Shenzhen International
深國際

共同進步
分享快樂

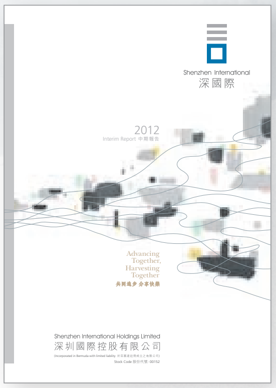
Advancing Together, Harvesting Together

Annual Report
年報 2012

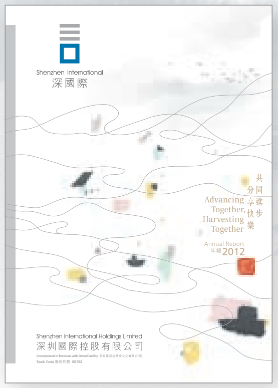
Shenzhen International Holdings Limited
深圳國際控股有限公司

(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



Interim Report 2012



Annual Report 2012

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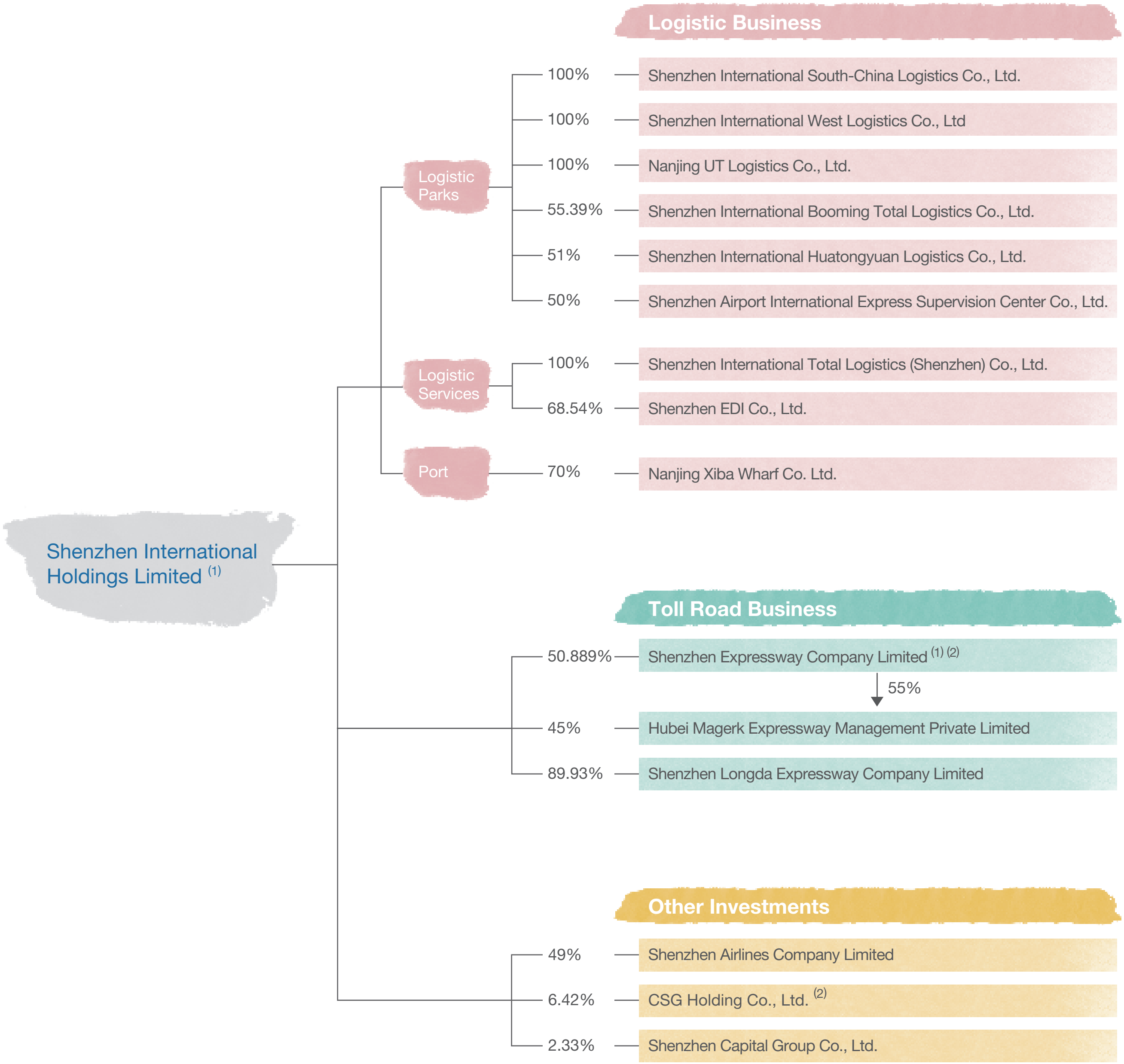
CORPORATE PROFILE

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 and information services platform.

Shenzhen Investment Holdings Company Limited, the controlling shareholder of the Company, is a corporation wholly-owned by Shenzhen Municipal People's Government State-owned Assets Supervision and Administration Commission and, as at the date of this report holds approximately 48.36% 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Gao Lei *(Chairman)*
Li Jing Qi *(Chief Executive Officer)*
Li Lu Ning
Liu Jun *(Vice President)*
Yang Hai

Non-Executive Director:

Wong Yuk Shan

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 Lu Ning

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

Shares : 00152
Senior Notes : 04542 (SZ INTL N1704)

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

LEGAL ADVISERS

Reed Smith Richards Butler *(Hong Kong Legal Adviser)*

PRINCIPAL BANKERS

Bank of China
Bank of Communications
Bank of Jiangsu *(PRC Domestic Bank)*
The Bank of Tokyo-Mitsubishi UFJ,
Hong Kong Branch
China Everbright Bank *(PRC Domestic Bank)*
China Merchants Bank
DBS Bank
Hang Seng Bank
Industrial Bank
ING Bank N.V.
Shanghai Pudong Development Bank
(PRC Domestic Bank)
Ping An 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

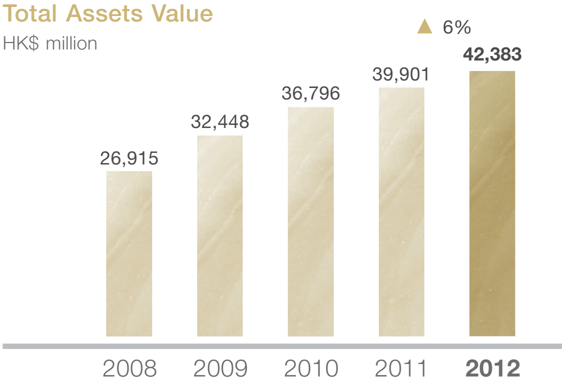
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Hong Kong

INVESTOR RELATIONS CONSULTANT

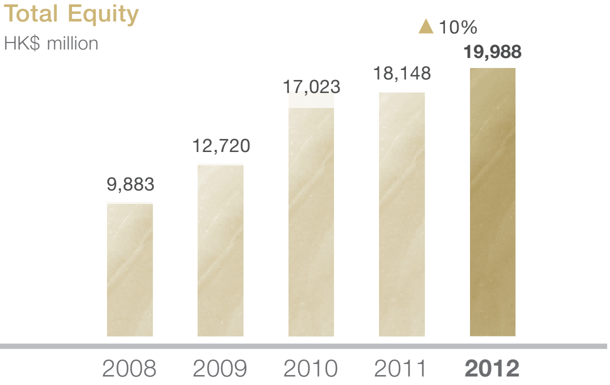
Hill+Knowlton Strategies Asia
36th Floor, PCCW Tower, Taikoo Place
979 King's Road, Quarry Bay, Hong Kong

FINANCIAL HIGHLIGHTS

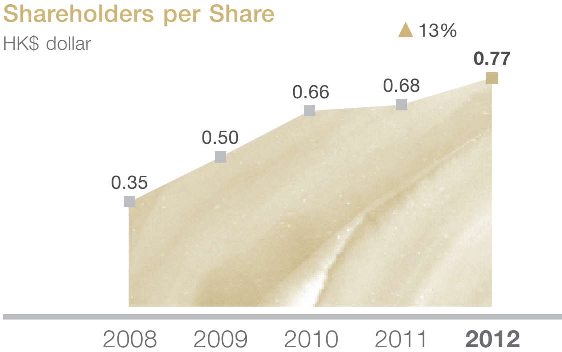
Total Assets Value
HK$ million



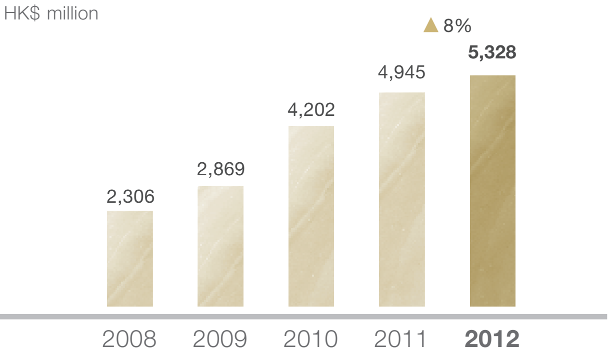
Total Equity
HK$ million



Net Asset Value Attributable to Shareholders per Share
HK$ dollar

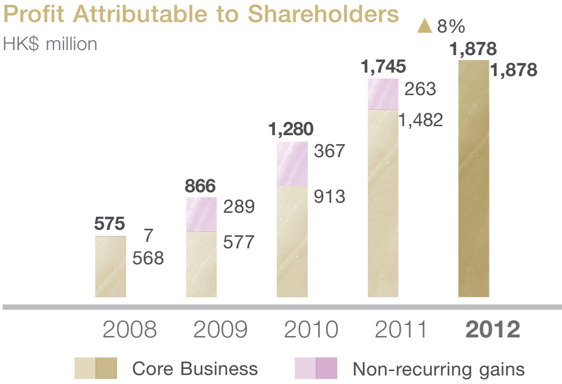


Revenue*
HK$ million

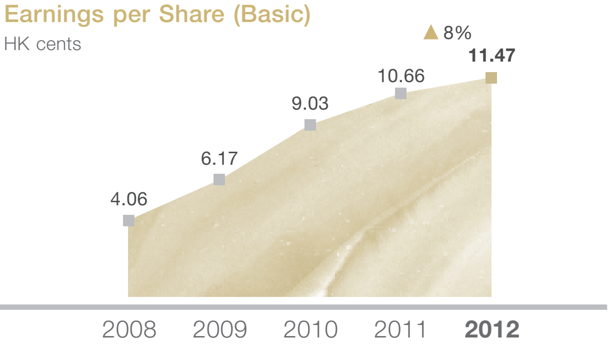


* *excluding construction service revenue from toll road*

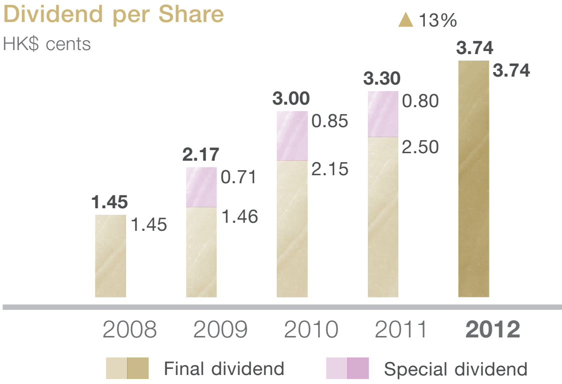
Profit Attributable to Shareholders
HK$ million



Earnings per Share (Basic)
HK cents



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
		2012		
Toll Road				
– Toll revenue	**4,406**	**2,174**	**158**	**2,332**
– Construction service revenue	**411**	**–**	**–**	**–**
	4,817	**2,174**	**158**	**2,332**
Logistic Business				
– Logistic Park	**494**	**174**	**11**	**185**
– Logistic Service	**311**	**5**	**2**	**7**
– Port	**117**	**42**	**–**	**42**
	5,739	**2,395**	**171**	**2,566**
Head office	**–**	**(56)**	**1,120**	**1,064**
Profit before finance costs and tax	**5,739**	**2,339**	**1,291**	**3,630**
Finance income				**73**
Finance costs				**(928)**
Finance costs – net				**(855)**
Profit before income tax				**2,775**
		2011		
Toll Road				
– Toll revenue	4,138	2,338	154	2,492
– Construction service revenue	636	–	–	–
	4,774	2,338	154	2,492
Logistic Business				
– Logistic Park	458	141	7	148
– Logistic Service	251	13	1	14
– Port	98	31	–	31
	5,581	2,523	162	2,685
Head office	–	338	424	762
Profit before finance costs and tax	5,581	2,861	586	3,447
Finance income				35
Finance costs				(679)
Finance costs – net				(644)
Profit before income tax				2,803

SUMMARY OF 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 2012 figures are extracted from the audited financial statements. The 2008 to 2011 figures are extracted from the comparatives in the 2009 to 2012 audited financial statements.

