position to state whether these new standards, amendments to standards and interpretations would have a significant impact to the Group's results of operations and financial position.

2.2 Consolidation

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

(a) Subsidiaries

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

Apart from the application of merger accounting on the common control business combinations, the acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

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

(b) Common control combination

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(b) Common control combination (continued)

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

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

(c) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(d) Associates

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(e) Jointly controlled entities

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

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

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

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in HKD as the Company is listed on Hong Kong Stock Exchange.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(c) Group companies

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

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

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

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

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

2.5 Property, plant and equipment

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

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

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

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	10-99 years or over the term of the unexpired leases, whichever is shorter
Buildings	10-50 years or over the term of the unexpired leases, whichever is shorter
Leasehold improvements	4 years or over the term of the unexpired leases, whichever is shorter
Motor vehicles	5-8 years
Furniture, fixtures and equipment	3-10 years
Loading equipments and facilities in port	10-25 years or over the term of the unexpired leases, whichever is shorter

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains – net', in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Construction in progress

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

2.7 Investment properties

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

2.8 Land use rights and other leased assets

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

2.9 Intangible assets

(a) Goodwill

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets (continued)

(b) Concession intangible assets

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

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

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

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

2.10 Impairment of investment in subsidiaries, associates and non-financial assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets

2.11.1 Classification

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

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

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

2.11.2 Recognition and measurement (continued)

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

The fair values of quoted investments are based on current bid prices. The fair value of investments in equity instruments that do not have a quoted market price in an active market is measured by using appropriate estimation technique. The investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment provision.

2.12 Offsetting financial instruments

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

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio; or
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

The Group first assesses whether objective evidence of impairment exists.

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

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

(b) Assets classified as available for sale

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

2.14 Derivative financial instruments and hedging activities

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Derivative financial instruments and hedging activities (continued)

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

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

2.15 Trade and other receivables

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

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

2.16 Cash and cash equivalents

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

2.17 Share capital

Ordinary shares are classified as equity.

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

2.18 Trade payables

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Borrowings

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

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

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

2.20 Compound financial instruments

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

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

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

2.21 Borrowing costs

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

2.22 Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, jointly controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Current and deferred income tax (continued)

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

2.23 Employee benefits

(a) Pension obligations

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

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

(b) Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, for staff remuneration under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. The Group recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Employee benefits (continued)

(b) Share-based payments (continued)

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

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(c) Profit-sharing and bonus plans

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

2.24 Provisions

Provisions for environmental restoration, restructuring costs, legal claims and the resulting maintenance and resurfacing cost, except for upgrade services under the respective service concessions, are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.25 Revenue recognition

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Revenue recognition (continued)

(a) Toll revenue

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

(b) Construction service revenue under Service Concessions

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

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

(c) Interest income

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

(d) Logistic related service revenues

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

(e) Dividend income

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

(f) Rental income

Rental income from properties letting under operating leases is recognised on a straight-line basis over the lease terms.

2.26 Operating leases

(a) When a group company is the lessee

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

(b) When a group company is the lessor

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 Government grants

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

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

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

2.28 Contingent liabilities

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

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

2.29 Dividend distribution

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

(All amounts in HK dollar thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. As at 31 December 2010, the Group has cash and bank balances of HKD98,983,000 (2009: HKD75,396,000) and bank borrowings of HKD3,925,359,000 (2009: HKD3,040,681,000) denominated in HKD, and the Company has cash and bank balances of HKD38,552,000 (2009: HKD48,094,000), and bank borrowings of HKD2,372,805,000 (2009: HKD1,684,375,000) denominated in HKD. Apart from these, the Group and the Company did not have significant exposure to foreign exchange risk. Nevertheless, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. In 2010, the Group used a cross currency and interest rate swap contract and a forward foreign exchange contract to hedge its foreign exchange risk against two of its variable-rate foreign currency loans with principal amount of HKD399,000,000 and HKD227,000,000 respectively (2009: Nil) (Note 22).

As at 31 December 2010, except for the two loans hedged, should RMB be weakened/ strengthened by 5% against HKD, with all other factors remain unchanged, the profit after taxation for the year would be affected as follows:

	Change of profit after income tax – increase/(decrease)			
	Group		**Company**	
	2010	2009	**2010**	2009
RMB against HKD				
– Weakened by 5%	**(121,944)**	(118,492)	**(95,213)**	(68,246)
– Strengthened by 5%	**121,944**	118,492	**95,213**	68,246

(All amounts in HK dollar thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

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

The Group's and Company's interest rate risk arises from long-term borrowings and medium-term notes. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Bonds and convertible bonds issued at fixed rates expose the Group to fair value interest rate risk. The Group adjusts the proportion of borrowings at fixed rate against borrowings at floating rate based on the change of the finance market environment. During 2010 and 2009, the Group's borrowings at variable rates were mainly denominated in HKD and RMB. For bank borrowings in the PRC, the interest rate would be adjusted accordingly should the lending rate promulgated by the People's Bank of China be changed.

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

As at 31 December 2010, the balance of bank borrowings and medium-term notes of the Group which were issued at floating rates and not covered by the interest rate swaps, amounted to approximately HKD4,543,000,000 (2009: HKD3,830,000,000). As at 31 December 2010, should the interest rate be increased/decreased by 50 basis points with all other factors remain unchanged, the finance costs of the Group would be increased/decreased by approximately HKD22,715,000 (2009: HKD19,150,000) respectively.

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

(iii) Price risk

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

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

	Impact on other components of equity, net of tax -increase/(decrease)	
	2010	2009
Share price		
– Increased by 5%	**134,003**	92,459
– Decreased by 5%	**(134,003)**	(92,459)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

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

Except that provision for impairment of receivables was HKD2,934,000 (2009: HKD195,000) during the year, no credit limits were exceeded. Management does not expect any losses from non-performance by these counterparties.

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

(c) Liquidity risk

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

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

(All amounts in HK dollar thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Group				
At 31 December 2010				
Bank borrowings	2,220,804	1,211,521	3,129,115	5,140,733
Other borrowings	–	44,734	–	–
Derivative financial instruments	5,796	3,558	63,316	–
Convertible and corporate bonds	69,453	69,453	1,938,788	1,304,297
Medium-term notes	30,653	30,653	854,667	–
Trade and other payables (excluding other taxes payable and staff welfare benefit payable)	2,146,044	–	–	–
At 31 December 2009				
Bank borrowings	2,153,416	796,510	3,476,987	5,966,940
Other borrowings	–	41,105	–	–
Derivative financial instruments	2,693	6,068	45,540	–
Convertible and corporate bonds	1,915,454	67,023	1,887,993	1,308,645
Trade and other payables (excluding other taxes payable and staff welfare benefit payable)	2,081,935	–	–	–

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Company			
At 31 December 2010			
Bank borrowings	1,043,955	485,608	917,503
Derivative financial instruments	5,078	2,839	50,388
Other payables	10,189	–	–
Amounts due to subsidiaries	3,249	–	–
At 31 December 2009			
Bank borrowings	213,445	337,520	1,193,654
Derivative financial instruments	2,693	6,068	45,540
Convertible bonds	1,848,431	–	–
Other payables	10,070	–	–
Amounts due to subsidiaries	2,933	–	–

As at 31 December 2010, the Group and the Company have undrawn banking facilities of HKD10,065,151,000 (2009: HKD11,933,567,000) and HKD1,781,454,000 (2009: HKD1,024,787,000) respectively.

(All amounts in HK dollar thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management

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

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

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

The Group maintained a consistent strategy to maintain the gearing ratio within 120%. The gearing ratios at 31 December 2010 and 2009 were as follows:

	2010	2009
Total borrowings	**13,949,718**	14,892,326
Less: cash and bank balances	**(2,079,163)**	(1,683,322)
Net debt	**11,870,555**	13,209,004
Total capital	**17,023,525**	12,719,690
Gearing ratio	**70%**	104%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

(All amounts in HK dollar thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010:

	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
– Equity securities	3,435,965	–	113,714	3,549,679
Liabilities				
Derivatives – interest rate swaps, cross currency and interest rate swap and foreign exchange forward contract	–	88,554	–	88,554

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

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

(All amounts in HK dollar thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2010 and 2009:

	Unlisted equity investments	
	2010	2009
Opening balance	**38,992**	–
Net fair value gains	**29,492**	–
Transfers into investment in an associate (Note12(b))	**(68,538)**	–
Transfer into level 3	**113,714**	38,992
Exchange reserve	**54**	–
Closing balance	**113,714**	38,992
Total gains or losses for the year including in profit or loss for assets held at the end of year	–	–

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

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

(a) Construction service revenue recognition relating to concession contracts

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Critical accounting estimates and assumptions (continued)

(b) Amortisation of concession intangible assets

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

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

The directors of the Company performed a periodic assessment of the total projected traffic volume. The Group will appoint independent professional traffic consultants to perform independent professional traffic studies and make appropriate adjustment if there is a material difference. In the first quarter of 2010, the Group appointed an independent professional traffic consultant to perform independent professional traffic studies or internally reassessed the future traffic volume of Airport-Heao western expressway, Yanpai expressway, Meiguan expressway and Qinglian class 2 highway. The Group has adjusted the amortisation unit for concession intangible assets according to the revised total projected traffic volume since 1 January 2010 on prospective basis. Such change in accounting estimate has resulted in an decrease of profit for the year ended 31 December 2010 amounted to HKD26,449,000 and will impact the amortisation charges of the Group in the future.

(c) Provisions for maintenance/resurfacing obligations

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

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

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

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

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

On 19 April 2010, the Group completed the Capital Increase. In accordance with the accounting policy of the Group, the net identifiable liabilities acquired in the Capital Increase are recorded at fair value at completion.

The Group adopted valuation technique to assess the fair value of identifiable assets and liabilities of Shenzhen Airlines on the completion date by reference to the independent valuer's valuation report. Major assets of Shenzhen Airlines are aircrafts, cash and cash equivalents, buildings and land use rights. The fair value of cash and cash equivalents is equal to its carrying amount, while aircrafts and buildings are assessed using a depreciated replacement cost basis and land use rights are assessed on quoted market price basis, based on the key estimations that there will be no material changes in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of Shenzhen Airlines.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Critical accounting estimates and assumptions (continued)

(e) Corporate income tax

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4.2 Critical judgements in applying the entity's accounting policies

Dividends policy of subsidiaries

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

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

5. SEGMENT INFORMATION

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

– Toll roads; and

– Logistic business.

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

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

The board of directors considers the business from a business activities perspective, and assesses the performance of toll roads and logistics business which combined the business segments of logistic parks and provision of logistic service in prior year. The change is mainly because the board of directors assess performance and allocate resources with a combined basis of the logistic business since 2010, which is more appropriate for the Group's business development in future.

Toll roads include development, operation and management of toll highway; logistic business includes: (i) logistic parks mainly include the construction, operation and management of logistic centres; (ii) logistic services include the provision of third party logistic and logistic information services to customers; and (iii) port includes construction, operation and management of wharf and logistic centres at Xiba Port in Nanjing, which is a new business in this year.