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**5,739,514**	5,581,043	5,111,806	4,080,949	5,951,614
Profit before income tax	**2,774,979**	2,802,720	2,145,341	1,443,983	1,156,665
Income tax expense	**(479,409)**	(539,946)	(453,068)	(266,885)	(190,043)
Profit before non-controlling interests	**2,295,570**	2,262,774	1,692,273	1,177,098	966,622
Non-controlling interests	**(417,258)**	(517,543)	(412,434)	(311,239)	(391,636)
Profit attributable to shareholders	**1,878,312**	1,745,231	1,279,839	865,859	574,986

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Fixed assets	**4,879,285**	4,870,242	4,241,871	3,521,077	2,487,334
Investment properties	**72,000**	62,900	49,989	44,443	49,183
Investments in associates	**5,021,531**	2,829,232	2,280,452	1,455,216	1,441,731
Investments in jointly controlled entities	**317,382**	319,819	306,821	300,350	773,559
Available-for-sales financial assets	**37,511**	246,879	147,263	142,366	95,726
Intangible assets	**24,188,532**	24,386,045	23,446,980	22,463,694	18,125,699
Other non-current assets	**177,986**	1,026,079	169,535	99,170	–
Net current assets/(liabilities)	**1,193,165**	1,750,702	1,376,075	(1,701,065)	(1,394,310)
Non-current liabilities	**(15,899,252)**	(17,343,592)	(14,995,461)	(13,605,561)	(11,696,317)
Net assets	**19,988,140**	18,148,306	17,023,525	12,719,690	9,882,605
Equity					
Issued capital	**1,637,297**	1,637,217	1,637,217	1,414,193	1,402,742
Reserves	**11,007,909**	9,576,984	9,206,810	5,610,943	3,507,179
Shareholders' equity	**12,645,206**	11,214,201	10,844,027	7,025,136	4,909,921
Non-controlling interests	**7,342,934**	6,934,105	6,179,498	5,694,554	4,972,684
Total equity	**19,988,140**	18,148,306	17,023,525	12,719,690	9,882,605

KEY EVENTS IN 2012

Jan

The Group's equity interest in Shenzhen Airlines increased from 25% to 49%

Feb

The Company was assigned investment grade credit ratings of BBB and Baa3 by Standard & Poor's and Moody's respectively

Apr

The Group successfully issued a five-year US$300,000,000 senior note with a coupon rate of 4.375% per annum with overwhelming market response

Jun

The Group formulated new commercial plan and re-positioning of the development of land on which Western Logistic Park in Qianhai is situated

Sep

Mr. Gao Lei was appointed as the Chairman and an executive director of the Company and Mr. Li Lu Ning was appointed as an executive director of the Company

Topping out of exhibition centre at South China Logistic Park

Nov

Signing of investment agreement for Shenyang Modern Integrated Logistic Hub, which marked the implementation of the "integrated logistic hub" business model

Develop Steadily and Innovatively

Dear Shareholders,

Faced with complicated economic and social conditions in 2012, the Group still maintained stability in its operations and recorded solid growth in its performance. As at 31 December 2012, revenue generated from the Group's core business recorded an increase of 8% over the previous year to HK$5,328 million; profit attributable to shareholders rose by 8% over the previous year to HK$1,878 million; the logistic business also recorded satisfactory growth in 2012, with revenue grew by 14% over the previous year to HK$922 million, and profit attributable to shareholders increased by 19% over the previous year to HK$142 million.

The Board recommended a final dividend of HK3.74 cents per share to shareholders for the financial year ended 31 December 2012. Total dividend to be distributed amounted to HK$612 million, representing an increase of 13% over the previous year.

COPING WITH CHALLENGES WITH A FOCUS ON LONG TERM DEVELOPMENT

In 2012, with the slowdown in the global economy and economic recovery still under pressure, the Chinese economy was in the midst of significant structural changes and industry optimisation enhancement. To cope with the negative impact such as unfavourable economic environment, adjustments in toll policies and rising operating costs, the Group adhered to its philosophy of prudent operations with innovative development. It closely followed the established business development strategies, continued to develop its existing business and took initiative in the innovation of new business models. In doing so, the Group undertook commitments with strategic significance whilst maintaining steady growth in operation performance.

OBTAIN INTERNATIONAL CREDIT RATINGS, AFFIRMING OUTSTANDING QUALITY OF THE GROUP'S BUSINESS

In early 2012, the Company was assigned investment grade credit ratings of BBB and Baa3 by international credit rating agencies, Standard & Poor's and Moody's respectively. These investment grade credit ratings were important milestones, as it reflected the high quality assets, stable financial position, adequate cash flow and strong credit standing of the Group, which enhance the recognition of the Group in the market. Subsequently, the Company successfully issued a five-year US$300,000,000 senior note in Hong Kong in April 2012, funding the development of its core business under relatively more favourable terms among the prevailing market rate.

In early March 2013, the Company was assigned an investment grade credit rating of BBB by Fitch Ratings, another international credit rating agency, with Stable Outlook. The assignment of investment grade credit rating once again reflected recognition of the Company amongst authoritative international credit rating agencies.

INNOVATIVE BUSINESS MODEL – DEPLOYING STRATEGIC LAYOUT OF AN "INTEGRATED LOGISTIC HUB"

The continuous development of Chinese economy, especially urbanisation and rapid growth in e-commerce, has presented invaluable opportunities for the development of the highway transportation industry. According to the statistics of National Bureau of Statistics of China, cargo traffic of highway transport in China recorded double-digit annual growth in recent years. After drawing experience on successful operation of the existing "integrated logistic hub" and by prudently studying and analysing the market, the Group decided to deploy the layout across the key logistic gateway cities in China and promote the business model of "integrated logistic hub". Combining logistic infrastructure with a diverse range of functions including warehousing, offices, car parks, inn and logistic information centres, the model creates an information technology-based service platform on which logistics, information flows, trade flows and capital flows can interact effectively, so as to establish a convenient one-stop service platform for customers featuring standardisation, informatisation, network and complete ancillary services. This does not only achieves enhanced land utilisation, energy savings and emissions reduction, but also helps customers to develop their business via sharing of logistic information and resources, thereby achieving a mutually beneficial outcome for the Group and its customers. The Group launched its first project deploying the business model of "integrated logistic hub" in 2012 in Shenyang and an agreement was signed, scheduling commencement of operation in 2014.

The business model of "integrated logistic hub" is an important strategic initiative made by the Group in consideration of industrial trends and the Group's advantages. It will become an important way for the future expansion and profit contribution of the Group.

BUILDING OUR DREAM IN QIANHAI, CREATING NEW INDUSTRIAL ECOLOGY OF MODERN LOGISTICS AND SUPPLY CHAIN

Recently, the planning and policies for Qianhai Hong Kong/Shenzhen Cooperation Demonstrative Zone have seen rapid implementation, and the Qianhai area has been in the spotlight in China and the rest of the world, especially after the visit to the Qianhai area at the end of last year by the Chinese leader Mr. Xi Jinping. The plot of land, on which the Group's Western Logistic Park is situated, is in the Mawan area of Qianhai and the Group has repositioned it in accordance with the overall planning of Qianhai for future redevelopment with focus on industries such as high-end logistic services, supply chain information and management, innovative supply chain finance and integrated value chains. The transformation and upgrade of Western Logistic Park represent an optimisation of the original logistic business with an aim of creating a top-class regional landscape featuring the concepts of "intensive, intelligence, efficiency and low-carbon", which are in line with the Group's development strategy.

The Qianhai project not only adds value to our land resources through revaluations, but also brings new development opportunities for the Group. We are confident that it will create greater value for our shareholders.

DEVOTED TO QUALITY GROWTH AND SUSTAINABLE DEVELOPMENT WITH FULL CONFIDENCE

China's new leaders have decided on the direction and set the tone of the future development of the country. Economic restructuring, industrial upgrading and urbanisation in China present vast potential for the Group's future development. The Group is committed to developing logistic infrastructure facilities as its core business. It will optimise its existing assets, proactively explore and seize opportunities, and will invest and expand with a view to enhancing efficiency, thereby achieving quality growth and sustainable development.

Looking forward in 2013, with the external environment remains challenging, the Group will increase the investment in its core logistic business and maintain steady development of its toll road business. It will also look for market opportunities and proactively explore and employ diversified capital operation to support the development of its core business. It will strive to boost income and reduce expenditures while continuously improving its management standards in order to further enhance the overall capability of the Group.

SERVING THE COMMUNITY AND CARING FOR PEOPLE AND THE ENVIRONMENT

In the course of maximising its corporate value, the Group also strives to contribute to society. In the process of its business development, the Group is devoted to achieving a mutually beneficial outcome between the Company and society through energy savings, environmentally-friendly measures and "green logistics". It integrates the concept of "safe, environmentally-friendly, aesthetics and harmonious" into the construction and operation of toll roads and logistic projects. Moreover, the Group continued to implement its "paid leave for volunteering work" scheme and set up an "employee subsidy fund for major disease and accidental injuries" to care for society and its employees.

Finally, on behalf of the Board, I would like to take this opportunity to extend my utmost gratitude to our shareholders, investors and business partners for their continuous trust and support. I would also like to thank the entire staff for their hard work and dedication to the Group over the past year. Furthermore, I would like to thank Mr. Guo Yuan (former chairman of the Board) and Mr. Wang Dao Hai (former non-executive director) for their invaluable contributions during their terms of service.

Chairman
Gao Lei

Hong Kong, 28 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL REVIEW

In 2012, the global economy remained weak, causing domestic demand to decline, the Group's toll road business was also adversely affected by adjustments in toll policies. Under the influence of various unfavourable factors, the Group's recurring profit for the year ended 31 December 2012 (the "Year") remained stable with modest growth, reflecting that the core business and assets of the Group are strong enough to sustain profitability and withstand risk.

Operating Results	2012 HK$'000	2011 HK$'000	Increase/ (Decrease)
Revenue (excluding construction service revenue from toll roads)	**5,328,125**	4,945,469	8%
Construction service revenue from toll roads	**411,389**	635,574	(35%)
Total Revenue	**5,739,514**	5,581,043	3%
Profit before finance costs and tax	**3,629,545**	3,446,632	5%
of which: Core Business	**3,629,545**	3,099,760	17%
Profit attributable to shareholders	**1,878,312**	1,745,231	8%
of which: Core Business	**1,878,312**	1,482,467	27%
Basic earnings per share (HK cents)	**11.47**	10.66	8%
Dividend per share (HK cents)			
Final dividend (HK cents)	**3.74**	2.50	50%
Special dividend (HK cents)	**–**	0.80	N/A
	3.74	3.30	13%

Overall Review

Although the slowdown in global economic growth and the adjustments of toll policies in China have put pressure to the Group's business growth, the Group's core business was able to maintain stable revenue growth in 2012, with an increase of 8% as compared to the previous year to HK$5,328 million. Profit before finance costs and tax from the Group's core business recorded a 17% increase to HK$3,630 million as compared to the previous year, while profit attributable to shareholders from the core business increased by 27% to HK$1,878 million as compared to the previous year.

Revenue from the Group's logistic business amounted to HK$922 million during the Year, representing an increase of 14% as compared with the previous year. The increase was mainly due to the growing maturity of a number of logistic centres after the cultivation period in 2011, along with the adjustment of rental charges on customers, as well as an increase in business volume of the logistic service business. At the same time, benefitted from the economies of scale and effective cost controls driving growth in gross profit of the logistic park business, thus profit attributable to shareholders from the logistic business increased by 19% to HK$142 million.

During the Year, toll revenue from the Group's toll road business increased by 6% to HK$4,406 million as compared to the previous year. The recognition of a revenue amounting to HK$263 million from the entrusted construction management services during the Year contributed to the growth in overall revenue. With the implementation of the unified standardisation of toll fees for all expressways in Guangdong Province (the "Standardisation Scheme") on 1 June 2012 and toll-free policy for passenger cars in key holiday periods (the "Holiday Toll-Free Scheme") during the Year, the Group's total revenue reduced by 5% in 2012 and the growth in toll revenue slowed down as a result. During the Year, net profit from the toll road business amounted to HK$795 million, representing a 13% decrease as compared to the previous year. This was mainly due to the change in accounting estimate of provision for road maintenance/resurfacing obligations which resulted in a positive impact on the profit of the toll road business during the corresponding period of the previous year while such adjustment was not recurred during the Year, as well as the increase in operating costs and finance costs.

On 4 January 2012, the Group completed the acquisition of an additional 24% equity interest in Shenzhen Airlines Company Limited ("Shenzhen Airlines"), and increased the shareholding in Shenzhen Airlines to 49%. During the Year, Shenzhen Airlines contributed a profit of HK$1,061 million to the Group, representing an increase of 1.5 times over the corresponding period of the previous year. Shenzhen Airlines has fully offset its accumulated loss during the Year and has subsequently declared dividend to its shareholders. The Group will receive a cash dividend of HK$140 million.

With China's stock market remained weak during the Year, the Group did not dispose of any A shares of CSG Holding Co., Ltd. ("CSG") while the disposal of A shares of CSG during the previous year resulted in a non-recurring gain after tax of approximately HK$263 million.

DIVIDEND

The board of directors of the Company (the "Board") is committed to maintaining a stable dividend policy to ensure sustainable and steady returns for the Company's shareholders. The Board recommended a final dividend of HK3.74 cents (2011: final dividend of HK2.5 cents and a special dividend of HK0.8 cent) per share to shareholders for the year 2012. The total dividend for the Year amounted to HK$612 million (2011: HK$540 million), representing an increase of 13% as compared to the previous year.

The Board recommended that the final dividend be satisfied wholly in the form of an allotment of scrip shares. Shareholders will be given the option of receiving the final dividend wholly in cash in lieu of such allotment, or partly in cash and partly in the form of scrip shares (the "Scrip Share Scheme"). The Scrip Share Scheme is subject to: (1) approval of the proposed final dividend at the forthcoming Annual General Meeting; and (2) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and permission to deal in the new shares to be issued pursuant thereto.

INTERNATIONAL CREDIT RATINGS AND ISSUANCE OF US DOLLAR SENIOR NOTES

Over the past few years, the Group has demonstrated steady and stable growth in its operating revenue and its profitability along with the enlarged scale of its assets. At the same time, the Group has continuously optimised its management and operation system so as to enhance its management capabilities and overall corporate strengths. The Company was assigned investment grade credit ratings of BBB and Baa3 by international credit rating agencies Standard & Poor's and Moody's respectively in early 2012, and a BBB investment grade credit rating by another international credit rating agency, Fitch Rating, in 2013. These credit ratings reflected the high quality assets, stable financial position, adequate cash flow and strong credit standing of the Group. On 20 April 2012, the Company successfully issued a five-year US$300,000,000 senior note with a coupon of 4.375% per annum with overwhelming market response. The issue not only demonstrated recognition of the Group's business development and profitability by the market, but also widened the Group's financing channels to facilitate its future business expansion.