The board of directors assesses the performance of the operating segments based on a measure of operating profit.

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

(All amounts in HK dollar thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2010

	Toll roads	Logistic business: Logistic parks	Logistic business: Logistic services	Logistic business: Port	Logistic business: Subtotal	Head office function	Total
Revenue	4,616,868[a]	301,612	163,569	29,757	494,938	–	5,111,806
Operating profit	1,863,207	83,659	12,555	3,485	99,699	456,129	2,419,035
Share of profit/(loss) of jointly controlled entities	2,941	4,842	(98)	–	4,744	–	7,685
Share of profit of associates	205,692	–	920	–	920	143,549	350,161
Finance income	17,548	1,203	726	278	2,207	2,103	21,858
Finance costs	(573,471)	(4,587)	(450)	(3,763)	(8,800)	(71,127)	(653,398)
Profit before tax	1,515,917	85,117	13,653	–	98,770	530,654	2,145,341
Income tax expense	(323,677)	(15,040)	(811)	–	(15,851)	(113,540)	(453,068)
Profit for the year	1,192,240	70,077	12,842	–	82,919	417,114	1,692,273
Non-controlling interests	(406,564)	(3,767)	(2,103)	–	(5,870)	–	(412,434)
Profit attributable to equity holders of the Company	785,676	66,310	10,739	–	77,049	417,114	1,279,839
Depreciation and amortisation	868,279	46,560	9,405	16,789	72,754	13,589	954,622
Capital expenditure							
– Additions in property, plant and equipment, construction in progress, land use rights and other leased assets and intangible assets	1,050,589	307,243	19,817	356,893	683,953	77,940	1,812,482
Investments in associates	–	–	–	–	–	501,301	501,301

(All amounts in HK dollar thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

For the year ended 31 December 2009

		Logistic business				
	Toll roads	Logistic parks	Logistic services	Subtotal	Head office function	Total
Revenue	3,725,438[a]	215,016	139,918	354,934	577	4,080,949
Operating profit	1,241,899	50,317	8,456	58,773	387,137	1,687,809
Share of profit/(loss) of jointly controlled entities	202,971	2,399	(607)	1,792	–	204,763
Share of profit of associates	91,834	–	672	672	–	92,506
Finance income	16,398	2,316	908	3,224	8,330	27,952
Finance costs	(452,835)	(6)	(11)	(17)	(116,195)	(569,047)
Profit before tax	1,100,267	55,026	9,418	64,444	279,272	1,443,983
Income tax expense	(175,441)	(6,090)	(1,125)	(7,215)	(84,229)	(266,885)
Profit for the year	924,826	48,936	8,293	57,229	195,043	1,177,098
Non-controlling interests	(310,722)	(34)	(1,566)	(1,600)	1,083	(311,239)
Profit attributable to equity holders of the Company	614,104	48,902	6,727	55,629	196,126	865,859
Depreciation and amortisation	512,253	36,441	11,074	47,515	1,780	561,548
Capital expenditure						
– Additions in property, plant and equipment, construction in progress, land use rights and other leased assets and intangible assets	1,458,610	326,217	40,760	366,977	461,981	2,287,568
– Additions in property, plant and equipment, construction in progress, land use rights and other leased assets and intangible assets arising from acquisition of subsidiaries	3,569,813	–	–	–	83,290	3,653,103
Investments in associates	51,119	–	–	–	–	51,119

a) The revenue from toll roads includes construction service revenue: for the year ended 31 December 2010: HKD910,072,000; for the year ended 31 December 2009: HKD1,211,696,000.

b) The Group has a number of customers, no revenue from a single customer exceeds 5% or more of the Group's revenue.

(All amounts in HK dollar thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Land and Buildings	Leasehold improvements	Motor vehicles	Furniture, fixtures, and equipment	Total (Restated)
At 1 January 2009					
Cost as previously reported	1,209,557	6,873	59,953	828,678	2,105,061
Effect of adoption of HKAS17 (amendment)	72,034	–	–	–	72,034
Cost as restated	1,281,591	6,873	59,953	828,678	2,177,095
Accumulated depreciation and impairment as previously reported	(137,522)	(4,249)	(31,570)	(295,584)	(468,925)
Effect of adoption of HKAS17 (amendment)	(1,644)	–	–	–	(1,644)
Accumulated depreciation and impairment, as restated	(139,166)	(4,249)	(31,570)	(295,584)	(470,569)
Net book amount, as restated	1,142,425	2,624	28,383	533,094	1,706,526
Year ended 31 December 2009					
Opening net book amount, as previously reported	1,072,035	2,624	28,383	533,094	1,636,136
Effect of adoption of HKAS17 (amendment)	70,390	–	–	–	70,390
Opening net book amount, as restated	1,142,425	2,624	28,383	533,094	1,706,526
Acquisition of a subsidiary	33,651	–	1,689	20,120	55,460
Additions	11,513	4,244	10,724	30,567	57,048
Transfer from construction in progress (Note 9)	242,231	52,271	325	312,895	607,722
Disposals	(3,608)	(179)	(361)	(2,984)	(7,132)
Exchange difference	711	2	12	277	1,002
Reversal of impairment	3,300	–	–	–	3,300
Depreciation	(43,237)	(14)	(8,414)	(91,652)	(143,317)
Closing net book amount	1,386,986	58,948	32,358	802,317	2,280,609
At 31 December 2009					
Cost as previously reported	1,507,502	62,163	69,032	1,188,685	2,827,382
Effect of adoption of HKAS17 (amendment)	70,390	–	–	–	70,390
Cost as restated	1,577,892	62,163	69,032	1,188,685	2,897,772
Accumulated depreciation and impairment, as previously reported	(186,766)	(3,215)	(36,674)	(386,368)	(613,023)
Effect of adoption of HKAS17 (amendment)	(4,140)	–	–	–	(4,140)
Accumulated depreciation and impairment, as restated	(190,906)	(3,215)	(36,674)	(386,368)	(617,163)
Net book amount, as restated	1,386,986	58,948	32,358	802,317	2,280,609

(All amounts in HK dollar thousands unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT – GROUP (continued)

	Land and Buildings	Leasehold improvements	Motor vehicles	Furniture, fixtures, and equipment	Loading equipments and facilities in port	Total (Restated)
Year ended 31 December 2010						
Opening net book amount	1,320,736	58,948	32,358	802,317	–	2,214,359
Effect of adoption of HKAS17 (amendment)	66,250	–	–	–	–	66,250
Opening net book amount, as restated	1,386,986	58,948	32,358	802,317	–	2,280,609
Additions	28,591	1,092	17,225	44,022	2,534	93,464
Transfer from construction in progress (Note 9)	418,413	–	268	40,122	531,560	990,363
Transfer from leasehold improvements to land and buildings	52,884	(52,884)	–	–	–	–
Disposals	(27,933)	(834)	(906)	(11,159)	–	(40,832)
Exchange difference	61,853	202	1,004	23,070	19,065	105,194
Depreciation	(66,657)	(34)	(11,627)	(111,584)	(12,744)	(202,646)
Closing net book amount	1,854,137	6,490	38,322	786,788	540,415	3,226,152
Year ended 31 December 2010						
Costs	2,097,304	9,858	80,277	1,282,435	553,459	4,023,333
Accumulated depreciation and impairment	(243,167)	(3,368)	(41,955)	(495,647)	(13,044)	(797,181)
Net book amount	1,854,137	6,490	38,322	786,788	540,415	3,226,152

Property ownership certificates for buildings and structures with net book amount of HKD452,115,000 (2009: HKD441,402,000) are not procured. Due to the unique feature of the Group's operation of toll roads, the affiliated buildings and structures should be reverted to the government when the approved operating periods expire. Thus, the Group does not work out a related plan of procuring the property ownership certificates.

(All amounts in HK dollar thousands unless otherwise stated)

7. INVESTMENT PROPERTIES – GROUP

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

	2010	2009
Beginning of year	**44,443**	49,183
Fair value gains	**5,500**	347
Disposals	**–**	(5,100)
Exchange differences	**46**	13
End of year	**49,989**	44,443

a) Amounts recognised in profit and loss for investments properties

	2010	2009
Rental income	**1,609**	1,302
Direct operating expenses arising from investment properties that generate rental income	**(260)**	(276)
	1,349	1,026

b) Valuation basis

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

c) Leasing arrangements

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

	2010	2009
Within one year	**1,756**	1,576
Later than one year but not later than 5 years	**7,556**	7,308
Later than 5 years	**–**	2,109
	9,312	10,993

(All amounts in HK dollar thousands unless otherwise stated)

8. LAND USE RIGHTS AND OTHER LEASED ASSETS – GROUP

	2010	2009 (Restated)
Beginning of year, as previously stated	**670,262**	509,656
Effect of adoption of HKAS17 (amendment)	**(66,250)**	(70,390)
Beginning of year, as restated	**604,012**	439,266
Additions	**51,595**	195,122
Transfer from construction in progress (Note 9)	**–**	1,853
Disposals	**(422)**	(16,370)
Amortisation	**(18,704)**	(16,144)
Reclassification to other non-current assets	**(10,318)**	–
Exchange difference	**21,460**	285
End of year	**647,623**	604,012

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

	31 December		1 January
	2010	2009 (Restated)	2009 (Restated)
Outside Hong Kong – PRC, held on:			
Leases of less than 10 years	**–**	13,757	18,062
Leases of between 10 to 50 years	**572,650**	515,797	344,653
Leases of more than 50 years	**71,032**	70,550	72,505
Leases with unspecified periods*	**3,941**	3,908	4,046
	647,623	604,012	439,266

* As at 31 December 2009 and 2010, procedures for procuring certificates of these land use rights are not yet completed.

9. CONSTRUCTION IN PROGRESS – GROUP

	2010	2009
Beginning of year	**636,456**	341,542
Additions	**735,925**	822,478
Acquisition of a subsidiary	**–**	83,820
Transfer to property, plant and equipment (Note 6)	**(990,363)**	(607,722)
Transfer to land use rights and other leased assets (Note 8)	**–**	(1,853)
Other transfers	**(12,893)**	(2,218)
Exchange difference	**(1,029)**	409
End of year	**368,096**	636,456

(All amounts in HK dollar thousands unless otherwise stated)

10. INTANGIBLE ASSETS – GROUP

	Concession intangible assets
At 1 January 2009	
Cost	19,152,980
Accumulated amortisation	(1,027,281)
Net book amount	18,125,699
Year ended 31 December 2009	
Opening net book amount	18,125,699
Additions	1,212,920
Acquisition of a subsidiary	3,513,823
Exchange difference	13,339
Amortisation	(402,087)
Closing net book amount	22,463,694
At 31 December 2009	
Cost	23,915,344
Accumulated amortisation	(1,451,650)
Net book amount	22,463,694
Year ended 31 December 2010	
Opening net book amount	22,463,694
Additions	931,498
Exchange difference	785,060
Amortisation	(733,272)
Closing net book amount	23,446,980
At 31 December 2010	
Cost	25,640,401
Accumulated amortisation	(2,193,421)
Net book amount	23,446,980

Concession intangible assets represent the rights to operate the respective toll roads granted by the relevant local government authorities in the PRC to the Group. The remaining periods of rights to operate the respective toll roads are from 12 to 25 years. According to the relevant governments' approval documents and the relevant regulations, the Group is responsible for the construction of the toll roads and the acquisition of the related facilities and equipment. It is also responsible for the operations and management, maintenance and overhaul of the toll roads during the approved operating periods. The toll fees collected and collectible during the operating periods are attributable to the Group. The relevant toll roads assets are required to be returned to the local government authorities when the operating rights periods expire without any considerations payable to the Group. According to the relevant regulations, these operating rights are not renewable and the Group does not have any termination options.