PROGRESS OF THE QIANHAI AREA DEVELOPMENT PLAN

Subsequent to the approval by the Shenzhen Municipal Government for the "Consolidated Plan on Hong Kong/Shenzhen Co-operation on Modern Service Industries in the Qianhai Area" in the first half of 2012, the Qianhai area will be developed into a new international modern service industries zone for financial services, modern logistics, information services and technology services. Towards the end of 2012, with a series of policies including favourable tax treatment, cross-border Renminbi-denominated loan policy and 19 integrated pilot projects being announced, it is expected that development of the Qianhai area will be speeded up in 2013 and the relevant policies and projects will also be confirmed gradually.

The Group's wholly-owned Western Logistic Park is located in Qianhai Mawan area. During the Year, the Group has actively repositioned the land of Western Logistic Park and formulated respective commercial plan according to Qianhai's policies and plans and had in depth discussions with the Qianhai Management Bureau about the plan. The Group has signed strategic collaboration MOUs with several leading enterprises in 2012. Looking ahead, the Group will focus on developing high-end logistic service, supply chain information and management services, innovative supply chain finance and integrated value chains in Qianhai area.

In 2013, the Group will strengthen communications with the relevant government departments and strive to complete the process of land re-zoning and land rights affirmation of Western Logistic Park as well as actively facilitate the preparation work relating to planning, design and business development of the project.

LOGISTIC BUSINESS

Revenue increased by **14%** to **HK$922 million**

Profit before finance costs and tax increased by **22%** to **HK$234 million**

Profit attributable to shareholders increased by **19%** to **HK$142 million**

Revenue Contribution By Logistic Business Unit

	2012	2011
Logistic Park	53%	57%
Logistic Service	34%	31%
Port	13%	12%

Net Profit Contribution By Logistic Business Unit

	2012	2011
Logistic Park	87%	84%
Logistic Service	4%	7%
Port	9%	9%

OVERVIEW

The Group owns various well-equipped logistic parks in major cities of China, including Shenzhen, Nanjing and Yantai. Currently, the Group owns a land area and an operating area of 1.30 million and 0.54 million square metres respectively. The Group's port business is equipped with 2 general bulk cargo terminals with a 70,000-tonnage capacity and a depot with a site area of 400,000 square metres in Phase 1 of Nanjing Xiba Port. The port has the capability of providing services including ship loading and unloading, lightering, train loading and automobile loading, and has a storage capacity of over 1 million tonnes.

ANALYSIS OF OPERATING PERFORMANCE

According to the statistics from the General Administration of Customs of China, China's total export commodities and import commodities amounted to US$2,048.93 billion and US$1,817.83 billion in 2012, representing year-on-year growth of approximately 7.9% and 4.3% respectively. In 2012, the global economic recession, significant fall of Chinese export growth year-on-year and the escalating inflation brought challenges to sustainable and steady development of logistic enterprises. The Group coped with the above situations by optimising resources allocation, enhancing cost control and facilitating new business model, as well as closely monitoring industrial and market changes and enhancing the flexibilities of operational strategies.

Logistic Parks

During the Year, each logistic park maintained stable business volume and rental income by business restructuring and proactively attracting new customers. To meet market needs, Huatongyuan Logistic Centre mainly engages in highway logistic transportation. With cargo transportation market, it gathered commercial, trading and logistic companies together, thereby increasing the business volume and activities of the logistic park. The business of Huatongyuan Logistic Centre has recorded sustainable growth since its commencement of operation. In 2012, it maintained a high average occupancy rate of 99% and with increment in rental charges on customers upon renewal of contracts, resulted in a satisfactory growth for its overall revenue and profit.

In 2012, the Group continued to focus on investing in and developing logistic infrastructure facilities to support its momentum of revenue growth in the future. The expansion program of Shandong Booming Total Logistic Park has been completed at the end of December 2012, with a drop-and-pull service centre occupying an operating area of 11,000 square metres commenced operation in January 2013. In addition, the construction of the new logistic centre and exhibition centre at South China Logistic Park progressed satisfactorily and is expected to be completed in the first half of 2013. Meanwhile, the Group is pushing forward the marketing work. Upon completion of the construction, operating area of the Group's logistic parks will increase by approximately 24% from 540,000 square metres to 670,000 square metres.

Operating performance of major logistic parks

Logistic Park	Core Business	Logistic Centre Occupancy rate 2012	2011
South China Logistic Park	Provides logistic centres, empty container depots, cross-border customs transfer and access, and cross-border express customs clearance services	**96%**	96%
Western Logistic Park	Provides logistic centres	**95%**	95%
Huatongyuan Logistic Centre	Provides distribution outlets, warehouses and offices rental services	**99%**	99%
Nanjing Chemical Industrial Park Logistic Centre	Provides warehousing, customs declaration and transport services for hazardous and non-hazardous chemical products	**100%**	93%
Shandong Booming Total Logistic Park	Provides logistic centres, transport, distribution and other services	**80%**	87%

Ports

Nanjing Xiba Port further improved its operation efficiency after a full year operation in 2011. During the Year, the berthing capacity of Nanjing Xiba Port increased from the original capacity of 50,000-tonnage to 70,000-tonnage, thereby expanding the range of berthing vessels and improving the efficiency of cargo transit. Subsequently, it obtained berthing permission for international vessels. In the second half of 2012, Nanjing Xiba Port successfully unloaded 12 international vessels, offsetting the impact from the decreasing business volume due to sluggish domestic demand of coal in the period.

During the Year, a total of 200 vessels had berthed at Nanjing Xiba Port, with total throughput of 10.5 million tonnes which approximated to that of the previous year. In 2013, providing loading and unloading services to international vessels, charges of which are relatively higher, will be a key market development area of Nanjing Xiba Port and its profitability is expected to be further enhanced as a result.

The Group is actively undertaking a feasibility study on the development plan for Phase 2 of the construction of Nanjing Xiba Port, which will include the construction of three cargo terminals with a 50,000-70,000 tonnage capacity and relevant depots if the plan is implemented.

Logistic Service Business

By capitalising on its existing logistic infrastructure facilities, the Group has fully utilised the competitive advantages of its resources and capital to transform from the traditional logistic business, and actively explore supply chain management, value chain integration and modern value-added logistic service.

In 2012, benefiting from the increasing production volume of its existing key customers as well as its active and strengthened efforts in business expansion, the Group was able to offset the adverse impact of the weak economic environment on its revenue. However, continuously rising labour costs and research and development expenses also put pressure on the profitability of the logistic service business. In order to further enhance the competitive edges of its logistic service business and the overall profitability, the Group is committed to cost control and optimisation of its customer mix.

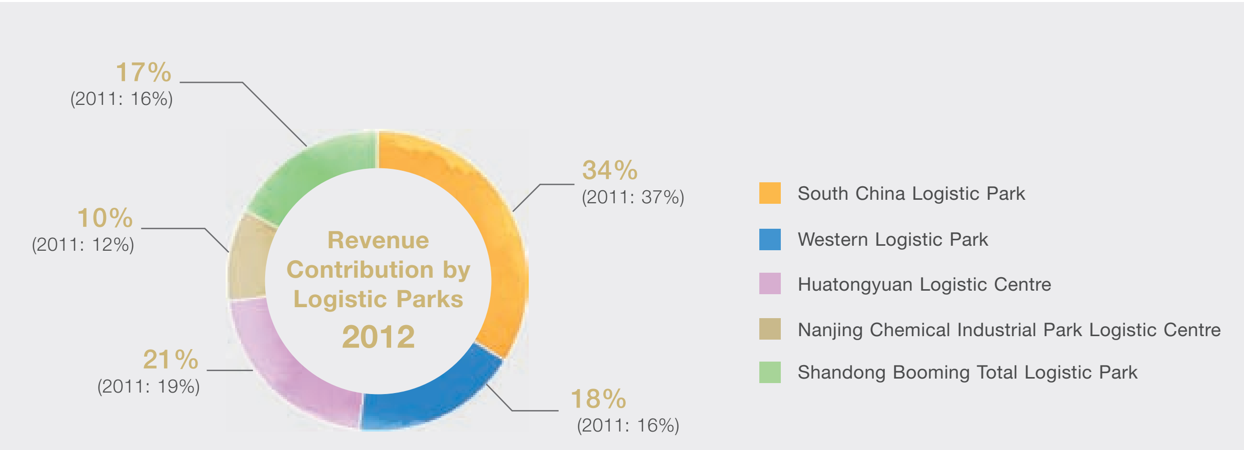
FINANCIAL ANALYSIS

In 2012, the logistic business recorded a steady growth in revenue and profit before finance costs and tax which amounted to HK$922 million and HK$234 million, representing increases of 14% and 22% respectively over those of the previous year. Profit attributable to shareholders increased by 19% to HK$142 million, which was mainly attributable to the rise in rental income and the high occupancy rate of the logistic parks, while the economies of scale and effective operating cost control also contributed to the growth in gross profit and net profit.

Revenue of each logistic business unit

For the year ended 31 December

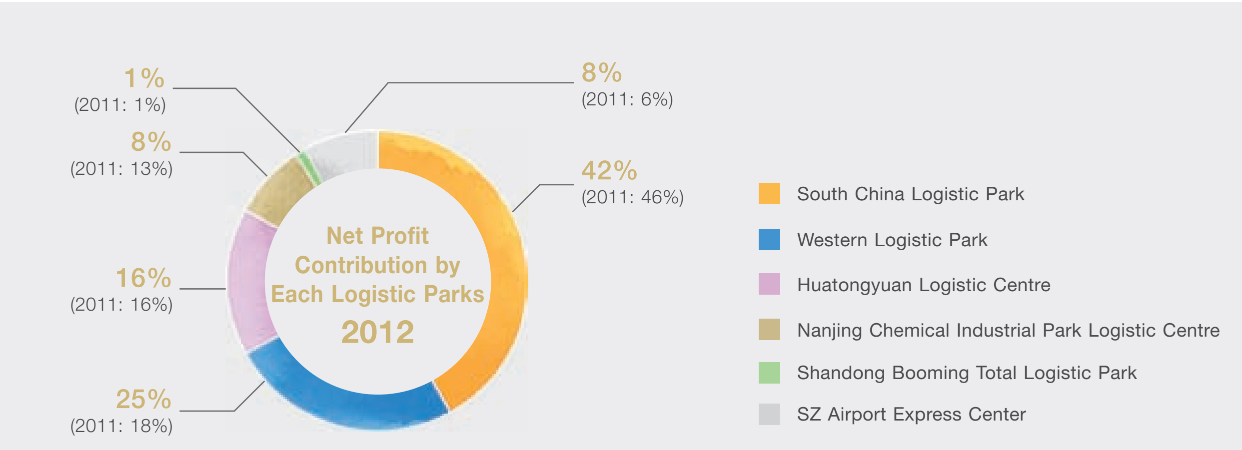
	2012 HK$'000	2011 HK$'000	**Increase/ (decrease)**
Logistic Park Business			
South China Logistic Park	**168,366**	169,366	(1%)
Western Logistic Park	**90,432**	74,378	22%
Huatongyuan Logistic Centre	**104,213**	87,392	19%
Nanjing Chemical Industrial Park Logistic Centre	**46,965**	52,578	(11%)
Shandong Booming Total Logistic Park	**84,223**	73,942	14%
Sub-total	**494,199**	457,656	8%
Logistic Service Business	**310,984**	251,475	24%
Port Business	**116,948**	97,609	20%
Total	**922,131**	806,740	14%



Profit attributable to shareholders of each logistic business unit

For the year ended 31 December

	2012 HK$000	2011 HK$000	Increase/ (decrease)
Logistic Park Business			
South China Logistic Park	**51,996**	46,963	11%
Western Logistic Park	**30,880**	18,545	67%
Huatongyuan Logistic Centre	**19,801**	16,071	23%
Nanjing Chemical Industrial Park Logistic Centre	**10,329**	12,743	(19%)
Shandong Booming Total Logistic Park	**1,752**	1,383	27%
SZ Airport Express Center*	**9,895**	5,546	78%
Sub-total	**124,653**	101,251	23%
Logistic Service Business	**4,974**	8,529	(42%)
Port Business	**12,863**	10,289	25%
Total	**142,490**	120,069	19%



* *SZ Airport Express Center is a jointly controlled entity and is accounted for using the equity accounting method.*

The logistic park business achieved stable growth in revenue and profit in 2012. This was mainly attributable to the growing maturity in business development of the logistic centres at logistic parks, enhancement in market expansion and the increment on rental charges as well as strict control of operating cost. Revenue of the logistic park business increased by 8% to reach HK$494 million and profit attributable to shareholders increased by 23% to reach HK$125 million as compared with those of the previous year.

During the Year, the port business recorded a revenue of HK$117 million, up 20% as compared to the previous year, and a profit of HK$12.86 million, representing an increase of 25% as compared to the previous year. Nanjing Xiba Port was at cultivation stage in the first half of 2011, and became fully operational in 2012. In the second half of 2012, it successfully unloaded 12 international vessels which had relatively higher loading and unloading charges that contributed to the growth in revenue and profit.

Revenue from the logistic service business for the Year amounted to HK$311 million, representing an increase of 24% as compared to the previous year, and this was mainly driven by an increase in business volume from major customers. However, profit attributable to shareholders decreased by 42% year-on-year to HK$4.97 million, this reflected an increase in labour costs, research and development costs for logistic information services products.

OUTLOOK FOR 2013

The “integrated logistic hub” is a service platform centred on highway transport logistic centres, which also integrates the functions of warehousing, transfer, distribution and logistic information centre. With a logistic information platform established on the basis of logistic infrastructure facilities, it delivers highly efficient one-stop services to customers and business partners. In order to fully utilise the advantages of its network, the Group intends to build up a logistic network by setting up logistic hubs and nodes spread across the eastern, southern, central, northern, northeastern, southwestern and northwestern areas of China from 2013 to 2017, and aims to expand its network nationwide gradually.

In November 2012, the Group launched the investment and construction of “Shenzhen International Shenyang Modern Integrated Logistic Hub” and the construction of which is expected to commence in 2013, signifying that the Group is stepping up its efforts to implement the “integrated logistic hub” development plan. Shenyang city is an important transportation gateway to the three provinces in Northeast China. With the geographical advantages of Shenyang city and the massive local demand for highway logistic transportation in the area, the Group considers Shenyang Project a strategic foothold in the Northeast region under its “integrated logistic hub” nationwide network. The Group will actively continue its investment in “integrated logistic hub” projects in key logistic gateway cities in China and more “integrated logistic hub” projects are expected to implement in 2013.

The “integrated logistic hub” is in line with the Company’s development strategy of focusing its investment on scarce resources and capital intensive projects. The Group will adopt diversified financing models to accelerate the expansion and development of the project investment, which is likely to enable “integrated logistic hub” to achieve investment benefit and social benefit in an expedited manner.

With the ongoing urbanisation and continuous development of the Chinese economy, demand for the “integrated logistic hub” is expected to increase rapidly. The business model of “integrated logistic hub” has tremendous development potential and is expected to contribute to the revenue of the logistic business as well as help to sustain the long-term development of the Group. The Group strives to become a leading logistic infrastructure facility provider in China and to enhance returns for its shareholders.

In 2013, the Group will continue to consolidate and develop its existing business and actively promote the expansion of the “integrated logistic hub”, as well as to ensure sustainable development of the Group.

Locations of Logistic Parks and Nanjing Xiba Port

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: 28,000 square metres
   Operating area: 28,000 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 **Nanjing Xiba Port**
   Located in Nanjing Chemical Industrial Park
   Land area: 400,000 square metres
   Operating area: 220,000 square metres

7. **Shangdong Booming Total Logistic Park**
   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

TOLL ROAD BUSINESS

Toll revenue increased by **6%** to **HK$4,406 million**

Profit before finance costs and tax decreased by **6%** to **HK$2,332 million**

Net profit decreased by **13%** to **HK$795 million**

Toll Revenue Contribution

	2012	2011
Shenzhen Expressway	74%	73%
Longda Expressway	13%	15%
Wuhuang Expressway	13%	12%

Net Profit Contribution

	2012	2011
Shenzhen Expressway	55%	61%
Longda Expressway	34%	29%
Wuhuang Expressway	11%	10%

(Included only net profit attributable to the 45% equity interest in Wuhuang Expressway directly held by the Company)

OVERVIEW

The Group's toll road operations span across the Shenzhen region, other regions in Guangdong Province and other provinces in China. The Group holds or controls a total of 17 expressway projects with total mileage of toll roads by toll amounting to approximately 179 kilometres, 268 kilometres and 92 kilometres in the Shenzhen region, other regions in Guangdong Province and other provinces in China respectively. The Group operates the toll road business mainly through Shenzhen Expressway Company Limited ("Shenzhen Expressway"), in which the Group holds a 50.889% equity interest. Shenzhen Expressway's H shares and A shares are listed on the Stock Exchange and the Shanghai Stock Exchange, respectively. In addition, the Group directly holds a 89.93% equity interest in Longda Expressway and a 45% equity interest in Wuhuang Expressway (with the remaining 55% equity interest owned by Shenzhen Expressway).

ANALYSIS OF OPERATING PERFORMANCE

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

				Average Daily Traffic Volume		Average Daily Toll Revenue	
Toll roads	**Interest held by the Group**	**Concession period**	**Length by toll (approximate km)**	**2012 (Vehicle/ Thousands)**	**Increase/ (decrease) as compared to 2011**	**2012 (HK$'000)**	**Increase/ (decrease) as compared to 2011**
Shenzhen region:							
Longda Expressway	89.93%	2005.10-2027.10	28	82	3%	1,590	(3%)
Meiguan Expressway	100%	1995.05-2027.03	19.2	125	5%	1,079	(5%)
Jihe East	100%	1997.10-2027.03	23.7	128	9%	1,527	(10%)
Jihe West	100%	1999.05-2027.03	21.8	107	7%	1,330	(10%)
Yanpai Expressway	100%	2006.05-2027.03	15.6	41	8%	633	13%
Yanba Expressway Note (1)	100%	Note (2)	29.1	29	3%	477	7%
Nanguang Expressway	100%	2008.01-2033.01	31	59	5%	775	9%
Shuiguan Expressway	40%	2002.02-2025.12	20	138	11%	1,484	10%
Shuiguan Extension	40%	2005.10-2025.12	6.3	29	(8%)	191	(20%)
Other regions in Guangdong Province:							
Qinglian Expressway Note (1)	76.37%	2009.07-2034.07	216	23	6%	1,799	16%
Yangmao Expressway Note (1)	25%	2004.11-2027.07	79.8	27	15%	1,633	12%
Guangwu Project Note (1)	30%	2004.12-2027.11	37.9	25	10%	839	8%
Jiangzhong Project	25%	2005.11-2027.08	39.6	92	1%	1,148	(2%)
Guangzhou Western Second Ring Note (3)	25%	2006.12-2030.12	40.2	35	4%	878	(2%)
Other provinces in China:							
Wuhuang Expressway Note (1)	100%	1997.09-2022.09	70.3	40	5%	1,551	12%
Changsha Ring Road	51%	1999.11-2029.10	34.7	13	39%	147	41%
Nanjing Third Bridge Notes (1) and (4)	25%	2005.10-2030.10	15.6	25	7%	1,102	10%

Notes: (1) *Projects for which toll-by-weight policy has been implemented.*

(2) *Sections A, B and C of Yanba opened and commenced operation in April 2001, June 2003 and March 2010, respectively; concession period of the entire Yanba Expressway is to be approved.*

(3) *As approved by Guangdong Provincial Government, the concession period of Guangzhou Western Second Ring was approved to be 24 years, from December 2006 to December 2030.*

(4) *Pursuant to a notice issued by Jiangsu Provincial Government, the concession period of Nanjing Third Bridge was re-approved to be 25 years.*

The operating performance of each expressway project of the Group was influenced by the economic environment, adjustments in government policies on toll in China and the conditions of the road network. During the Year:

- the implementation of the Standardisation Scheme had negative impact mainly on the operating performance of Jihe Expressway, Meiguan Expressway, Longda Expressway and Yanpai Expressway to some degree;

- toll revenue of each expressway project saw a significant decline during the implementation period of the Holiday Toll-Free Scheme as compared to the corresponding period of the previous year;

- changes in conditions of the road network in Shenzhen improved the operating performance of Yanpai Expressway while Nanguang Expressway, Shuiguan Expressway and Shuiguan Extension were negatively affected to some degree;

- the opening of Yilian Expressway (spanning from Fengtouling in Guangdong to Yizhang in Hunan, also known as Yifeng Expressway) in late September 2011, which connects to Qinglian Expressway, continued to drive the toll revenue and traffic volume of Qinglian Expressway to increase. However, the rapid growth in traffic volume of Qinglian Expressway was temporarily hampered as Guangqing Expressway (spanning from Guangzhou to Qingyuan), which connects to Qinglian Expressway, was under construction and extension work and it also restricted truck access on certain sections during the Year;

- maintenance and resurfacing work on Jihe East implemented in the second half of 2012 had some adverse impact on the traffic conditions and operating performance of both Jihe East and Jihe West;

- benefitting from the construction of projects in the peripheral zones, traffic volume of trucks of Yanba Expressway recorded a significant year-on-year increase.

FINANCIAL ANALYSIS

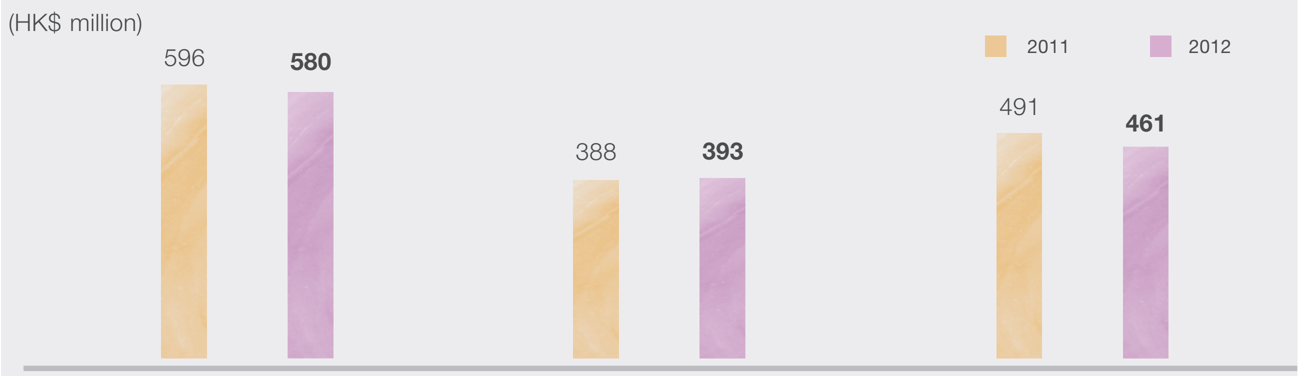
During the Year, toll revenue of the toll road business of the Group amounted to HK$4,406 million (2011: HK$4,138 million), representing an increase of 6% over the previous year; profit before finance costs and tax amounted to HK$2,332 million (2011: HK$2,492 million), representing a decrease of 6% over the previous year. Net profit was HK$795 million (2011: HK$913 million), representing a decrease of 13% year-on-year.

The growth in toll revenue was mainly attributable to the recognition of revenue from the entrusted construction management services of HK$263 million during the Year. However, the growth was hindered to certain extent by the adjustments of toll policies and the promulgation of policies and administrative measures of the central and local governments in succession. During the Year, the decline in profit was mainly due to the change in accounting estimate of provision for road maintenance/resurfacing obligations which brought positive impact to the profit in 2011 while such adjustment was not recurred for the Year, as well as the increase in operating costs and finance costs.

Longda Expressway

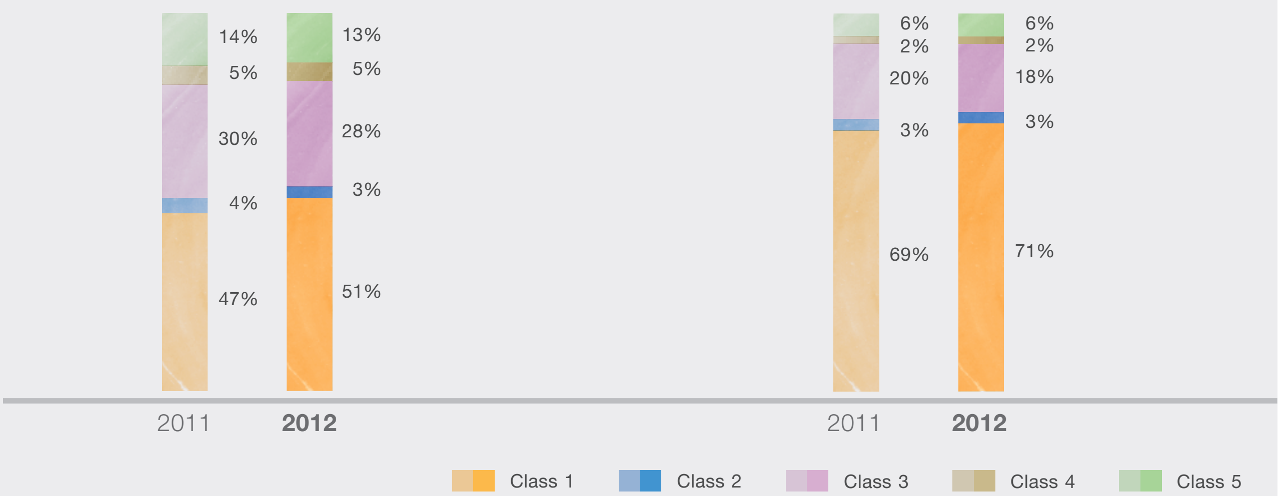
Benefitting from the growth in traffic volume of class 1 vehicles, traffic volume of Longda Expressway recorded an increase over the previous year. However, the implementation of the Standardisation Scheme and Holiday Toll-Free Scheme had negative effects on toll revenue of Longda Expressway to some degree and led to a decrease in toll revenue as compared to the previous year. Profit before finance costs and tax recorded a slight increase over the previous year, this was due to the decrease in amortisation amount as a result of the change in accounting estimate during the Year. Looking forward, Longda Expressway will continue to bring in automatic card readers and traffic sensors in order to further improve its traffic flows and increase its traffic volume.