(All amounts in HK dollar thousands unless otherwise stated)

10. INTANGIBLE ASSETS – GROUP (continued)

Included in the concession intangible assets were the operating rights of Qinglian Class I Highway, Qinglian Class II Highway and Qinglian Expressway (upon completion of its reconstruction) with net book value of HKD10,642,261,000 (2009: HKD9,802,503,000) of Guangdong Qianlian Highway Development Company Limited ("Qinglian Company"), a subsidiary of the Group, pledged for the secured bank borrowings totalling to HKD4,278,038,000 (RMB3,633,900,000) (2009:HKD4,685,085,000 (RMB4,124,280,000)) (Note 21(a)).

The full amount of the principal and related interests of Shenzhen Expressway's convertible bonds is guaranteed by Shenzhen Branch of the Agricultural Bank of China, which is in turn secured by the 47.30% of the operating rights of Nanguang Expressway (Note 24(ii)).

Amortisation of HKD733,272,000 (2009: HKD402,087,000) has all been charged in 'cost of sales' in 2010.

11. INVESTMENTS IN AND DUE FROM/TO SUBSIDIARIES – COMPANY

		2010	2009
(a)	Investments in subsidiaries		
	Unlisted investments, at cost	**110,286**	98,515
	Amounts due from subsidiaries (Note (i))	**5,007,504**	6,049,428
		5,117,790	6,147,943
	Market value of listed shares	**6,413,635**	7,360,974

Particulars of the principal subsidiaries are set out in Note 42.

(i) The amounts are unsecured and have no fixed repayment term.

(b) The amount is unsecured, bears interest at prevailing borrowing rate in Hong Kong and has no fixed repayment term.

(c) These amounts are unsecured, repayable on demand and interest-free.

12. INVESTMENTS IN ASSOCIATES – GROUP

	2010	2009
Beginning of year	**1,455,216**	1,441,731
Transfer from available-for-sale financial assets (Note (b))	**68,538**	–
Cash contribution to associates (Note (b) and (c))	**501,301**	51,119
Share of profit of associates	**350,161**	92,506
Share of other comprehensive income of an associate	**10**	–
Dividends received	**(171,920)**	(131,217)
Exchange difference	**77,146**	1,077
End of year	**2,280,452**	1,455,216

The year end balance comprises the following:

	2010	2009
Unlisted investments, at cost		
Share of net assets other than goodwill	**1,554,665**	1,367,819
Goodwill on acquisition (Notes(b) and (d))	**725,787**	87,397
	2,280,452	1,455,216

(All amounts in HK dollar thousands unless otherwise stated)

12. INVESTMENTS IN ASSOCIATES – GROUP (continued)

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

Name	Assets	Liabilities	Revenue	Group's share of Profit/ (loss)	% Interest indirectly held
2010					
Shenzhen Airlines (Note (b))	**8,398,255**	**7,770,781**	**3,457,045**	**143,549**	**25%**
Shenzhen Qinglong Expressway Company Limited ("Qinglong Company") (Note (c))	**847,025**	**615,654**	**209,200**	**109,457**	**40%**
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company")	**856,139**	**539,795**	**95,607**	**13,957**	**25%**
Guangzhou Western Second Ring Expressway Company Limited ("GZ W2 Company")	**786,490**	**538,391**	**73,163**	**24,740**	**25%**
Shenzhen Huayu Expressway Investment Company Limited	**249,833**	**181,886**	**42,697**	**8,858**	**40%**
Shenzhen Expressway Engineering Consulting Company Limited ("Consulting Company")	**32,032**	**19,869**	**42,344**	**2,544**	**30%**
Nanjing Yangzi River Third Bridge Company Limited ("Nanjing Third Bridge Company")	**984,300**	**689,300**	**81,930**	**12,093**	**25%**
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	**604,285**	**336,091**	**115,932**	**22,851**	**25%**
Yunfu Guangyun Expressway Company Limited	**460,697**	**253,550**	**61,754**	**11,193**	**30%**
Other associates	**7,553**	**840**	**4,842**	**919**	
Total	**13,226,609**	**10,946,157**	**4,184,514**	**350,161**	
2009					
Qinglong Company	582,146	452,105	180,367	91,196	40%
Jiangzhong Company	866,227	574,739	76,216	(2,917)	25%
GZ W2 Company	772,701	557,718	48,773	(15,103)	25%
Shenzhen Huayu Expressway Investment Company Limited	251,219	180,376	34,079	5,401	40%
Consulting Company	24,935	15,709	35,598	2,207	30%
Nanjing Third Bridge Company	955,964	683,230	69,596	(3,160)	25%
Yangmao Company	658,170	387,851	101,196	14,115	25%
Yunfu Guangyun Expressway Company Limited	469,422	280,579	38,013	95	30%
Other associates	7,673	934	8,763	672	
Total	4,588,457	3,133,241	592,601	92,506	

(All amounts in HK dollar thousands unless otherwise stated)

12. INVESTMENTS IN ASSOCIATES – GROUP (continued)

(b) As at 31 December 2009, the Group, through its wholly-owned subsidiary, Shenzhen International Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics"), held 10% equity interest in Shenzhen Airlines ("10% Previous Interest") and it was treated as available-for-sale financial asset of the Group. On 21 March 2010, the Group, through Total Logistics, entered into a capital increase agreement with other shareholders of Shenzhen Airlines, pursuant to which the Group agreed to contribute RMB347,981,000 (HKD395,838,000) to subscribe for additional registered capital of Shenzhen Airlines. The Capital Increase was completed on 19 April 2010. Upon completion of the Capital Increase, the Group increased its equity interest in Shenzhen Airlines from 10% to 25% and Shenzhen Airlines became an associate of the Group.

The fair value of the 10% Previous Interest is recorded as part of the cost of the investment in associate. The difference of HKD29,817,000 between the fair value and the original investment cost of the 10% Previous Interest of the Capital Increase was treated as re-measurement gain and recognised in the income statement upon completion (Note 28).

Goodwill was recognised as at the completion date of the Capital Increase arising from the Capital Increase as below:

Consideration	464,376
Add: share of fair value of identifiable net liabilities	149,457
Goodwill	613,833

(c) The Group made further capital injection amounting to RMB89,600,000 (HKD105,463,000) to Qinglong Company for the capital expenditure of concession intangible assets in 2010.

(d) The balance represents the goodwill arising from the acquisition of equity interests in Jiangzhong Company, Yangmao Company and Qinglong Company and the Capital Increase in Shenzhen Airlines amounting to RMB30,135,000 (HKD35,474,000), RMB45,165,000 (HKD53,166,000), RMB1,636,000 (HKD1,926,000) and RMB539,620,000 (HKD635,221,000), respectively. After the assessment made by the directors of the Company, there was no impairment loss incurred as at 31 December 2010.

(e) The 40% equity rights of Qinglong Company is secured for bank borrowings amounted to HKD 782,813,000 (RMB 665,000,000) (Note 21(a)).

(All amounts in HK dollar thousands unless otherwise stated)

13. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES – GROUP

	2010	2009
Beginning of year	**300,350**	773,559
Share of profit of jointly controlled entities	**7,685**	204,763
Dividends declared and appropriation made by jointly controlled entities	**(12,742)**	(161,165)
Transfer to investment in subsidiaries	**–**	(517,711)
Exchange difference	**11,528**	904
End of year	**306,821**	300,350

The year end balance comprises the following:

	2010	2009
Unlisted investments, at cost		
Share of net assets	**18,117**	11,671
Advances to jointly controlled entities (Note (c))	**288,704**	288,679
	306,821	300,350

(a) The following is a list of all jointly controlled entities of the Group at 31 December 2010, all of which are limited liability companies incorporated in the PRC:

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

(All amounts in HK dollar thousands unless otherwise stated)

13. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES – GROUP (continued)

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

	2010				
	SZ Airport Express Center	**Citic Logistics Fritz**	**Longzhuo Logistics**	**Shenchang Company**	**Total**
Non-current assets	**21,891**	**11,724**	**368**	**221,034**	**255,017**
Current assets	**37,746**	**24,243**	**3,772**	**5,550**	**71,311**
Total assets	**59,637**	**35,967**	**4,140**	**226,584**	**326,328**
Non-current liabilities	**–**	**–**	**–**	**288,704**	**288,704**
Current liabilities	**6,156**	**4,348**	**1,827**	**7,176**	**19,507**
Total liabilities	**6,156**	**4,348**	**1,827**	**295,880**	**308,211**
Revenue	**22,038**	**41,074**	**9,381**	**17,171**	**89,664**
Cost and expenses	**(18,379)**	**(41,172)**	**(8,197)**	**(14,231)**	**(81,979)**
Profit/(loss) after income tax	**3,659**	**(98)**	**1,184**	**2,940**	**7,685**

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

(All amounts in HK dollar thousands unless otherwise stated)

13. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES – GROUP (continued)

(c) The amounts represented advances made to Shenchang Company (2009: RMB254,124,000 (HKD288,679,000)). The advances were made by the Shenzhen Expressway as part of its investment commitments in these jointly controlled entities as stipulated in the provisions under the relevant investment agreements. In the opinion of the directors of the Company, these advances are investment in nature and are therefore stated at cost.

The advances are unsecured, non-interest bearing and are repayable out of the funds to be generated from the operations of the respective toll road projects. The directors of the Company considered that there was no recoverability problem associated with the amount as at 31 December 2010.

(d) There are no significant contingency liabilities related to the Group's interest in the jointly controlled entities, and no significant contingent liabilities of the venture itself.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2010	2009
Beginning of year	**2,453,841**	1,230,364
Additions	**–**	46,564
Net fair value change	**1,499,795**	1,309,157
Disposals	**(389,476)**	(133,094)
Transfer to investment in associates	**(68,538)**	–
Exchange difference	**87,606**	850
End of year	**3,583,228**	2,453,841
Less: non-current portion	**(147,263)**	(142,366)
Current portion	**3,435,965**	2,311,475

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

	2010	2009
Listed securities in the PRC, at fair value (Note (a) and Note 3.3):		
– Freely tradable	**3,435,965**	2,311,475
Unlisted equity investments: at fair value (Note 3.3)	**113,714**	38,992
at cost less impairment		
– Cost	**57,644**	127,469
– Provision for impairment	**(24,095)**	(24,095)
	33,549	103,374
	147,263	142,366
	3,583,228	2,453,841

During the year, the Group transferred profit of HKD352,207,000 (2009: HKD102,662,000) and tax of HKD75,478,000 (2009: HKD21,252,000) from equity into the income statement.