Toll revenue decreased by 3% to HK$580 million	Profit before finance costs and tax increased by 1% to HK$393 million	EBITDA decreased by 6% to HK$461 million



Toll revenue distribution
(For the year ended 31 December)

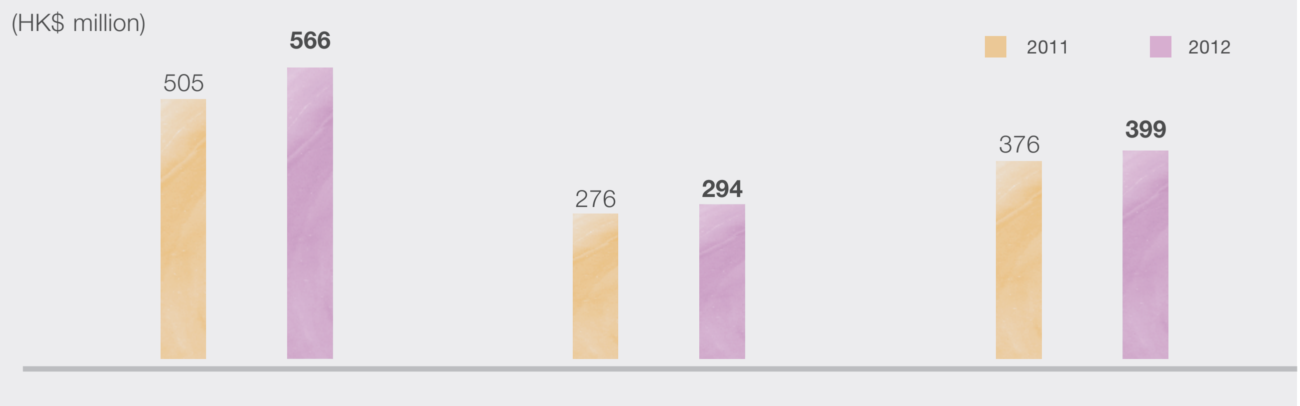
Traffic volume distribution
(For the year ended 31 December)

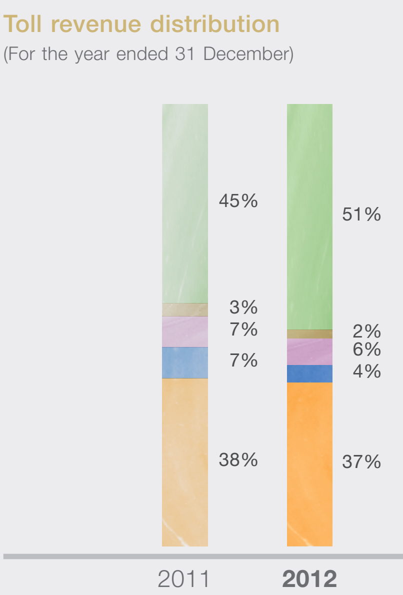


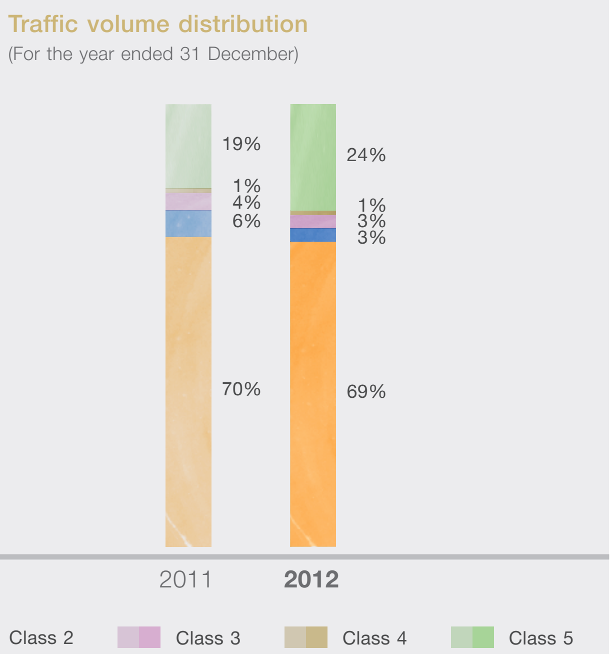
Wuhuang Expressway

During the Year, traffic volume and toll revenue of Wuhuang Expressway both recorded an increase over the previous year. It was mainly attributable to the launch of beacon stations, the opening of the southern section of Daguang Expressway (Huangshi to Tongshan, Hubei) in early May 2012 and the resolution to the revenue division issue on the overlapping section between Wuhuang Expressway and Edong Bridge.

Toll revenue increased by 12% to HK$566 million	Profit before finance costs and tax increased by 6% to HK$294 million	EBITDA increased by 6% to HK$399 million







Shenzhen Expressway and its expressway projects

Influenced by unfavourable factors such as the slowdown in macro-economic growth, the implementation of policies such as the Standardisation Scheme, and changes in traffic distribution in the road network, the growth in toll revenue of major expressway projects of Shenzhen Expressway either slowed or even declined over the previous year. During the Year, Shenzhen Expressway recorded a toll revenue of HK$3,260 million (2011: HK$3,037 million), representing an increase of 7% over the previous year, of which included the revenue from the entrusted construction management services of approximately HK$263 million recognised during the Year. Profit before finance costs and tax amounted to HK$1,645 million (2011: HK$1,828 million), representing a decrease of 10% over the previous year and the Group's share of profit in Shenzhen Expressway amounted to HK$439 million (2011: HK$558 million), representing a decrease of 21% over the previous year.

Aside from the slowdown in toll revenue growth, the decline in profit was mainly attributable to the following factors:

- the change in accounting estimate of provision for road maintenance/resurfacing obligations for 2011 resulted in a decrease in the relevant provision for that year while such adjustment was not recurred for the Year;
- construction projects of certain sections of Nanguang Expressway and Qinglian Expressway were completed in succession during the Year, together with the amortisation of extra traffic volume arising from Holiday Toll-Free Scheme, resulted in an increase in the amount of depreciation and amortisation during the Year; and
- increase in scale of borrowings and interest rates resulted in higher finance costs as compared to the previous year.

MAJOR CONSTRUCTION PROJECTS DURING THE YEAR

During the Year, major construction projects of the Group's toll road business include:

- **Maintenance and Resurfacing Work of Jihe East** – Resurfacing work of Jihe East was commenced during the Year, with the main work completed in January 2013, improving the operability and traffic capacity of the expressway.
- **Expansion work of northern section of Meiguan Expressway** – Up to 31 December 2012, construction work on most roadbeds, bridges and conduits have been completed, while pavement and greening works on some sections are underway. The expansion work is scheduled for completion by the end of 2013. Upon completion, it will greatly improve the traffic capacity of the northern section of Meiguan Expressway and will help to enhance service standard and operational performance of the expressway.

OUTLOOK FOR 2013

Powered by urbanisation and the transformation and upgrading of regional economies in China, and benefitting from increasing level of automobile ownership, traffic demand in China is expected to maintain steady growth. The commencement of operations of Yonglan Expressway and Hengwu Expressway in Hunan province as well as the Hunan section of Xiarong Expressway (connecting Yonglan Expressway and Hengwu Expressway), all in late December 2012, are expected to bring new traffic volume to Qinglian Expressway. The above will have positive impact on the overall performance of the toll road business of the Group. However, government policies and administrative measures governing the toll road business will continue to affect the Group in 2013. As the Standardisation Scheme and Holiday Toll-Free Scheme were implemented in June 2012 and on the National Day Holiday in 2012 respectively, both policies have had effect in 2012 for less than one year, it is expected that these policies will have a greater impact on the toll road business of the Group in 2013 and will reduce the total revenue of the Group in 2013 by approximately 10%. The Group will actively reinforce its promotion on and upgrade the facilities of its road network, increase traffic capacity as well as implement a variety of marketing and management measures with a view to minimising the negative impact brought by the adjustments of toll policies.

In 2013, the capital expenditure of the toll road business of the Group is expected to be approximately RMB866 million, mainly for Qinglian Project and expansion works of the northern section of Meiguan Expressway.

OTHER INVESTMENTS

SHENZHEN AIRLINES

Following the completion of the acquisition of an additional 24% equity interest in Shenzhen Airlines on 4 January 2012, the Group's equity interest in Shenzhen Airlines increased to 49% and Shenzhen Airlines remains as an associate of the Company.

In 2012, the growth momentum in civil aviation industry in China remained strong. During the Year, with Shenzhen Airlines continued to actively push forward the business cooperation with its controlling shareholder, Air China Limited ("Air China"), thereby exerting synergy effects in areas such as passenger transport, cargo transport, fleets and centralised purchasing, the operating costs of Shenzhen Airlines were reduced to some degree and efficiency in the use of resources was enhanced.

During the Year, total revenue of Shenzhen Airlines amounted to RMB22,225 million (HK$27,371 million) (2011: RMB20,789 million (HK$25,107 million)), representing an increase of 7% over the previous year. Net profit from operation decreased slightly as compared to the previous year. However, as there was a one-off gain of approximately RMB800 million arising from write back of asset impairment this Year, net profit of Shenzhen Airlines reached RMB1,851 million (HK$2,280 million) (2011: RMB1,559 million (HK$1,883 million)) and representing an increase of 19% as compared to the previous year. In addition, as the Group's equity interest in Shenzhen Airlines increased from 25% to 49%, Shenzhen Airlines contributed a profit of HK$1,061 million to the Group (2011: HK$424 million), representing an increase of 1.5 times over the previous year.

Shenzhen Airlines continued to enjoy robust demand from the passenger transport market and performed well during the Year. Passenger traffic recorded 28,989 million passenger-km (2011: 26,410 million passenger-km) and passenger revenue of RMB19,428 million (2011: RMB17,943 million), up 10% and 8%, respectively, over the corresponding period of the previous year. The airlines carried 19.80 million passenger rides (2011: 18.27 million passenger rides), up 8% over the corresponding period of the previous year.

As at 31 December 2012, Shenzhen Airlines operated a total of 116 passenger aircraft. At present, Shenzhen Airlines operates about 140 domestic and international routes, of which 130 are domestic routes, 6 are international routes and 4 serve the Hong Kong, Macau and Taiwan regions.

International oil prices continued to surge in 2011 and remained at a relatively high level in the first half of the Year, but showed a declining trend in the second half. There was an increase in aviation oil costs of Shenzhen Airlines for the whole year of 2012 over the previous year but the extent was significantly lower than that in the first half of 2012 as compared to the previous year. Although cost pressure brought by the increase in aviation oil prices was mitigated to a certain extent by a fuel surcharge, fluctuations in aviation oil prices remains a key operational risk that concerns Shenzhen Airlines. Shenzhen Airlines will continue to implement a series of measures including enhancing the utilisation rate of aircraft and optimising its fleet structure and routes so as to control the consumption levels of aviation oil in its daily operations and mitigate the possible impact arising from the volatility in oil prices.

In July 2012, the State Council issued "Outline to promote the development of civil aviation industry" which offers an advantageous political environment for the development of civil aviation industry in the long term. Looking ahead, the civil aviation industry in China is expected to maintain its growth momentum in 2013. Shenzhen Airlines will continue to strengthen its communication with Air China and push forward the construction of its main base in Shenzhen in order to enhance its core competitiveness and profitability.

Shenzhen Airlines has fully offset its accumulated loss during the Year and has subsequently declared dividend to its shareholders. The Group will receive a cash dividend of RMB110 million (HK$140 million). The Group believes that its strategic investment in Shenzhen Airlines will bring increasing returns to its shareholders.

CSG

According to the Group's business development, capital need and internal resources coordination, coupled with capital market conditions, the Group adjusts the volume of the shares of CSG to be disposed of so as to maximise the profits of the Company and its shareholders.

Due to a consistently weak A share market in 2012, the Group did not dispose of any A shares of CSG. As at the date of this report, the Group beneficially owned a total of 133,170,000 A shares of CSG, representing approximately 6.42% in the total issued share capital of CSG. All A shares of CSG held by the Group are freely tradable on the Shenzhen Stock Exchange.

FINANCIAL POSITION

	31 December 2012 HK$ million	31 December 2011 HK$ million	Increase/ (Decrease)
Total Assets	**42,383**	39,901	6%
Total Liabilities	**22,395**	21,753	3%
Total Equity	**19,988**	18,148	10%
Net Asset Value attributable to shareholders	**12,645**	11,214	13%
Net Asset Value per share attributable to shareholders (HK dollar)	**0.77**	0.68	13%
Cash	**4,868**	3,733	30%
Bank borrowings	**9,154**	11,315	(19%)
Notes and bonds	**8,816**	5,372	64%
Total Borrowings	**17,970**	16,687	8%
Net Borrowings	**13,102**	12,954	1%
Cash inflow Generated from Operations	**3,339**	2,928	14%
Debt-asset Ratio (Total Liabilities/Total Assets)	**53%**	55%	(2%)#
Ratio of Total Borrowings to Total Assets	**42%**	42%	–
Ratio of Net Borrowings to Total Equity	**66%**	71%	(5%)#
Ratio of Total Borrowings to Total Equity	**90%**	92%	(2%)#

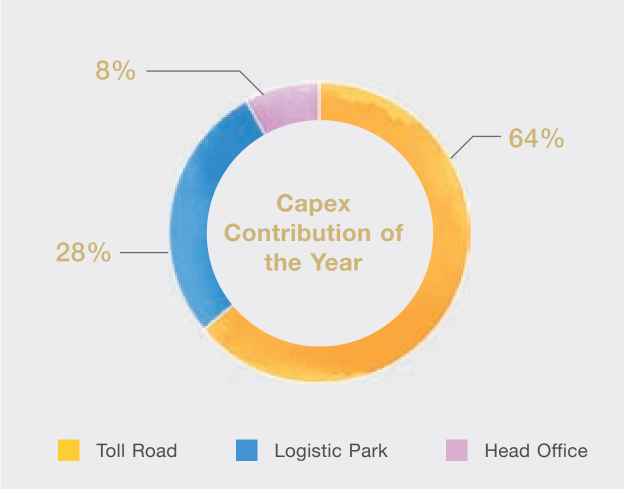
Change in percentage points

CASH BALANCE

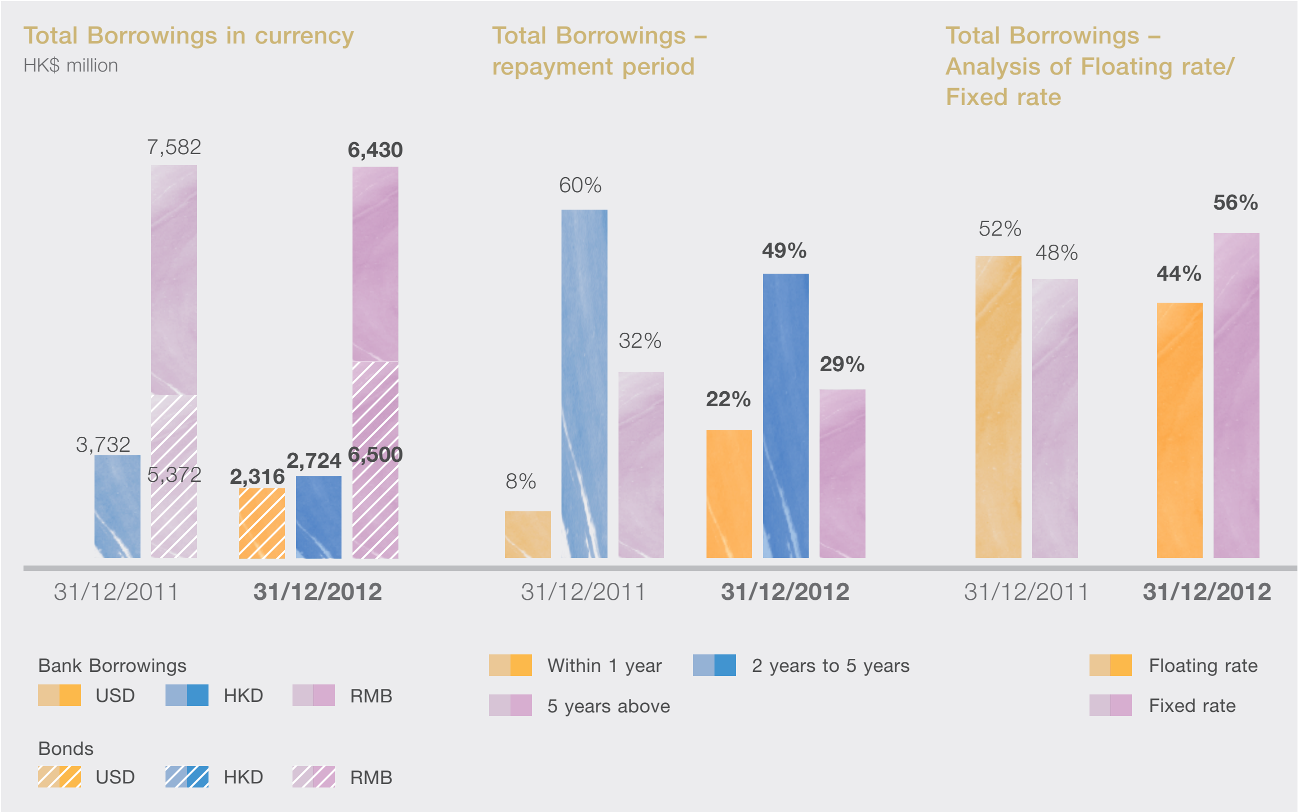
As at 31 December 2012, the cash balance held by the Group amounted to HK$4,868 million (31 December 2011: HK$3,733 million), representing a significant increase of 30% over last year. The funds raised from the Company's issuance of a five-year US$300,000,000 senior note on 20 April 2012 were applied for the repayment of certain short-term bank borrowings, with part of the funds retained for capital expenditures of the Group's core business and as general working capital. Of the cash held by the Group, almost all was denominated in Renminbi. The Group currently possesses adequate cash and a healthy level of liquidity. Based on a prudent liquidity risk management, the Group continues to maintain sufficient cash and adequate standby banking facilities to guard against liquidity risks and to provide sufficient funds for its business development and operations.

CAPITAL EXPENDITURE

During the Year, the Group's capital expenditures amounted to HK$1,166 million (RMB938 million), of which approximately RMB78.86 million was used to pay the remaining 10% acquisition consideration of the 24% equity interest in Shenzhen Airlines, RMB258 million was used to pay for construction of logistic park, and RMB554 million was used to pay for construction work of the Qinglian Expressway as well as the expansion of the Meiguan Expressway. Capital expenditure for 2013 is estimated to be HK$1,542 million (RMB1,240 million).



BORROWINGS



Bank Loans

As at 31 December 2012, the Group's total bank loans amounted to approximately HK$9,200 million (31 December 2011: HK$11,300 million), decreased by 19% as compared with those as at the end of last year, this was mainly due to the Company opened up new financing channels through the successful issuance of a five-year US$300,000,000 senior note in the market, part of the proceeds had been used to repay bank loans, thus effectively reducing the percentage of bank borrowings, and at the same time, broadened the Group's financing channels and explored different financing methods.

Notes and Bonds

On 20 April 2012, the Company issued a five-year US$300,000,000 senior note at a coupon rate of 4.375% per annum, which will be due on 20 April 2017. The notes were rated BBB– and Baa3 by Standard & Poor's and Moody's, respectively. On 20 December 2012, the Group's subsidiary Shenzhen Expressway issued Phase 1 Private Placement Note of RMB800,000,000 at a coupon rate of 5.9% per annum for a term of 3 years.

The Group issued mid to long term bonds which could replace the short term bank loans in order to reduce the pressure of repayment of short term loans, thereby optimising the Group's debt structure and fixing the financing costs.

DEBT-ASSET RATIO

As at 31 December 2012, the Group's debt-asset ratio was 53%, slightly decreased 2% over that of the previous year. Despite the Group's issuance of debt financing instruments has led to an increase of 8% in total borrowings, the proceeds from the financing activities after bank loan repayment were held as cash. Furthermore, the total assets value increased due to profit increased, thus bringing the overall gearing ratio to drop 2%.

CASH FLOW AND FINANCIAL RATIOS

During the Year, cash inflow generated from operations rose 14% to HK$3,339 million, while the cash outflow for investment activities dropped 36% to HK$1,147 million, with net cash inflow generated from financing activities decreased by HK$1,579 million as compared to the same period last year. The Group's core business consistently generates stable cash flow. According to changes in the external environment and capital market conditions during the Year, the Group adjusted the pace of investment activity and captured an opportunity to raise funds from the capital market. In addition, both ratio of net borrowings to total equity and ratio of total borrowings to total equity declined as compared to those as at the end of 2011.

THE GROUP'S FINANCIAL POLICY

Interest Rate Risk Management

Borrowings are a major source of interest rate risk for the Group. Bank borrowings bearing floating interest rates expose the Group to interest rate risk. To manage interest rate risk on long-term bank loans, the Company uses fixed-rate loans or interest-rate swaps to achieve economic effect of converting floating rate loans to fixed rate loans, thereby controlling interest rate risk. Under the current low interest rate environment, the Group manages the ratio of fixed rate and floating rate bank loans, striking a balance between minimizing interest expenses and volatility in interest rate hedging. The management regularly reviews the appropriate ratio of fixed rate and floating rate risks. For further details on the Group's hedging activities, please refer to note 21 of the consolidated financial statements.

Exchange Rate Risk

Assets, cash flows and cash held for businesses operated by the Group are primarily denominated in Renminbi. Cash outflow, which mainly comprises cash dividend payments to shareholders, as well as interest and related expenses on bank loans and senior notes, are denominated in Hong Kong dollars and US dollars. Renminbi appreciated slightly during the Year, bringing to the Group a foreign exchange gain of HK$45.18 million. The Group closely monitors the trend of the Renminbi exchange rate, and takes measures to minimise exchange rate risks in a timely manner according to market conditions.

Strengthening Cash Flow Management and Maintaining a Good Credit Rating

The Company's management places strong emphasis on capital planning to ensure that the Group's development needs are met and to reward shareholders with stable dividend policy. The management carries out rolling forecasts and monitors the Group's standby banking facilities and cash levels in its cash flow forecast in order to strengthen cash flow management. In view of the more challenging financial market, the Group planned its financing arrangements ahead of time in order to reduce liquidity risk. It also enables the Group to grasp the opportunity to lock up debt financing in a cost efficient manner so as to minimise the adverse impact of the volatility in the global financial markets on the Group, and to ensure that the Group has the capacity to carry out ongoing operations and business expansion in order to enhance shareholder value.

The Group currently has cash on hand and standby banking facilities of approximately HK$22,000 million. The Group's overall risk management plan is to cope with unpredictable changes in the capital market in order to maintain a high degree of flexibility to capture business opportunities. It will broaden its financing channels through different financing methods and will also ensure that it has sufficient standby banking facilities to meet future financing needs so as to minimise the adverse impact of fluctuations in the capital market on the costs of debt and liquidity.

In 2013, the Company has been assigned an investment grade credit rating of BBB with stable outlook by Fitch Ratings. The rating by Fitch came after the Company was assigned a BBB rating by Standard & Poor's and a Baa3 rating by Moody's in early 2012. The ratings assigned by all three authoritative international rating institutions represent their recognition of the Company's high quality assets, steady and healthy financial position, strong cash flows and good financial leverage. The recognition from the three rating institutions enables the Group to explore different financing channels which helped the Group to further optimise its capital structure and to lower its financing costs.

Pledge of Assets, Guarantees and Contingent Liabilities

For details of the Group's pledge of assets, guarantees and contingent liabilities as at 31 December 2012, please refer to notes 20 and 36 of the consolidated financial statements respectively.

HUMAN RESOURCES

The Group considers human resources to be an important asset and its human resources management strategy to be an important component of its business strategy. The Group places emphasis on the recruitment and training of talents. Through recruiting new talents, strengthening efforts in staff training, optimising the effectiveness of management system, as well as improving the remuneration system, the Group aims to enhance the overall quality of its management and professional teams, as well as to encourage the proactiveness and creativity of its staff. As at 31 December 2012, the Group had a total of 4,647 staff members.

The Group has established a comprehensive remuneration incentive scheme under which staff remuneration is determined according to position values, capabilities and work performance of the staff with reference to market trends. In addition, to promote its long-term development, the Group has implemented the share option scheme and granted share options to its management, its subsidiaries' senior management and certain key staff members, so as to promote the staff's proactiveness and retaining talents, which facilitates the achievement of the Group's strategic goals.

To cater for the needs of its business development, the Group continued to recruit managers and logistic professionals in 2012 in order to strengthen its management and professional teams. To further strengthen efforts in staff training, in June 2012, the Group cooperated with Xiamen University, a prestigious university in China, to run an EMBA program which provides a systematic training program to the key staff members of the Group to enhance their management and professional capabilities, so as to build a high quality team of management and professionals that best suits the Group's business development.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

From left to right: *Mr. Ding Xun, Professor Wong Yuk Shan, Mr. Yang Hai, Mr. Li Jing Qi, Mr. Gao Lei, Mr. Li Lu Ning, Mr. Leung Ming Yuen, Simon, Mr. Nip Yun Wing and Mr. Liu Jun*

MEMBERS OF THE BOARD

EXECUTIVE DIRECTORS

Mr. Gao Lei
Chairman

Mr. Gao, aged 53, was appointed in September 2012 as the Chairman of the board of directors of the Company. Mr. Gao 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. Gao holds a master degree in money and banking from Xi'an Jiaotong University and is a senior economist. Mr. Gao had successively worked as an executive member (section chief level) of the Finance Office of Shenzhen Municipal People's Government, secretary (deputy division chief level) of the Secretariat of The General Office of Shenzhen Municipal People's Government, assistant to the president of Shenzhen Development Bank and concurrently branch manager of Bao'an Sub-branch and Guangzhou Branch, assistant to the president and chief economist of Shenzhen Investment Holding Corporation as well as the chief economist and deputy director of Shenzhen Municipal People's Government State-owned Assets Supervision and Administration Commission. During the period from September 2010 to April 2011, Mr. Gao was the chairman of Shenzhen Tagen Group Co., Ltd. (shares of which are listed on the Shenzhen Stock Exchange). Mr. Gao is currently a director of Ultrarich International Limited. Mr. Gao has extensive experience in finance, investment, corporate management and administration.

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

Mr. Li, aged 56, 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 has been 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. Li Lu Ning
Member of the Remuneration Committee

Mr. Li, aged 53, was appointed in September 2012 as an Executive Director of the Company. Mr. Li holds a bachelor's degree in law from Nankai University and is a senior economist. Mr. Li had successively worked as the deputy director of the Secretariat of The General Office of Shenzhen Municipal Committee (深圳市委辦公廳秘書處), deputy director (director level) of Shenzhen Municipal Bureau of Classified State Information (深圳市國家保密局), director of the Conference Division of The General Office of Shenzhen Municipal Committee (深圳市委辦公廳會議處), deputy general manager of Shenzhen Dachanwan Investment & Development Co., Ltd. (深圳市大鏟灣投資發展有限公司) and a director of Shenzhen Metro Group Co., Ltd. He has been a member of Shenzhen Committee of Chinese People's Political Consultative Conference since April 2008. Mr. Li is a visiting professor at Shenzhen University Metro College (深圳大學軌道交通學院). Mr. Li is currently a director of Ultrarich International Limited. Mr. Li has extensive experience in corporate management.

Mr. Liu Jun
Vice President

Mr. Liu, aged 49, 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 Company 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 52, 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 served as the chairman of the supervisory committee of CSG Holding Co., Ltd., the section head, department head and assistant to the head of the Second Road Engineering Bureau of Ministry of Communications in China. Mr. Yang was 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 has extensive experience in the construction management of road engineering and corporate management.

NON-EXECUTIVE DIRECTOR

Professor Wong Yuk Shan, *BBS, JP*

Professor Wong, aged 63, was appointed in June 2011 as a Non-Executive Director of the Company. Professor Wong obtained his PhD in Plant Biochemistry from McGill University of Canada and is currently a Fellow of the Institute of Biology in the United Kingdom. Professor Wong is currently the vice-president for Administration and Business and professor of Biology at the Hong Kong University of Science and Technology. Professor Wong also serves as a HKSAR deputy of the National People's Congress of China, a member of the Committee of Hong Kong Basic Law, the president of the Society of Hong Kong Scholars, the chairman of Veterinary Surgeons Board of Hong Kong and the chairman of the Consumer Council. Professor Wong had taught at the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) and the Chinese University of Hong Kong and was the vice-president of the City University of Hong Kong.

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 64, 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 53, 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 had 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 59, 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 48, 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 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 Jun Rong, aged 48, 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. Mr. Zhao graduated from Xiamen University with a master's degree in international economic law and is a 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 and a director of Shenzhen Airlines Company Limited.

Mr. Hu Wei
Vice President

Mr. Hu, aged 50, was appointed as a Vice President of the Company in August 2011. Mr. Hu graduated from Changsha Railway University (now known as Central South University) with a bachelor's degree in foreign languages (English). He also obtained a master's degree in risk management from University of South Australia and is a senior economist. He worked in a number of organisations including Changsha Railway University, Henan Provincial Commission for Foreign Economic Relations and Trade, Henan Hongkong (Holdings) Limited (the window corporate of Henan Province in Hong Kong) and China Everbright Bank. Mr. Hu has extensive experience in corporate management including investment, financing, capital operations, auditing and risk management. Mr. Hu is currently a non-executive director of Shenzhen Expressway Company Limited and a director of Shenzhen Airlines Company Limited.

Mr. Tse Yat Hong
Chief Financial Officer

Mr. Tse, aged 43, 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. Mr. Tse graduated from Monash University in Australia with a bachelor's degree in accounting and computer science. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and a FCPA of CPA Australia. Mr. Tse is currently a non-executive director of Shenzhen Expressway Company Limited and an independent non-executive director of Casablanca Group Limited. He 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.