(a) As at 31 December 2010, listed equity investments stated at market price represent 7.12% interest (equivalent to 147,790,000 shares) in CSG.

(All amounts in HK dollar thousands unless otherwise stated)

15. OTHER NON-CURRENT ASSETS – GROUP

As at 31 December 2010 and 2009, the other non-current assets mainly represent the prepayment for construction in progress.

16. ASSETS HELD FOR SALE – GROUP

As at 31 December 2010, assets held for sale mainly represented equity investments held for sale after the management approved the disposal plan of such equity investments.

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
Trade receivables	**452,808**	315,849	**–**	–
Less: Provision for impairment of receivables	**(2,934)**	(195)	**–**	–
Trade receivables – net	**449,874**	315,654	**–**	–
Other receivables and prepayments	**173,426**	96,767	**1,321**	1,019
	623,300	412,421	**1,321**	1,019

The income from toll road operations is mainly received in cash and it usually does not maintain any trade receivable balances related to toll road operations. Accordingly, the Group does not have any specified credit period for its customers related to toll road operations. Trade receivables other than toll road income generally have credit terms of 30 to 120 days. As at 31 December 2010 and 2009, the ageing analysis of the trade receivables of the Group based on invoice date or the time from the initial recognition of receivables is as follows:

	2010	2009
0-90 days	**277,694**	127,903
91-180 days	**6,691**	16,751
181-365 days	**8,893**	13,889
Over 365 days*	**159,530**	157,306
	452,808	315,849

* Trade receivables due over 365 days mainly comprised the amount of HKD158,986,000 (2009:HKD156,293,000) arising from the development and management of certain toll road projects administrated for Shenzhen Communications Bureau.

(All amounts in HK dollar thousands unless otherwise stated)

17. TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2010, trade receivables of HKD10,060,000 (2009:HKD21,325,000) were past due but not impaired. There is no recent history of default for these balances. The ageing analysis of these trade receivables is as follows:

	2010	2009
121-180 days	**2,904**	7,167
181-365 days	**7,156**	13,888
Over 365 days	**–**	270
	10,060	21,325

As at 31 December 2010, trade receivables of HKD2,934,000 (2009: HKD195,000) were fully impaired. These individually impaired trade receivables mainly relate to customers which are under unexpected difficult economic situations. For other overdue trade receivables, the directors of the Company consider that they are not impaired, after assessing those customers' repayment history and the latest concluded arrangement of repayment.

The other classes within trade and other receivables do not contain impaired assets. There is no material default history for amounts not past due.

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

The carrying amounts of the Group's trade and other receivables are mainly denominated in RMB. As at 31 December 2010, the fair value of the trade and other receivables approximates their carrying values.

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

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

	2010	2009
Counterparty		
– Government authorities in the PRC	**255,614**	162,226
– Existing customers with no defaults in the past	**149,034**	116,398
– New customers	**35,166**	15,705
	439,814	294,329

(All amounts in HK dollar thousands unless otherwise stated)

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
Cash at bank and in hand (i)	**2,079,163**	1,683,322	**38,595**	48,136
Less: Restricted bank deposits (ii)	**(349,573)**	(556,920)	**–**	–
	1,729,590	1,126,402	**38,595**	48,136

(i) As at 31 December 2010 and 2009, the effective interest rates on bank balances are 0.98% per annum and 0.91% per annum respectively. The balances are denominated in the following currencies:

	Group		Company	
	2010	2009	**2010**	2009
RMB	**1,978,710**	1,607,058	**–**	–
HKD	**98,983**	75,396	**38,552**	48,094
Other currencies	**1,470**	868	**43**	42
	2,079,163	1,683,322	**38,595**	48,136

(ii) Restricted bank deposits are as follows:

	Group	
	2010	2009
Bank fixed deposit denominated in RMB with a maturity of one year (Note 21(f))	**323,720**	511,189
Project funds retained for construction management contracts	**25,853**	45,731
	349,573	556,920

(iii) As at 31 December 2010, the maximum exposure of the Group's and the Company's cash and cash equivalent to credit risk is the carrying value.

19. SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY

	Number of issued shares (share)	Ordinary Share capital	Share premium	Total
At 1 January 2009	**14,027,419,475**	**1,402,742**	**1,538,665**	**2,941,407**
Employee share option scheme				
– proceeds from share issued	114,510,000	11,451	20,840	32,291
At 31 December 2009	**14,141,929,475**	**1,414,193**	**1,559,505**	**2,973,698**
Employee share option scheme				
– proceeds from share issued	15,500,000	1,550	2,821	4,371
– value of service provided	–	–	4,762	4,762
Conversion of convertible bonds (Note 24(i))	2,214,743,589	221,474	1,715,549	1,937,023
At 31 December 2010	**16,372,173,064**	**1,637,217**	**3,282,637**	**4,919,854**

i) Authorised and issued shares

The Company's total authorised number of ordinary shares is 20,000 million shares (2009: 20,000 million shares) with par value of HKD0.1 per share (2009: HKD0.1 per share). As at 31 December 2010, the total number of issued shares is 16,372,173,064 shares (2009: 14,141,929,475 shares), and all issued shares are fully paid.

ii) Share option

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

	2010		2009	
	Average exercise price (HKD per share)	**Number of share options (thousands)**	Average exercise price (HKD per share)	Number of share options (thousands)
At 1 January	**0.455**	**50,500**	0.335	165,010
Granted	**0.580**	**286,600**	–	–
Exercised	**0.282**	**(15,500)**	0.282	(114,510)
At 31 December	**0.575**	**321,600**	0.455	50,500

19. SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY (continued)

ii) Share option (continued)

Share options outstanding at the end of the year have the following dates of maturity and exercise prices:

Date of maturity	Exercise price	Number of share options (thousands)	
	(HKD per share)	**2010**	2009
11 January 2010 (Note (a))	0.282	**–**	15,500
5 February 2012 (Note (b))	0.532	**35,000**	35,000
27 September 2015 (Note (c))	0.580	**286,600**	–
		321,600	50,500

(a) Options granted in 19 January 2005 and exercised in 2010 resulted in 15,500,000 shares (2009: 114,510,000 shares) being issued at a weighted average price of HKD0.282 per share (2009: HKD0.282 per share). The related weighted average share price at the time of exercise was HKD0.601 (2009: HKD0.600) per share.

(b) 35,000,000 share options (2009: 35,000,000 options) granted to certain directors and employees in 6 February 2007 are unconditional and vested immediately. No share option was exercised in 2010 (2009: Nil).

(c) On 28 September 2010, the grant date (the "Grant Date"), 286,600,000 share options (the "Share Options") with an exercise price of HKD0.58 per share were granted to the directors of the Company and to the selected employees of the Group. The exercise price of the Share Options in 2010 is equal to the market price of the shares on the Grant Date. The options are exercisable starting two years from the Grant Date: 40% of the Share Options will be vested on the date which is 24 months after the Grant Date; another 30% of the Share Options granted will be vested on the date which is 36 months after the Grant Date, and the remaining 30% of the Share Options will be vested on the date which is 48 months after the Grant Date. The vesting of the Share Options is conditional, subject to the individual performance of respective grantees and the achievement of certain performance targets of the Group.

The weighted average fair value of the Share Options during the year determined using the Binomial Model was HKD 0.169 per option. The significant inputs into the model were share price of HKD 0.58 per option at the Grant Date, exercise price shown above, volatility of 49.877% per option, dividend yield of 6.10%, an expected option life of 5 years, and an annual risk-free interest rate of 1.241%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last year. See Note 31 for the total expense recognised in the consolidated income statement for share options granted to directors and employees.

iii) Conversion of Convertible bonds

On 29 December 2010, the zero coupon convertible bonds with an aggregate principal amount of HKD1,727,500,000 (RMB1,670,578,000) were converted into 2,214,743,589 ordinary shares at the conversion price of HKD0.78. Accordingly, the Company's share capital and share premium were increased by HKD221,474,000 and HKD1,715,549,000 respectively after taking into account the impact of transfer to share premium from derivative liability of convertible bonds upon conversion.

(All amounts in HK dollar thousands unless otherwise stated)

20. OTHER RESERVES

(a) Group

	Equity component of convertible bonds	Fair value reserves	Reserve funds (Note (ii))	Capital reserve	Goodwill reserve	Hedging reserve	Merger reserve	Revaluation surplus	Other reserves (Note (iii))	Currency translation reserve	Contributed surplus (Note (i))	Total
At 1 January 2009	343,501	693,938	1,189,442	59,723	(159,583)	(51,080)	(4,046,279)	–	(184,856)	767,376	13,005	(1,374,813)
Injection by non-controlling interests	–	–	–	–	–	–	–	–	497	–	–	497
Transfer from retained earnings to reserve funds	–	–	206,786	–	–	–	–	–	–	–	–	206,786
Fair value gains on available-for-sale financial assets, net of tax	–	1,005,013	–	–	–	–	–	–	–	–	–	1,005,013
Transfer of fair value gain to income statement upon disposal of available-for-sale financial assets, net of tax	–	(81,410)	–	–	–	–	–	–	–	–	–	(81,410)
Fair value losses on derivative financial instruments, net of tax	–	–	–	–	–	(5,640)	–	–	–	–	–	(5,640)
Derecognition of cash flow hedge, net of tax	–	–	–	–	–	5,210	–	–	–	–	–	5,210
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	19,316	–	–	19,316
Revaluation surplus arising from business combination, net of tax	–	–	–	–	–	–	(35,831)	507,216	–	–	–	471,385
Currency translation differences	–	–	–	–	–	–	–	–	–	6,103	–	6,103
At 31 December 2009	343,501	1,617,541	1,396,228	59,723	(159,583)	(51,510)	(4,082,110)	507,216	(165,043)	773,479	13,005	252,447

	Equity component of convertible bonds	**Fair value reserves**	**Reserve funds (Note (ii))**	**Capital reserve**	**Goodwill reserve**	**Hedging reserve**	**Merger reserve**	**Revaluation surplus**	**Other reserves (Note (iii))**	**Currency translation reserve**	**Contributed surplus (Note (i))**	**Total**
At 1 January 2010	**343,501**	**1,617,541**	**1,396,228**	**59,723**	**(159,583)**	**(51,510)**	**(4,082,110)**	**507,216**	**(165,043)**	**773,479**	**13,005**	**252,447**
Transfer from retained earnings to reserve funds	**–**	**–**	**66,704**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**66,704**
Fair value gains on available-for-sale financial assets, net of tax	**–**	**1,048,580**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,048,580**
Transfer of fair value gain to income statement upon disposal of available-for-sale financial assets, net of tax	**–**	**(276,729)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(276,729)**
Fair value losses on derivative financial instruments, net of tax	**–**	**–**	**–**	**–**	**–**	**(12,849)**	**–**	**–**	**–**	**–**	**–**	**(12,849)**
Acquisition of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**34**	**–**	**–**	**34**
Conversion of convertible bonds (Note 24)	**(209,523)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(209,523)**
Share of other comprehensive income of an associate	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10)**	**–**	**–**	**(10)**
Currency translation differences	**–**	**83,526**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**267,083**	**–**	**350,609**
At 31 December 2010	**133,978**	**2,472,918**	**1,462,932**	**59,723**	**(159,583)**	**(64,359)**	**(4,082,110)**	**507,216**	**(165,019)**	**1,040,562**	**13,005**	**1,219,263**

(All amounts in HK dollar thousands unless otherwise stated)

20. OTHER RESERVES (continued)

(b) Company

	Equity component of convertible bonds	Contributed surplus (Note (i))	Hedging reserve	Currency translation reserve	Total
At 1 January 2009	209,523	58,515	(45,870)	435,162	657,330
Fair value losses on derivative financial instruments	–	–	(5,640)	–	(5,640)
At 31 December 2009	209,523	58,515	(51,510)	435,162	651,690
Fair value losses on derivative financial instruments	**–**	**–**	**(5,195)**	**–**	**(5,195)**
Conversion of convertible bonds (Note 24)	**(209,523)**	**–**	**–**	**–**	**(209,523)**
Currency translation difference	**–**	**–**	**–**	**386,954**	**386,954**
At 31 December 2010	**–**	**58,515**	**(56,705)**	**822,116**	**823,926**

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

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

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

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

(All amounts in HK dollar thousands unless otherwise stated)

21. BORROWINGS

	Group		Company	
	2010	2009	**2010**	2009
Non-current				
Long-term bank borrowings				
– Secured (Note (a))	**5,270,851**	5,820,844	**–**	–
– Unsecured	**3,721,982**	3,301,392	**1,682,805**	1,684,375
Other borrowings				
– Secured (Note (b))	**1,742**	5,199	**–**	–
– Unsecured (Note (c))	**42,442**	38,999	**–**	–
Medium-term notes (Note (d))	**823,423**	–	**–**	–
Corporate bonds (Note (e))	**932,620**	899,230	**–**	–
	10,793,060	10,065,664	**1,682,805**	1,684,375
Less: Current portion	**(533,637)**	(460,999)	**(329,375)**	(205,625)
	10,259,423	9,604,665	**1,353,430**	1,478,750
Current				
Short-term bank borrowings				
– Secured (Note (f))	**428,705**	510,116	**–**	–
– Unsecured	**1,178,612**	1,113,714	**690,000**	–
Current portion of long-term borrowings				
Bank borrowings				
– Secured	**203,215**	–	**–**	–
– Unsecured	**330,422**	457,534	**329,375**	205,625
Other borrowings – secured (Note (b))	**–**	3,465	**–**	–
	2,140,954	2,084,829	**1,019,375**	205,625
Total borrowings	**12,400,377**	11,689,494	**2,372,805**	1,684,375

(a) For the secured bank borrowings, HKD210,000,000 (2009: HKD102,000,000) are secured by the Group's equity interest in Jade Emperor Limited ("JEL"), a wholly owned subsidiary. In addition, borrowing of HKD4,278,038,000 (RMB3,633,900,000) (2009: HKD4,685,085,000 (RMB4,124,280,000)) is secured by a pledge of the operating rights of Qinglian Class I Highway, Qinglian Class II Highway and Qinglian Expressway (upon completion of its reconstruction) of Qinglian Company (Note 10), and for HKD782,813,000 (RMB665,000,000) (2009: HKD1,033,759,000 (RMB910,000,000)) is secured by a pledge of the 40% equity rights of Qinglong Company, an associate of the Group (Note12(e)).

(b) Other borrowings totalling USD223,000 (HKD1,742,000) (2009: USD670,000 (HKD5,199,000)) were obtained from the Spanish Government through the China Construction Bank Corporation with interest at 1.8% per annum.

(c) Other unsecured borrowings of the Group included an amount of HKD42,442,000 (2009: HKD38,999,000) being advances from non-controlling interest of a subsidiary, bearing prevailing market interest rate.

(d) The medium-term notes with principal amount of RMB700 million have terms of three years and bear floating rate interest. The applicable interest rate of the notes is 3.72% per annum for the first year.

(All amounts in HK dollar thousands unless otherwise stated)

21. BORROWINGS (continued)

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

(f) Amongst the current bank borrowing, HKD316,000,000 was secured by a fixed deposit of RMB275,000,000 (HKD323,720,000) (2009: RMB450,000,000 (HKD511,189,000)) with a maturity of one year (Note 18(ii)); HKD112,000,000 (2009: Nil) is secured by a pledged of the Group's equity interest in JEL.

(g) At 31 December 2010, the borrowings were repayable as follows:

	Group		Company	
	2010	2009	**2010**	2009
Within 1 year	**2,140,954**	2,084,829	**1,019,375**	205,625
Between 1 and 2 years	**1,218,785**	916,883	**468,317**	329,375
Between 2 and 5 years	**3,776,128**	3,044,922	**885,113**	1,149,375
Over 5 years	**5,264,510**	5,642,860	**–**	–
	12,400,377	11,689,494	**2,372,805**	1,684,375

	Group		Company	
	2010	2009	**2010**	2009
Wholly repayable within 5 years	**6,940,213**	5,571,580	**2,372,805**	1,684,375
Wholly repayable after 5 years	**5,460,164**	6,117,914	**–**	–
	12,400,377	11,689,494	**2,372,805**	1,684,375

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

	Group		Company	
	2010	2009	**2010**	2009
HKD	**3,925,359**	3,040,681	**2,372,805**	1,684,375
RMB	**8,471,704**	8,640,466	**–**	–
USD	**3,314**	8,347	**–**	–
	12,400,377	11,689,494	**2,372,805**	1,684,375

(All amounts in HK dollar thousands unless otherwise stated)

21. BORROWINGS (continued)

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

	2010			2009		
	HKD	**RMB**	**USD**	HKD	RMB	USD
Bank borrowings and other borrowings	**0.96%-3.76%**	**4.35%-6.12%**	**1.50%-1.80%**	1.70%-4.30%	4.40%-6.12%	1.50%-7.17%

(j) The undrawn banking facilities are as follows:

	Group		Company	
	2010	2009	**2010**	2009
Floating rate				
– Expiring within one year	**2,166,386**	4,545,177	**310,000**	400,000
– Expiring beyond one year	**6,962,920**	7,093,036	**1,471,454**	624,787
	9,129,306	11,638,213	**1,781,454**	1,024,787
Fixed rate				
– Expiring beyond one year	**935,845**	295,354	**–**	–
	10,065,151	11,933,567	**1,781,454**	1,024,787

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

	Group				Company			
	Carrying amounts		Fair values		Carrying amounts		Fair values	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Bank borrowings	**8,460,938**	8,664,702	**8,107,803**	8,634,371	**1,353,430**	1,478,750	**1,357,942**	1,478,750
Other borrowings	**42,442**	40,733	**42,442**	40,699	**–**	–	**–**	–
Corporate bonds	**932,620**	899,230	**954,129**	904,412	**–**	–	**–**	–
Medium-term notes	**823,423**	–	**823,423**	–	**–**	–	**–**	–
	10,259,423	9,604,665	**9,927,797**	9,579,482	**1,353,430**	1,478,750	**1,357,942**	1,478,750

The fair values of bank borrowings and other borrowings are determined based on cash flows discounted using effective interest rates ascertained based on the rates of general bank borrowings at 1.0% to 6.12% (2009: 1.50% to 5.94%) per annum.

The fair value of the corporate bonds is calculated using cash flows discounted at a rate based on a market interest rate of a comparable corporate bond at 5.30% (2009: 5.21%) per annum.

The fair values of medium-term notes and current borrowings approximate their respective carrying amounts as the effect of discounting is not significant.

(All amounts in HK dollar thousands unless otherwise stated)

21. BORROWINGS (continued)

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

	Group		Company	
	2010	2009	**2010**	2009
Borrowings with fixed rate subject to repricing date as:				
6 months or less	**959,024**	713,251	**198,011**	–
6 months to 12 months	**92,152**	581,479	**–**	–
1 to 5 years	**995,042**	1,104,856	**–**	–
Over 5 years	**3,927,441**	4,067,582	**–**	–
	5,973,659	6,467,168	**198,011**	–
Borrowings with floating rate as:				
6 months or less	**6,426,718**	5,222,326	**2,174,794**	1,684,375
	12,400,377	11,689,494	**2,372,805**	1,684,375

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2010	2009	**2010**	2009
Interest rate swaps				
– non-current liabilities – cash flow hedges (Note (a))	**53,227**	51,608	**53,227**	51,608
– current liabilities – held for trading	**5,078**	2,693	**5,078**	–
Cross currency and interest rate swap				
– non-current liabilities – cash flow hedges (Note (b))	**28,408**	–	**–**	–
Foreign exchange forward contract				
– non-current liabilities – cash flow hedges (Note (c))	**1,841**	–	**–**	–
	88,554	54,301	**58,305**	51,608

For the year ended 31 December 2010, the fair value change of derivative financial instruments recognised in other comprehensive income and income statement amounted to HKD20,236,000 (2009: HKD430,000) and HKD2,411,000 (2009: HKD5,057,000) respectively.

(a) Interest rate swaps

At 31 December 2010, the fixed interest rates vary from 1.8% to 2.9% (2009: 1.8% to 2.9%), and the main floating rates are Hong Kong Interbank Offer Rate ("HIBOR"). Gains and losses recognised in the hedging reserve in other comprehensive income (Note 20) on interest rate swap contracts as of 31 December 2010 will be continuously released to the income statement until the repayment of the bank borrowings.

As at 31 December 2010, the aggregate notional amount of the interest rate swaps for cash flow hedge purpose amounted to HKD3,065,000,000 (2009: HKD3,396,125,000).

(All amounts in HK dollar thousands unless otherwise stated)

22. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Interest rate swaps (continued)

Outstanding notional principal amount HKD	31 December 2010 balance of the derivative financial instruments HKD	Maturity date
200,000,000	4,673,000	28 November 2011
80,000,000	1,051,000	30 March 2012
1,172,500,000	50,388,000	31 July 2013
80,000,000	1,747,000	30 March 2012
1,172,500,000	401,000	29 July 2011
200,000,000	4,000	31 August 2011
160,000,000	41,000	30 March 2012
3,065,000,000	58,305,000	

(b) Cross currency and interest rate swap

The Group uses a cross currency and interest rate swap contract to hedge its interest rate risk and exchange rate risk against one of its variable-rate foreign currency loans. The notional principal amount of the outstanding cross currency and interest rate swap contract at 31 December 2010 was HKD399,000,000(31 December 2009: Nil). Through this arrangement, the Group pays an annually fixed interest at 1.8% and the principal at a fixed HKD/RMB exchange rate agreed in the contract while the original annual floating interest expense (3-month HIBOR+1.5%) and the floating principal payments (HKD/RMB exchange spot rate) attached in the loan is offset by the receivable leg of the cross currency and interest rate swap. Such a swap is settled on a quarterly basis from June 2010 to September 2014.