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 2012 (the "Year").

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 and information services platform. Particulars of the principal activities of the Company's principal subsidiaries are set out in note 39 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 62 to 138.

DIVIDEND

The Board recommended a final dividend of HK3.74 cents per share for the Year (2011: final dividend of HK2.5 cents and a special dividend of HK0.8 cent). The total dividend for the Year amounted to HK$612 million (2011: HK$540 million).

The Board recommended that the final dividend be satisfied wholly in the form of an allotment of scrip shares. Shareholders will be given the option of receiving the final dividend wholly in cash in lieu of such allotment, or partly in cash and partly in the form of scrip shares (the "Scrip Share Scheme"). The Scrip Share Scheme is subject to: (1) the approval of the proposed final dividend at the forthcoming annual general meeting; and (2) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of and permission to deal in the new shares to be issued pursuant thereto. Details of the Scrip Share Scheme and the election form will be sent to shareholders of the Company on or about 29 May 2013. It is expected that the final dividend warrants and certificates for scrip shares allotted under the Scrip Share Scheme will be despatched to shareholders on or about 26 June 2013.

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 changes 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 18 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 its 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 19 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves available for distribution to shareholders, comprising contributed surplus, retained earnings and other distributable reserves, amounted to approximately HK$1,381,840,000 (2011: HK$1,410,975,000). 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. Gao Lei *(Chairman)* (appointed on 18 September 2012)
Mr. Guo Yuan *(Chairman)* (resigned on 18 September 2012)
Mr. Li Jing Qi
Mr. Li Lu Ning (appointed on 18 September 2012)
Mr. Liu Jun
Mr. Yang Hai

Non-executive Directors

Professor Wong Yuk Shan
Mr. Wang Dao Hai (resigned on 18 September 2012)

Independent non-executive Directors

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

In accordance with the Company's Bye-Law 100 (supplemented by Bye-Law 189(v)), Messrs. Gao Lei and Li Lu Ning will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as Directors.

In accordance with the Company's Bye-Law 109(A), Messrs. Yang Hai, Leung Ming Yuen, Simon, and Ding Xun will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as Directors.

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 59 to 60 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 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:

Name and category of participants	Date of grant of share options	Exercise period of share options	Exercise price of share options *(Note 3)*	Number of unlisted share options (physically settled equity derivatives) As at 1 January 2012	Granted during the Year	Exercised during the Year	Cancelled/ lapsed during the Year	As at 31 December 2012	Share price of the Company *(Note 4)* At at the date of grant of share options	As at the date of exercise of share options
			HK$						HK$	HK$
Directors										
Mr. Guo Yuan (resigned on 18 September 2012)	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	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	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
				98,500,000	–	–	35,000,000	63,500,000		
Other employees										
In aggregate	28 September 2010 *(Note 2)*	28 September 2012 to 27 September 2015	0.580	210,300,000	–	800,000	1,040,800	208,459,200	0.590	0.738
				210,300,000	–	800,000	1,040,800	208,459,200		
				308,800,000	–	800,000	36,040,800	271,959,200		

Notes:

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

(2) 40% of these share options granted has been 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 the respective grantees and the 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.

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. No share option was granted during the Year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SECURITIES

The interests in securities of the substantial shareholders of the Company and other persons are separately disclosed in the section headed "**DISCLOSURE OF INTERESTS**" on pages 59 to 60 of this Annual Report.

ISSUE OF SENIOR NOTE

During the Year, the Company issued a five-year US$300,000,000 senior note which is listed on the Stock Exchange with a coupon rate of 4.375% per annum. The issue was made with a view to funding the capital expenditure of the Group's core business, refinancing existing indebtedness and for general working capital purposes. The net proceeds of the issue was approximately US$295,588,000.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of significant related party transactions of the Group (which do not constitute connected transactions or continuing connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are set out in note 38 to the financial statements.

There were no connected transactions and continuing connected transactions between the Group and its connected persons (as defined under the Listing Rules) which are subject to the reporting, announcement and the independent shareholders' approval requirement under the Listing Rules for the Year.

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 Municipal People's Government State-owned Assets Supervision and Administration Commission (formerly known as "Shenzhen State-owned Assets Supervision and Administration Bureau") 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 Shenzhen Investment Holdings Company Limited.

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, accrued interest and other sums payable to be immediately due and payable; and/or declare that the facility under the Loan Agreement be terminated.

POST BALANCE SHEET EVENTS

The Group has no significant post balance sheet event.

DONATIONS

During the Year, the Group made charitable and other donations amounted to approximately HK$251,000.

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 45 to 58 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

Geo Lei
Chairman

Hong Kong, 28 March 2013

The Company believes that sound corporate governance goes beyond merely meeting the basic requirements of the regulatory authorities for listed companies' operation. More importantly, it fulfils the Company's internal development needs. 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, thereby enhancing corporate governance standards which are continually reviewed and improved through practice.

Throughout the year ended 31 December 2012 (the "Year"), the Company has complied with the Code Provisions set out in the "Code on Corporate Governance Practices" (effective until 31 March 2012) and the "Corporate Governance Code and Corporate Governance Report" (effective from 1 April 2012) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") save that a non-executive director of the Company and an independent non-executive director of the Company who had to handle business outside Hong Kong, and a non-executive director who had a prior-committed university meeting, were unable to attend the annual general meeting (the "2012 AGM") of the Company held on 18 May 2012. The Company aims to continually enhance its corporate governance practices, thereby laying a good foundation for driving the Company's development and maximising value for the shareholders of the Company (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 ensures that the necessary financial and human resources are in place for the Group to meet its objectives. The principal duties of the Board are to manage and decide on the Group's strategic plans, management structures, investment and funding, financial control, human resources, and so forth. Significant matters of the Group are required to be approved by the Board, including (but not limited to) the following:

- formulating corporate development planning;
- formulating the Company's operational and management strategies;
- approving financial statements;
- approving notifiable transactions and connected transactions of the Group as required under the Listing Rules;
- formulating and approving the internal control and risk management systems; and
- distributing dividends.

The Board comprises nine directors, including five executive directors: Messrs. Gao Lei, Li Jing Qi, Li Lu Ning, Liu Jun and Yang Hai; one non-executive director, Professor Wong Yuk Shan; and three independent non-executive directors: Messrs. Leung Ming Yuen, Simon, Ding Xun and Nip Yun Wing.

Changes in Board members during 2012 are as follows:

- Mr. Guo Yuan resigned as executive director and the Chairman of the Company on 18 September 2012, while Mr. Gao Lei was appointed in his stead;
- Mr. Wong Dao Hai resigned as non-executive director of the Company on 18 September 2012 and
- Mr. Li Lu Ning was appointed as executive director of the Company on 18 September 2012.

Biographical details of the directors of the Company are set out in the "Biographies of Directors and Senior Management" section on pages 36 to 39.

BOARD MEETINGS

The Board meets regularly and holds at least four meetings a year and were held at approximately quarterly interval. 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 of the Company 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 interested director shall abstain from voting.

In 2012, a total of seven Board meetings were held. Notice of at least 14 days are given for regular board meetings and notice of at least seven days are given for meetings other than regular meetings. To ensure all directors of the Company 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 executive directors and the management and such meeting was held in November 2012.

The following major issues were addressed in the Board meetings in 2012:

- approving and considering the 2011 annual results and the payment of dividend;
- approving the 2012 interim results;
- reviewing the results and business operations of the first and third quarters of 2012;
- approving the participation of tender for the first batch of lands of the development project of Guilong Economic Zone in Guizhou province by Shenzhen Expressway Company Limited;
- approving the appointment of Mr. Gao Lei as executive director of the Company and the Chairman of the Board;
- approving the appointment of Mr. Li Lu Ning as executive director of the Company;
- considering and approving the business model of "Shenzhen International integrated logistic hub" and its implementation;
- approving a connected transaction in relation to investment in Shenzhen City Project in Kashi, Xinjiang; and
- approving the investment in and construction of "Shenzhen International Shenyang Modern Integrated Logistic Hub".

Specialised Committees of the Board

In order to assist the Board in discharging their duties in a more efficient manner, the Board has established three specialised committees, namely the Audit Committee, Nomination Committee and Remuneration Committee with separate terms of reference and clearly defined their respective 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 rests with the Board. Each Board 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 Board Committees may seek independent professional advice so that the Board Committees 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 performed by each Board committee during 2012 are set out below:

Audit Committee (established in 1995)

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

Responsibilities and work performed

The terms of reference of the Audit Committee, which was re-adopted by the Board on 12 March 2012 in light of the relevant amendments to the Listing Rules, is available on the Company's website.

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

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

- to monitor the integrity of financial statements of the Company and to review significant opinions in respect of the financial information contained therein;

- to review the Group's financial controls, internal control and risk management systems and to review the Group's representations 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 reviewing the adequacy of resources, qualifications and experiences of staff of the Group's accounting and financial reporting function; and

- to review arrangements by which employees, in confidence, can raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee is to ensure proper arrangements are in place for the fair and independent investigation of such concerns and appropriate follow up actions.

The Audit Committee held 5 meetings during 2012 and the following major issues were reviewed and discussed in the meetings:

- reviewing the annual results for 2011 and the interim results for 2012, and confirming the related disclosures in the financial statements were complete, accurate and fair and recommending the same to the Board for approval;
- approving the auditor's fees for audit of 2011 financial statements and fees for review of 2012 interim financial statements;
- considering the amendment of the terms of reference of the Audit Committee to reflect the changes in the Listing Rules;
- making recommendation on the re-appointment of the auditor;
- reviewing the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programme and related budget; and
- reviewing the relevant procedures of internal control and risk management.

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

Nomination Committee (established in December 2003)

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

Responsibilities and work performed

The terms of reference of the Nomination Committee, which was re-adopted by the Board on 12 March 2012 in light of the relevant amendments to the Listing Rules, is available on the Company's website.

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

- to identify and recommend to the Board individuals suitably qualified to be a director of the Company;

- to assess the qualification and experience of candidates for directors and the independence for independent non-executive directors of the Company and advise the Board thereon;

- to assess qualification and experience of the directors who are subject to retirement by rotation and re-election at each annual general meeting and advise the Board thereon; and

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board.

The Nomination Committee held 3 meetings during 2012, the following major issues were reviewed and discussed in the meetings:

- considering the amendment of the terms of reference of the Nomination Committee to reflect the changes in the Listing Rules;
- evaluating and making recommendation as to the performance of the directors of the Company who were subject to retirement by rotation and re-election at the 2012 AGM; and
- making recommendation to the Board for the appointment of Mr. Gao Lei as executive director and the Chairman of the Company, and Mr. Li Lu Ning as executive director of the Company.

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 Lu Ning. Mr. Li Lu Ning was appointed a member of Remuneration Committee in place of Mr. Li Jing Qi with effect from 28 March 2013.

Responsibilities and work performed

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

- to determine the level, policy and structure of remuneration of directors and senior management of the Company, 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 to the Board in respect of the remuneration level of individual 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 remuneration packages of all executive directors and senior management of the Company, 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 determines the remuneration packages of each individual executive director and senior management, including benefits in kind, pension entitlements and compensation payments. During the year, the Remuneration Committee had communicated with the Chief Executive Officer about proposals relating to the remuneration packages of other executive directors and senior management.

The Remuneration Committee held 2 meetings during 2012, the following major issues were reviewed and discussed in the meetings:

- considering bonus payments for the senior management in 2011;
- approving the entering into of service contracts with Messrs. Gao Lei and Li Lu Ning, the executive directors of the Company; and
- considering and approving the entering into of new service contract with an executive director of the Company.

Pursuant to paragraph B.1.5 of the Corporate Governance Code, the remuneration of the members of the senior management by band for the Year is set out below:

Remuneration band	Number of individuals
Nil to HK$1,000,000	1
HK$1,000,001 – HK$2,000,000	2
HK$4,000,001 – HK$5,000,000	1

Details of the directors' fee and other emoluments of the directors of the Company are set out in note 29 to the financial statements.

Meetings held in 2012 by the Board and the Committees of the Board

Details of the directors' attendance at the Board meetings and Committee meetings held in 2012 are set out in the following table:

	Number of Meetings Attended/ Number of Meetings Held					
Directors	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**Executive Board Committee**	**2012 AGM**
Executive directors						
Mr. Gao Lei *(Chairman)* (1)	**2**/2	N/A	N/A	N/A	**6**/6	N/A
Mr. Guo Yuan (2)	**5**/5	N/A	N/A	N/A	**17**/17	**1**
Mr. Li Jing Qi	**7**/7	N/A	**3**/3	**2**/2	**23**/23	**1**
Mr. Li Lu Ning (3)	**1**/2	N/A	N/A	N/A	**6**/6	N/A
Mr. Liu Jun	**7**/7	N/A	N/A	N/A	**20**/23	**1**
Mr. Yang Hai	**7**/7	N/A	N/A	N/A	**17**/23	**0**
Non-executive directors						
Mr. Wang Dao Hai (4)	**5**/5	N/A	N/A	N/A	N/A	**0**
Professor Wong Yuk Shan	**7**/7	N/A	N/A	N/A	N/A	**0**
Independent Non-executive Directors						
Mr. Leung Ming Yuen, Simon	**7**/7	**5**/5	**3**/3	**2**/2	N/A	**1**
Mr. Ding Xun	**7**/7	**5**/5	**3**/3	**2**/2	N/A	**0**
Mr. Nip Yun Wing	**7**/7	**5**/5	N/A	N/A	N/A	**1**

Notes:

(1) Mr. Gao Lei was appointed as executive director and the Chairman of the Company on 18 September 2012.

(2) Mr. Guo Yuan resigned as executive director and the Chairman of the Company on 18 September 2012.

(3) Mr. Li Lu Ning was appointed as executive director of the Company on 18 September 2012.

(4) Mr. Wang Dao Hai resigned as non-executive director of the Company on 18 September 2012.