(c) Foreign exchange forward contract

The Group uses a foreign exchange forward contract to hedge its exchange rate risk against one of its foreign currency loans. The notional principal amount of the outstanding foreign exchange forward contract at 31 December 2010 was HKD227,000,000 (31 December 2009: Nil). Through this arrangement, the Group will pay fixed principal in RMB at the contractual forward HKD/RMB exchange rate and will receive foreign currency principal. Such foreign exchange forward contract will be settled on 17 September 2012.

Gains and losses recognized in the hedging reserve in equity (Note 20) on cross currency and interest swap and forward foreign exchange contracts at 31 December 2010 will be continuously released to the statement of comprehensive income until the repayment of the bank borrowings.

(All amounts in HK dollar thousands unless otherwise stated)

23. PROVISION FOR MAINTENANCE/RESURFACING OBLIGATIONS – GROUP

	2010	2009
Opening net book amount	829,180	366,426
Acquisition of a subsidiary	–	285,809
Charged to the income statement:		
Additions (Note 30)	190,110	143,706
Increase due to passage of time (Note 32)	55,573	32,648
Exchange difference	35,849	591
Closing net book amount	1,110,712	829,180
Less: current portion	(26,877)	–
Non-current portion	1,083,835	829,180

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

Provision for maintenance/resurfacing obligations are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

24. CONVERTIBLE BONDS

		Group		Company	
		2010	2009	2010	2009
Issuer					
The Company	(i)	–	1,776,430	–	1,776,430
Shenzhen Expressway	(ii)	1,549,341	1,426,402	–	–
		1,549,341	3,202,832	–	1,776,430
Less: current portion	(i)	–	(1,776,430)	–	(1,776,430)
Non-current portion		1,549,341	1,426,402	–	–

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

	2010			
	Face value	Liability component	Equity component	Total
Beginning of year	1,727,500	1,776,430	209,523	1,985,953
Interest expense (Note 32)	–	72,416	–	72,416
Exchange difference	–	(121,346)	–	(121,346)
Converted into ordinary shares (Note 19)	(1,727,500)	(1,727,500)	(209,523)	(1,937,023)
End of year	–	–	–	–

(All amounts in HK dollar thousands unless otherwise stated)

24. CONVERTIBLE BONDS (continued)

	2009			
	Face value	Liability component	Equity component	Total
Beginning of year	1,727,500	1,706,676	209,523	1,916,199
Interest expense (Note 32)	–	69,754	–	69,754
End of year	1,727,500	1,776,430	209,523	1,985,953

On 29 December 2007, the Company issued zero coupon convertible bond of HKD1,727,500,000 to SIHCL, a wholly owned subsidiary of Shenzhen SASAB as the consideration for acquisition of 100% equity interest in Shenzhen Bao Tong Highway Construction and Development Limited ("Baotong Company").

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest of 4.40% to the liability component.

On 11 November 2010, the Company entered into the modification deed ("Modification Deed") with SIHCL to amend certain terms of the convertible bond, which included revising the conversion price of the convertible bond from the initial conversion price of HKD1.20 per share to HKD0.78 per share and a compulsory conversion. On 28 December 2010, all the conditions precedent of the Modification Deed had been fulfilled and on 29 December 2010, all of the above convertible bonds were converted into 2,214,743,589 ordinary shares of the Company by SIHCL. Such ordinary shares converted are held through SIHCL's wholly-owned subsidiary, Ultrarich, according to the Modification Deed. The impact to the share capital and share premium from the conversion of the convertible bonds was disclosed in Note 19.

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

	2010			
	Face value	**Liability component**	**Equity component**	**Total**
Beginning of year	**1,702,804**	**1,426,402**	**344,810**	**1,771,212**
Interest expense (Note 32)	**–**	**69,586**	**–**	**69,586**
Exchange difference	**–**	**53,353**	**–**	**53,353**
End of year	**1,702,804**	**1,549,341**	**344,810**	**1,894,151**

	2009			
	Face value	Liability component	Equity component	Total
Beginning of year	1,702,804	1,360,009	344,810	1,704,819
Interest expense (Note 32)	–	65,399	–	65,399
Exchange difference	–	994	–	994
End of year	1,702,804	1,426,402	344,810	1,771,212

(All amounts in HK dollar thousands unless otherwise stated)

24. CONVERTIBLE BONDS (continued)

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

The fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate for a non-convertible bond in the market with equivalent terms. The residual amount, representing the carrying value of the bonds after deduction of the fair value of the liability component, represents fair value of the equity conversion option, was included in shareholders' equity under other reserves, net of the attributable transaction costs. The full amount of the principal and related interests of the bonds is guaranteed by the Shenzhen Branch of the Agricultural Bank of China, which is in turn secured by the 47.30% of the operating rights of Nanguang Expressway (Note 10).

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest of 5.50% to the liability components. The fair value of liability components of convertible bonds is HKD1,549,341,000 (2009: HKD1,426,402,000) as at 31 December 2010. The fair value of the convertible bonds is calculated using cash flows discounted at a rate based on a market interest rate for an equivalent bond at 4.37% (2009: 4.55%) per annum.

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

25. DEFERRED INCOME TAX – GROUP

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

	2010	2009
Deferred tax assets		
– to be recovered after more than 12 months	**240,807**	235,052
– to be recovered within 12 months	**76,423**	14,340
	317,230	249,392
Offset within the same tax jurisdiction	**(201,745)**	(203,469)
Net deferred tax assets	**115,485**	45,923
Deferred tax liabilities		
– to be settled after more than 12 months	**1,358,728**	1,283,171
– to be settled within 12 months	**862,403**	604,917
	2,221,131	1,888,088
Offset within the same tax jurisdiction	**(201,745)**	(203,469)
Net deferred tax liabilities	**2,019,386**	1,684,619

(All amounts in HK dollar thousands unless otherwise stated)

25. DEFERRED INCOME TAX – GROUP (continued)

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

	2010	2009
At 1 January	**1,638,696**	875,921
Tax charge relating to components of other comprehensive income	**346,245**	282,892
Income statement charge (Note 33)	**(112,631)**	(119,578)
Acquisition of subsidiary	**–**	598,461
Exchange difference	**31,591**	1,000
At 31 December	**1,903,901**	1,638,696

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

	Deferred tax assets			
	Provision for maintenance/ resurfacing obligations	**Taxable financial subsidies** (Note (a))	**Payroll and other expenses accrued but not paid**	**Total**
Balance at 1 January 2009	91,605	28,735	–	120,340
Credited/(charged) to the income statement	44,556	(487)	13,361	57,430
Acquisition of subsidiary	71,452	–	–	71,452
Exchange differences	140	19	11	170
Balance at 31 December 2009	207,753	28,267	13,372	249,392
Balance at 1 January 2010	**207,753**	**28,267**	**13,372**	**249,392**
Credited/(charged) to the income statement	**61,369**	**(605)**	**(2,749)**	**58,015**
Exchange differences	**8,605**	**1,010**	**208**	**9,823**
Balance at 31 December 2010	**277,727**	**28,672**	**10,831**	**317,230**

(All amounts in HK dollar thousands unless otherwise stated)

25. DEFERRED INCOME TAX – GROUP (continued)

	Deferred tax liabilities					
	Fair value gains/ (losses) of financial assets at fair value through profit or loss	Fair value gains of available-for-sale financial assets	Concession intangible assets	Convertible bonds	Others	Total
Balance at 1 January 2009	23,941	181,344	713,736	72,963	4,277	996,261
Charged to equity						
– Change of fair value of available-for-sale financial assets	–	304,144	–	–	–	304,144
– Transfer out upon disposal of available-for-sale financial assets	–	(21,252)	–	–	–	(21,252)
Charged to/(credited in) income statement						
– Change of fair value of financial assets at fair value through profit or loss	(23,941)	–	–	–	–	(23,941)
– Others	–	–	(56,323)	–	29,984	(26,339)
Difference between effective interest and nominal interest of convertible bonds	–	–	–	(11,868)	–	(11,868)
Acquisition of a subsidiary	–	–	669,913	–	–	669,913
Exchange differences	–	–	663	38	469	1,170
Balance at 31 December 2009	–	464,236	1,327,989	61,133	34,730	1,888,088
Balance at 1 January 2010	**–**	**464,236**	**1,327,989**	**61,133**	**34,730**	**1,888,088**
Charged to equity						
– Change of fair value of available-for-sale financial assets	**–**	**421,723**	**–**	**–**	**–**	**421,723**
– Transfer out upon disposal of available-for-sale financial assets	**–**	**(75,478)**	**–**	**–**	**–**	**(75,478)**
Charged to/(credited in) income statement	**–**	**–**	**(54,859)**	**–**	**14,202**	**(40,657)**
Difference between effective interest and nominal interest of convertible bonds	**–**	**–**	**–**	**(13,959)**	**–**	**(13,959)**
Exchange differences	**–**	**–**	**39,351**	**1,888**	**175**	**41,414**
Balance at 31 December 2010	**–**	**810,481**	**1,312,481**	**49,062**	**49,107**	**2,221,131**

(All amounts in HK dollar thousands unless otherwise stated)

25. DEFERRED INCOME TAX – GROUP (continued)

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

	2010			2009		
	Before tax	**Tax charge**	**After tax**	Before tax	Tax charge	After tax
Fair value gains on available-for-sale financial assets	**1,470,303**	**(421,723)**	**1,048,580**	1,309,157	(304,144)	1,005,013
Transfer of fair value gain to income statement upon disposal of available-for-sale financial assets	**(352,207)**	**75,478**	**(276,729)**	(102,662)	21,252	(81,410)
Fair value losses on derivative financial instruments	**(20,236)**	**–**	**(20,236)**	(5,640)	–	(5,640)
Derecognition of cash flow hedge	**–**	**–**	**–**	5,210	–	5,210
Revaluation surplus arising from business combination	**–**	**–**	**–**	1,316,175	(338,005)	978,170
Share of other comprehensive income in an associate	**(10)**	**–**	**(10)**	–	–	–
Currency translation differences	**565,121**	**–**	**565,121**	10,013	–	10,013
	1,662,971	**(346,245)**	**1,316,726**	2,532,253	(620,897)	1,911,356

(a) Shenzhen Expressway, Meiguan Company and Jihe East Company became liable to pay PRC corporate income tax of RMB39,236,000 (HKD44,541,000) during 2008 for certain financial subsidies and incentives granted by local governments and received by the Group in prior years (Note 38(c)). They were initially exempt from taxation according to the provisions of certain policies promulgated by the local government authorities. The Group was advised by the relevant local tax authorities that after settlement of these tax charges, any future amortisation of the related financial subsidies, which have been deferred on the balance sheet of the Group, would be allowed to claim tax deductions for income tax reporting purposes in the future.

Accordingly, deferred tax assets of RMB24,357,000 (HKD28,672,000) (2009: RMB24,884,000 (HKD28,267,000)) had been recognised on such deductible temporary differences originating from the accounting base and tax base of these subsidies based on a tax rate of 25%, which is the tax rate expected to enact when a substantial portion of such temporary differences reverse.

(b) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of tax losses amounting to HKD230,326,000 (2009: HKD78,395,000) that can be carried forward against future taxable income.

The expiry year of tax losses without deferred tax assets provided at 31 December 2010 is as follows:

Year	**2010**	2009
2012	**14,307**	13,807
2013	**31,451**	30,351
2014	**35,479**	34,237
2015	**149,089**	–
	230,326	78,395

(c) Deferred income tax liabilities of HKD231,485,000 (2009: HKD133,464,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled HKD2,314,845,000 at 31 December 2010 (2009: HKD1,334,642,000).

(All amounts in HK dollar thousands unless otherwise stated)

26. TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
Trade payables (Note (a))	**51,643**	110,162	**–**	–
Payables relating to construction projects	**1,530,383**	1,425,235	**–**	–
Advance from an associate (Note (b))	**54,738**	52,823	**–**	–
Other payables and accrued expenses	**671,503**	497,921	**10,189**	10,070
	2,308,267	2,086,141	**10,189**	10,070

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

	Group	
	2010	2009
0-90 days	**44,411**	99,300
91-180 days	**671**	444
181-365 days	**2,961**	9,415
Over 365 days	**3,600**	1,003
	51,643	110,162

(b) The advance from Nanjing Third Bridge Company, an associate of the Group is interest-free advance and repayable on demand.

27. REVENUE

	2010	2009
Toll Road		
– Toll revenue	**3,706,796**	2,513,742
– Construction service revenue under Service Concession	**910,072**	1,211,696
Logistic Business		
– Logistic parks	**301,612**	215,016
– Logistic services	**163,569**	139,918
– Port	**29,757**	–
Head office function	**–**	577
	5,111,806	4,080,949

(All amounts in HK dollar thousands unless otherwise stated)

28. OTHER GAINS – NET

	2010	2009
Gain on disposals of available-for-sale financial assets	**430,185**	258,245
Gain on re-measurement of fair value of available-for-sale financial assets (Note 12(b))	**29,817**	–
Net compensation on land resumption	**13,739**	21,177
Gain on disposals of property, plant and equipment	**2,420**	4,511
Fair value gains/(losses) on derivative financial instruments	**2,411**	(5,057)
Others	**11,277**	14,146
Gain on disposals of financial assets at fair value through profit or loss	**–**	96,578
Reversal of impairment of property, plant and equipment, land use rights and other leased assets	**–**	3,300
Loss on disposals of investment properties	**–**	(1,060)
	489,849	391,840

29. OTHER INCOME

	2010	2009
Dividend income	**43,331**	17,899
Rental income	**17,229**	18,352
Government grants	**9,201**	33,575
Others	**13,200**	16,233
	82,961	86,059

30. EXPENSES BY NATURE

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

	2010	2009
Construction cost under Service Concession	**910,072**	1,210,811
Provision for maintenance/resurfacing obligations	**190,110**	143,706
Depreciation and amortisation	**954,622**	561,548
Employee benefit expenses (Note 31)	**332,012**	239,342
Transportation expenses	**219,465**	169,479
Rental charges	**18,861**	26,507
Other tax expenses	**142,936**	92,749
Commission and management fee for toll roads	**194,887**	222,294
Auditors' remuneration	**7,657**	8,048
Legal and consultancy fees	**13,714**	12,757
Others	**281,245**	183,798
	3,265,581	2,871,039

(All amounts in HK dollar thousands unless otherwise stated)

31. EMPLOYEE BENEFIT EXPENSES

	2010	2009
Wages and salaries	**264,957**	201,270
Pension costs – defined contribution plans	**17,005**	13,420
Share-based payment expenses (Notes 19)	**4,762**	–
Others	**45,288**	24,652
	332,012	239,342

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

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

No forfeited contributions (2009: Nil) were utilised during the year and none is available at the year-end to reduce future contribution.

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2010 is set out below:

Name of director	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Share-based payment	Total
Guo Yuan	–	276	702	–	99	–	297	1,374
Li Jing Qi	–	276	666	–	96	–	282	1,320
Liu Jun	–	703	177	13	77	–	238	1,208
Yang Hai	–	873	229	20	52	–	238	1,412
To Chi Keung, Simon	–	–	–	–	–	–	–	–
Wang Dao Hai	–	–	–	–	–	–	–	–
Leung Ming Yuen, Simon	300	–	–	–	–	–	–	300
Ding Xun	300	–	–	–	–	–	–	300
Nip Yun Wing	300	–	–	–	–	–	–	300
								6,214

(All amounts in HK dollar thousands unless otherwise stated)

31. EMPLOYEE BENEFIT EXPENSES (continued)

(a) Directors' and senior management's emoluments (continued)

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

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

During the year ended 31 December 2010, Messrs Guo Yuan, Li Jing Qi and Liu Jun have waived directors' emoluments of HKD363,900 (2009: HKD442,500), HKD401,900 (2009: HKD474,300) and HKD230,400 (2009: HKD295,500) respectively.

During the years ended 31 December 2010 and 2009, no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2009: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2009: four) individuals during the year are as follows:

	2010	2009
Basic salaries and allowances	**3,310**	4,502
Year-end bonuses	**835**	1,715
Contributions to the retirement scheme	**24**	142
Share-based payment	**336**	–
Other benefits	**6**	82
	4,511	6,441

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
Emolument band		
HKD1,000,001 – HKD1,500,000	**1**	3
HKD3,000,001 – HKD3,500,000	**1**	1

(All amounts in HK dollar thousands unless otherwise stated)

32. FINANCE INCOME AND COSTS

	2010	2009
Interest income from bank deposits	**(21,858)**	(27,952)
Interest expense		
– Bank borrowings and other borrowings wholly repayable within 5 years	**188,851**	176,172
– Bank borrowings and other borrowings wholly repayable after 5 years	**318,275**	324,310
– Convertible bonds wholly repayable within 5 years (Note 24)	**142,002**	135,153
– Medium-term notes wholly repayable within 5 years	**24,304**	–
– Corporate bonds wholly repayable after 5 years	**67,855**	66,538
– Other interest expense (Note 23)	**55,573**	32,648
Net foreign exchange gains	**(98,447)**	–
Less: interest expenses capitalised in construction in progress	**(45,015)**	(165,774)
	653,398	569,047
Net finance costs	**631,540**	541,095

Borrowing costs of HKD45,015,000 (2009: HKD165,774,000) have been capitalised for the construction of toll roads and related facilities and other construction in progress in 2010. Borrowing costs arising on financing specifically arranged for the construction of toll roads and related facilities were capitalised using the rates ranged from 3.84% to 5.76% (2009: 5.35% to 6.12%) per annum, and other borrowing costs were capitalised using an average interest rate of 3.55% (2009: 3.63%) per annum.

33. INCOME TAX EXPENSE

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

The PRC corporate income tax charged to the income statement was calculated based on the assessable profits of the Company's subsidiaries located in the PRC of the year at a rate of 22% (2009: 20%) applicable to the respective companies.

	2010	2009
Current income tax		
PRC corporate income tax	**565,699**	386,463
Deferred income tax (Note 25)	**(112,631)**	(119,578)
	453,068	266,885

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

	2010	2009
Profit before income tax	**2,145,341**	1,443,983
Tax calculated at a tax rate of 22% (2009: 20%)	**471,975**	288,797
Tax impact of:		
– Different tax rates in other locations	**(282)**	4,487
– Profit earned during tax holidays	**–**	(2,267)
– Income not subject to tax	**(22,157)**	(37,936)
– Expenses not deductible for tax purposes	**37,375**	37,174
– Unrecognised tax loss	**32,045**	14,358
– Share of profit of jointly controlled entities and associates	**(78,726)**	(59,454)
– Withholding tax on dividend	**12,838**	21,726
Income tax expense	**453,068**	266,885

34. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HKD5,216,000 (2009: loss HKD81,627,000). As described in Note 4.2, the Group has significant amount of distributable profits from its PRC subsidiaries prior to 31 December 2007. The directors of the Company do not require its PRC subsidiaries to declare dividends in the year.

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

	Company	
	2010	2009
Beginning of year	**1,889,217**	2,174,253
Profit/(loss) for the year	**5,216**	(81,627)
Dividends	**(307,216)**	(203,409)
End of year	**1,587,217**	1,889,217

35. EARNINGS PER SHARE

(a) Basic

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

	2010	2009
Profit attributable to equity holders of the Company	**1,279,839**	865,859
Weighted average number of ordinary shares in issue (thousands)	**14,169,349**	14,037,374
Basic earnings per share (HK cents per share)	**9.03**	6.17

(b) Diluted

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

	2010	2009
Profit attributable to equity holders of the Company	**1,279,839**	865,859
Interest expense on convertible bonds	**72,416**	69,754
Profit used to determine diluted earnings per share	**1,352,255**	935,613
Weighted average number of ordinary shares in issue (thousands)	**14,169,349**	14,037,374
Adjustments – share options (thousands)	**9,275**	51,586
Adjustments – conversion of convertible bonds (thousands)	**1,429,875**	1,439,583
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**15,608,499**	15,528,543
Diluted earnings per share (HK cents per share)	**8.66**	6.03

(All amounts in HK dollar thousands unless otherwise stated)

36. DIVIDENDS

The year of 2009 final dividend and special dividend paid in 2010 were HKD206,472,000 (HKD0.0146 per share) and HKD100,408,000 (HKD0.0071 per share), respectively. The year of 2008 final dividend paid in 2009 amounted to HKD203,398,000 (HKD0.0145 per share). At the meeting on 30 March 2011, the directors recommend the payment of the year of 2010 final dividend of HKD0.0215 per ordinary share and special dividend of HKD0.0085 per ordinary share, totalling HKD0.03 per ordinary share. Such dividends are to be approved by the shareholders at the forthcoming Annual General Meeting. These financial statements do not reflect this as dividend payable.

	2010	2009
Proposed final dividend of HKD0.0215 (2009: HKD0.0146) per ordinary share	**352,002**	206,472
Proposed special dividend of HKD0.0085 (2009: HKD0.0071) per ordinary share	**139,163**	100,408
	491,165	306,880

37. CASH GENERATED FROM OPERATIONS

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

	2010	2009 (Restated)
Profit before income tax	**2,145,341**	1,443,983
Adjustments for:		
– Depreciation (Note 6)	**202,646**	143,317
– Amortisation of land use rights and other leased assets (Note 8)	**18,704**	16,144
– Amortisation of intangible assets (Note 10)	**733,272**	402,087
– Reversal of impairment of property, plant and equipment (Note 6)	**–**	(3,300)
– Deferred income recognised in the income statement	**–**	(33,575)
– Provision for maintenance/resurfacing obligations (Note 23)	**190,110**	143,706
– Provision for impairment of trade receivables (Note 17)	**2,739**	–
– Gain on disposal of available-for-sale financial assets (Note 28)	**(430,185)**	(258,245)
– Gain on re-measurement of the fair value of available-for-sale financial assets (Note 28)	**(29,817)**	–
– Share-based payment expenses (Note 31)	**4,762**	–
– Loss on disposal of investment properties (Note 28)	**–**	1,060
– Gain on disposal of property, plant and equipment (Note 28)	**(2,420)**	(4,511)
– Gain on net compensation on land resumption (Note 28)	**(13,739)**	(21,177)
– Gain on disposals of financial assets at fair value through profit or loss (Note 28)	**–**	(96,578)
– Fair value gains on investment properties (Note 7)	**(5,500)**	(347)
– Interest income (Note 32)	**(21,858)**	(27,952)
– Interest expense (Note 32)	**653,398**	569,047
– Fair value losses of derivative financial instruments (Note 22)	**2,411**	5,057
– Share of profit of associates/jointly controlled entities (Note 12 and Note 13)	**(357,846)**	(297,269)
– Dividend received	**(43,331)**	(17,899)
Changes in working capital (excluding the effect of exchange differences on consolidation):		
– Trade and other receivables	**(213,618)**	259,375
– Trade and other payables	**92,192**	(388,423)
Cash generated from operations	**2,927,261**	1,834,500

(All amounts in HK dollar thousands unless otherwise stated)

37. CASH GENERATED FROM OPERATIONS (continued)

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

	2010	2009
Net book amount (Note 6)	**40,832**	7,132
Gain on disposal (Note 28)	**2,420**	4,511
Proceeds from disposal	**43,252**	11,643

38. GUARANTEES AND CONTINGENCIES

(a) Project Construction Management Contracts

In associated with Nanping (Phase II) Project and the renovation project of the Shenyun-North Ring Interchange in Shenzhen, Shenzhen Expressway had arranged with banks to issue irrevocable performance guarantees on its behalf to the Shenzhen Communications Bureau amounting to RMB50,000,000 (HKD58,858,000) and RMB1,000,000 (HKD1,177,000) respectively.

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

On 1 June 2004, Shenzhen Expressway signed a construction contract with Jilin Great Wall Construction Company Limited ("Great Wall") for Nanping (Phase I) Project. As disputes concerning construction volume and the unit prices of some items under the contract arose that were not resolved by mutual agreement, Great Wall applied for arbitration to Shenzhen Arbitration Commission against Shenzhen Expressway in December 2009. At 31 December 2010, the arbitration has been revoked, and Shenzhen Expressway is still in the negotiation with the Great Wall on the quantities and unit price of the project. According to the relevant provisions and the views of the lawyer, the directors of the Group considered that the outcome of the negotiation will have no significant impact on the Group's operating results.

(c) Penalty on Back Taxes

According to the demand by the Shenzhen Local Tax Bureau (the "Local Tax Bureau"), the Group had made a provision for the enterprise income tax in the amount of RMB39,236,000 (HKD46,187,000) as at 31 December 2010 (the "Back Taxes"). As of the date of approval of these financial statements, no formal notice of reassessment/waiver had been issued by the Local Tax Bureau and other relevant authorities. 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 has been made for the potential penalty. The tax payable of RMB39,236,000 was not paid out at the reporting date.

(All amounts in HK dollar thousands unless otherwise stated)

39. COMMITMENTS

(a) Capital commitments

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

	2010	2009
Capital commitments – expenditure of property, plant and equipment and concession intangible assets		
– Contracted but not provided for	255,066	904,848
– Authorised but not contracted for	1,525,881	2,162,894
	1,780,947	3,067,742
Investment commitments		
– Authorised but not contracted for	277,201	149,949
	2,058,148	3,217,691

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

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

	2010	2009
Land and buildings:		
Not later than 1 year	7,638	4,592
Later than 1 year and not later than 5 years	6,595	3,294
Over 5 years	–	1,325
	14,233	9,211

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

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

	2010	2009
Land and buildings:		
Not later than 1 year	123,452	51,505
Later than 1 year and not later than 5 years	115,524	20,600
Over 5 years	42,314	3,136
	281,290	75,241

40. RELATED-PARTY TRANSACTIONS

As described in Note 1, the Company is de facto controlled by SIHCL. The transactions as mentioned in Notes 17, 24, 26(b), and 38(a) are related party transactions of the Group. Save as disclosed above, the Group has the following significant transactions with related parties during the year:

(a) During the year 2009 and 2010, the Group has bank deposits in and obtained borrowings from state-owned banks in normal commercial terms. Interests are earned and incurred on these deposits and borrowings respectively.

(b) The Group has capital expenditure incurred for service concession projects and construction in progress with state-owned contractors both in 2009 and 2010 and payable balances due to state-owned contractors for construction projects and guaranteed deposits as of 31 December 2010.

(c) Payment of project management service fee

Shenzhen Expressway entered into project management service contracts with Consulting Company, another associate of Shenzhen Expressway, under which Consulting Company assumes the management of the reconstruction project of Shenzhen Expressway. The value of the management service contract is approximately HKD144,426,000. During the year, Shenzhen Expressway paid a management fee of approximately HKD27,451,000 (2009: HKD27,445,000) to Consulting Company. The cumulative management fee paid by Shenzhen Expressway to Consulting Company amounted to approximately HKD113,854,000 up to 31 December 2010.

(d) Purchase of the office premises

On 11 February 2010, Shenzhen International Holdings (SZ) Limited, a wholly-owned subsidiary of the Company (as the purchaser), entered into a provisional sale and purchase agreement with Nongke Real Estate Development Co., Ltd. (as the vendor), which is an indirect wholly-owned subsidiary of Shenzhen SASAB, in relation to the acquisition of an office premises for a consideration of RMB54,964,000 (HKD64,701,000). The consideration had been settled by cash subsequent to the completion of the purchase of the office premises in 2010.

(e) Shenzhen Expressway provides project management services for construction, operation and maintenance of Guangshen Yanjiang Expressway (Shenzhen Section) Project ("Yanjiang Project") for the government authority. The Yanjiang Project is owned by Shenzhen Guangshen Yanjiang Expressway Investment Co., Ltd., which is held by SIHCL. The management service revenue is 1.5% of the construction budget. During the year, Shenzhen Expressway has recognised construction management service revenue amounting to RMB21,636,000 (HKD24,883,000) (2009: RMB29,581,000(HKD33,569,000)).

(f) Key management compensation

Details of key management compensation are set out in Note 31.

41. EVENTS AFTER THE BALANCE SHEET DATE

Disposal of CSG A shares

From 1 January 2011 to the date of this report, the Group has disposed of a total of 14,620,000 CSG A shares via Shenzhen Stock Exchange. The average selling price was RMB20.88 per share, giving a total consideration of approximately RMB305 million. As at the date of this report, the Group beneficially owned 133,170,000 CSG A shares, representing approximately 6.41% shares in the total issued share capital of CSG. All CSG A shares held by the Group are freely tradeable on the Shenzhen Stock Exchange.

(All amounts in HK dollar thousands unless otherwise stated)

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name	Nominal value of issued ordinary/ registered share capital	Interest held by the Company Direct	Interest held by the Company Indirect	Principal activities
Subsidiaries:				
深科實業發展（深圳）有限公司△	HKD10,000,000	–	100	Investment holding
Shenzhen International Total Logistics (Shenzhen) Co., Ltd. (formerly known as Total Logistics (Shenzhen) Co., Ltd.) ◊	RMB200,000,000	–	100	Provision of total logistics and transportation ancillary services
Xin Tong Chan Development (Shenzhen) Co., Ltd.△	RMB200,000,000	–	100	Investment holding
Shenzhen International South-China Logistics Co., Ltd. (formerly known as Shenzhen South-China International Logistics Co., Ltd.) @	RMB240,000,000	–	100	Development, construction, operation and management of South China Logistic Park
Shenzhen International Holdings (SZ) Limited (formerly known as Yiwan Industry Development (Shenzhen) Co., Ltd.)△	HKD2,180,000,000	–	100	Investment holding
Nanjing UT Logistics Co., Ltd. @	RMB88,000,000	–	100	Logistic services and related warehouse facilities
Shenzhen EDI Co., Ltd. @	RMB22,760,000	–	68.54	Provision of electronic information exchange, transmission and value-added information sharing services
Shenzhen International West Logistics Co., Ltd. (formerly known as Shenzhen Western Logistics Co., Ltd.) @*	RMB450,000,000	–	100	Development, construction, operation and management of Western Logistic Park
Shenzhen Bao Tong Highway Construction and Development Limited@*	RMB1,533,800,000	–	100	Development, construction, investment, operation and management of toll highway
Shenzhen Longda Expressway Company Limited@*	RMB5,000,000	–	89.93	Operation and management of Longda Expressway
Shenzhen Expressway Company Limited^	RMB2,180,770,326	–	50.89	Investment, construction, operation and management of toll highways and roads

(All amounts in HK dollar thousands unless otherwise stated)

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Nominal value of issued ordinary/ registered share capital	Interest held by the Company Direct	Interest held by the Company Indirect	Principal activities
Hubei Magerk Expressway Management Private Limited△*	USD28,000,000	–	100	Operation and management of highways and expressways
Shandong Booming Total Logistics Co., Ltd. (formerly known as Yantai Beiming Logistics Co., Ltd.) @*	RMB90,000,000	–	55.39	Logistic services and related warehouse facilities
Shenzhen Shen Guang Hui Highway Development Company@*	RMB105,600,000	–	100	Investment holding
Nanjing Xiba Wharf Co., Ltd.◇*	RMB455,000,000	–	70	Construction, operation and management of Warf and Logistics Centres at Xiba Port of Nanjing
Shenzhen Meiguan Expressway Company Limited@	RMB332,400,000	–	100	Construction, operation and management of an expressway
Shenzhen Expressway Advertising Company Limited@	RMB2,000,000	–	100	Advertising agency in the PRC
Guangdong Qinglian Highway Development Company Limited◇	RMB2,040,000,000	–	76.37	Development, operation and management of highways
Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited @	RMB440,000,000	–	100	Construction, operation and management of an expressway
Shenzhen International Huatongyuan Logistics Co., Ltd. (formerly known as Shenzhen Huatongyuan Logistics Co., Ltd.) @*	RMB 60,000,000	–	51	Logistic services and related warehouse facilities
Shenzhen Outer Ring Expressway Investment Company Limited @	RMB100,000,000	–	100	Construction, operation and management of an expressway
New Vision Limited	USD 100	100	–	Investment holding

△ *Foreign-owned enterprise*
◇ *Sino-foreign Joint Venture*
@ *Domestic enterprise*
^ *Foreign invested joint stock limited company*
* *For identification purpose only*

The above table lists the subsidiaries of the Group which, in opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the net assets of the Group. These subsidiaries are incorporated and operating in the PRC (except for New Vision Limited, which is incorporated in British Virgin Islands). To give details of other subsidiaries would result in particulars of excessive length.

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Shenzhen International Holdings Limited
深圳國際控股有限公司