SUPPLY OF AND ACCESS TO INFORMATION

Agendas of all Board meetings 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 of the Company to make informed decisions. The Board and each director of the Company have separate and independent access to the Company's senior management.

To enhance communication, the Company has established an online 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.

The Board is provided with the Group's monthly management report which give a balanced and understandable assessment of the Group's performance, position and prospects in sufficient details to keep the Board abreast of the Group's affairs and facilitate directors to discharge their duties under the Listing Rules.

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. Gao Lei and Mr. Li Jing Qi respectively, and they are both executive directors of the Company. 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 (including all non-executive directors) 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 of the Company 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 all new directors of the Company appointed during the year are subject to re-election by Shareholders at the first annual general meeting after appointments. Each director shall be subject to retirement by rotation at least once every three years pursuant to the Company's Bye-Laws. Mr. Gao Lei and Mr. Li Lu Ning have been appointed as executive directors of the Company since the 2012 AGM, and they will stand for re-election by the Shareholders at the Annual General Meeting to be held on 20 May 2013.

TRAINING AND SUPPORT OF DIRECTORS

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

Since the effective date of the Corporate Governance Code, all directors of the Company have participated in continuous professional development by attending seminars or reading materials on the following topics to develop and refresh their knowledge and skills and provided a record of training to the Company Secretary.

Directors	**Topics on training covered** *(Note)*
Mr. Gao Lei	(a)(b)(c)
Mr. Guo Yuan*	(a)(b)
Mr. Li Jing Qi	(a)(b)(c)
Mr. Li Lu Ning	(a)(b)(c)
Mr. Liu Jun	(a)(b)(c)
Mr. Yang Hai	(a)(b)(c)
Professor Wong Yuk Shan	(a)(b)
Mr. Wang Dao Hai#	(a)(b)
Mr. Leung Ming Yuen, Simon	(a)(b)
Mr. Ding Xun	(a)(b)
Mr. Nip Yun Wing	(a)(b)

Note:

(a) corporate governance
(b) regulatory
(c) industry-specific

* *Mr. Guo resigned as an executive director of the Company on 18 September 2012.*
# *Mr. Wang resigned as a non-executive director of the Company on 18 September 2012.*

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, are likely to be in possession of inside information in relation to the Group.

The Company, having made specific enquiry to all directors of the Company, confirms that all directors of the Company 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 members of the senior management of the Company. Purchase of liability insurance for the directors of the Company can enhance the Company's ability to reduce exposure to 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.

The terms of reference of the Executive Board Committee was re-adopted by the Board on 12 March 2012 in light of the relevant amendments to the Listing Rules. And the Board has delegated to the Executive Board Committee the additional responsibility to oversee corporate governance matters.

Executive Board Committee

Members of the Executive Board Committee were appointed by the Board. The Committee consists of five executive directors, namely Mr. Gao Lei, Mr. Li Jing Qi, Mr. Li Lu Ning, Mr. Liu Jun and Mr. Yang Hai.

Responsibilities and works performed

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

- to monitor all business operations of the Group;
- to prepare and approve the Group's business plans and annual budget;
- to deal with the ordinary business of the Group and to authorise the Chief Executive Officer to take the lead of the management for the day-to-day operations of the Group, and to authorise individual executive directors of the Company to deal with the daily operation of various business of the Group;
- to consider and review notifiable transactions of the Group as required under the Listing Rules and advise the Board thereon;
- 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;
- to arrange appointment of professional advisors and institutions to provide assistance and advices for specialised committees under the Board;
- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of the directors and senior management of the Company;
- to review the Company's compliance with the code and disclosure in the Corporate Governance Report; and
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements.

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 after the meetings.

During 2012, the Executive Board Committee convened 23 meetings. The meetings discussed and considered the Company's annual and interim results, business development, connected transactions and notifiable transactions, and provided recommendations thereon to the Board. Such meetings also discussed business development plans of the Group's subsidiaries, capital expenditure and loans, and changes of senior management of the Group; considered the budgeting for year 2013; and considered and approved issuance of a US Dollar Senior Note, adjustment plans for financing, opening and cancellation of bank accounts as well as reviewed policies on corporate governance, etc.

FINANCIAL REPORTING

The management had provided the results and financial statements for 2012 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 2012 and the related information disclosed therein were complete, accurate and fair and thereafter the 2012 financial statements had been submitted to the Board for approval to ensure the Board is able to make an informed assessment.

The directors of the Company 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 2012, the Board has selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent and reasonable and has 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 on the adequacy of resources, qualifications and experience of staff for the Company's accounting and financial reporting function, their training programmes and related budget.

The reporting responsibilities of the directors and the external auditor are further set out in the Independent Auditor's Report in this annual report.

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 through good and regulated management by adjusting, improving and enhancing its subsidiaries' mode of internal management.

As a holding company, the Company has been implementing effective management over its subsidiaries. In order to further establish the management procedures of strategy compilation and implementation, operational planning, budgeting, performance assessment, investment management and equity changes regarding subsidiaries, the Company formulated the "Guidelines for Group Management" in 2012.

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 confirmed the headquarters' core functions as investment, financing, decision making and backup support.

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 continues to review its risk management framework and system of internal controls based on the control environment, financial control, operational control, compliance control, and risk management functions. The Company's risk management system focuses on risk identification, risk assessment and risk prevention. The risk governance structure comprises the Board, the Audit Committee, the management of the Company, internal audit department and risk coordinators at other departments.

The Company performs risk assessment and risk reporting quarterly and annually in accordance with the "Comprehensive Risk Management Regulations" adopted by the Company. The Company has ongoing process to identify and evaluate the material risks faced by the Group and has drew up process to manage those material business risks. During the Year, the Company constantly conducted a risk assessment in relation to the adjustments in toll policies and implemented appropriate controls to mitigate the risks.

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 risks 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 2012, 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 urge the management of the Company 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. The internal audit department has the following main functions:

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

INDEPENDENT AUDITOR

During the Year, the fees paid and payable to the Company's auditor, PricewaterhouseCoopers, for audit services and non-audit services, were approximately HK$3,387,000 and HK$1,524,000 respectively. The non-audit services included professional tax consultation and professional services of reviewing offering documents for debt securities, etc.

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 2013 at the forthcoming annual general meeting.

COMPANY SECRETARY

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

Directors of the Company 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 of the Company 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 the specialised committees) in sufficient details on the matters considered by all directors and decisions reached, including any concerns raised by directors of the Company 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 a reasonable time.

During 2012, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

GENERAL MEETINGS

Each annual or special general meeting provides a channel of direct communication between the Board and the Shareholders. 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 matter (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 of the Company regarding issues about the Group's business and operating activities. Directors and senior management of the Company shall explain and elaborate in response to 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 2012 to answer questions raised by the Shareholders.

Date	Matters resolved at the 2012 AGM
18 May 2012	• receipt of the audited financial statements and the reports of the Directors and of the auditors for the year ended 31 December 2011; • payment of the final dividend and the special dividend for the year ended 31 December 2011; • re-election of the retiring directors of the Company and authorisation the Board to fix the directors' remuneration; • re-appointment of auditors of the Company and authorisation of the Board to fix their remuneration; • granting of a repurchase mandate to the Directors to repurchase shares in the Company; • granting of a general mandate to the directors of the Company to allot, issue and otherwise deal with the shares in the Company; and • extending the general mandate granted to the Directors to allot, issue and otherwise deal with the shares in the Company.

Voting by poll on shareholders' resolutions

All resolutions at the general meetings of the Company shall be decided by poll so as to allow Shareholders of the Company to have one vote for every share held.

Before commencement of the general meeting, the Chairman of the general meeting 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 date of the general meeting.

SHAREHOLDERS' RIGHTS

Convening of special general meeting ("SGM") on requisition of shareholders

In accordance with the Companies Act 1981 of Bermuda (the "Companies Act"), registered Shareholder(s) holding at the date of the deposit of the requisition not less than one-tenth (10%) of the paid-up capital of the Company shall have the right to submit a written requisition requiring a SGM to be convened by the Board.

The written requisition (i) must state the purposes(s) of the meeting, and (ii) must be signed by the requisitionists and deposited at the registered office of the Company for attention of the Company Secretary of the Company, and may consist of several documents in like form, each signed by one or more requisitionists. Such requisitions will be verified by the Company's share registrar and upon its confirmation that the requisition is proper and in order, the Company Secretary will make arrangements in accordance with the relevant laws and regulations for the Board to convene a SGM by serving sufficient notice to all Shareholders.

Procedures for putting forward proposals at general meetings

In accordance with Sections 79 and 80 of the Companies Act, the registered Shareholders are entitled to put forward a proposal at a general meeting if they:

(a) represent not less than one-twentieth (5%) of the total voting rights of the Company at the date of the deposit of the requisition; or

(b) are not less than 100 registered Shareholders.

The written requisition stating the resolutions is duly signed by the registered Shareholder(s) concerned, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with must be deposited at the registered office of the Company. The Company would take appropriate actions and make necessary arrangements, and the Shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Sections 79 and 80 of the Companies Act once valid documents are received.

The Board is grateful to Shareholders for their views, and welcomes their questions and concerns raised in relation to the management and governance of the Group. Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary at Rooms 2206-2208, 22nd Floor, Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong.

Procedures for proposing a person for election as a director of the Company

As regards the procedures for proposing a person for election as a director of the Company, please refer to the procedures made available under the Corporate Governance section of the Company's website.

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 prepared the "Rules Governing Information Disclosure Matters" by reference to the Listing Rules and the circumstances of the Company and it was adopted by the Board on 24 August 2009.

During the Year, the Company released over 37 announcements/notices including annual and interim results, major transaction, connected transaction, voluntary disclosure, notice of general meetings overseas regulatory announcements etc.

INVESTOR RELATIONS

The Company values the support of its investors over the years and is committed to maintaining and developing close relationships with them. The Company is pleased to share its corporate strategy, business development and prospects with investors and welcomes potential investors to obtain information about the Group, as well as to engage in various forms of communications with the Company.

The Company is active in building investor relationships through meetings and roadshows with institutional investors and investor conferences arranged by securities dealers. The Company places great emphasis on the investment community and strives to increase analysts' coverage in order to widen publicity of the Company. In 2012, eight highly reputable international and local securities dealers issued investment research reports on the Company. Through these interactive communication channels, investors' understanding of the Group's business is enhanced. During the Year, the Company has communicated regularly with investors and analysts through site visits, one-on-one meetings or via teleconferences, with a total of 102 batches of 555 domestic and overseas attendances.

Besides organising presentations on the annual and interim results of the Company, in 2012, the management has also participated in a total of 22 presentations or conferences organised by securities dealers, including road show in April for the Company's first issuance of USD dominated senior note.

Details on all promotional activities for the year under review are as follows:

2012	Major Events
January	• Participated in "DB Access China Conference" held in Beijing and organised by Deutsche Bank • Participated in "Greater China Conference" held in Shanghai and organised by UBS
March	• Presented the Company's 2011 annual results to investors
April	• Conducted roadshows in Hong Kong to present the Company's annual results • Participated in "Infrastructure Corporate Access Day" held in Hong Kong and organised by J.P. Morgan • Conducted roadshows in Hong Kong, Singapore and London in relation to the Company's first issuance of USD dominated senior note
May	• Participated in "SWS 2012 China Investment Forum" held in Hangzhou and organised by SWS Research • Organised meeting with institutional investors in Shenzhen • Participated in "17th CLSA China Forum" held in Beijing and organised by CLSA • Participated in "Global Rebalancing – The North Asia Dynamic" conference held in London and organised by JI-Asia • Participated in non-deal roadshow held in London and arranged by CLSA

2012	Major Events
June	• Participated in "2012 China Conference" held in Beijing and organised by J.P. Morgan • Participated in investor meeting with bond market institutional investors held in Hong Kong and organised by Standard Chartered Bank • Participated in "Overseas Market Medium Term Investment Strategy Meeting 2012" held in Shenzhen and organised by China Merchants Securities
July	• Participated in "2012 HK/China Mini Conference (Theme: Infrastructure & Machinery)" held in Hong Kong and organised by Citigroup
August, September	• Presented the Company's 2012 interim results to investors • Conducted roadshows in Hong Kong, Singapore and Taiwan to present the Company's interim results
October	• Participated in investor meeting with bond market institutional investor held in Hong Kong and organised by Standard Chartered Bank • Participated in "HK/China Small & Mid-Caps Corporate Day III" held in Hong Kong and organised by UBS
November	• Participated in "Citi China Investor Conference 2012" held in Macau and organised by Citigroup • Participated in "China Conference 2012" held in Beijing and organised by Bank of America Merrill Lynch • Participated in "Daiwa Investment Conference (Hong Kong) 2012" held in Hong Kong and organised by Daiwa Securities • Participated in "Asia-Pacific Industrials, Infrastructure & Transportation Corporate Day" held in Hong Kong and organised by Macquarie Securities • Participated in "2013 Investment Conference" held in Shenzhen and organised by Haitong International
December	• Participated in "Asia Infrastructure Corporate Access Day" held in Hong Kong and organised by J.P. Morgan • Participated in SG/JI-Asia HK Conference held in Hong Kong and organised by JI-Asia

In order to enhance corporate transparency and enable understanding of the Company's business operations by investors, the Company provides investors with information of the Group through Special General Meetings, Annual General Meetings, Annual Reports, Interim Reports and the Company's website.

The Company's website (www.szihl.com) is the most direct channel for the latest information on the Company. Public notices, circulars, press releases, results announcements and other announcements are uploaded on the website on a regular basis. Investors can also access general information, biographies of the directors and senior management, as well as business, financial and other information on the website. All information is available in both Chinese and English.

Through frequent investor relations activities, the Company has enhanced corporate transparency and two-way communications, deepened its investors' understanding of and trust in the Company's business, established confidence in the Company's future development, as well as garnered recognition and support from the market. As a result, the Company has been able to fully demonstrate the potential of its business development and its true value. In addition, the Company also collects extensive feedback from the market through these activities in order to improve corporate governance and the operational and management standards of the Company.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2012, 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	8,000,000	beneficial owner	personal	0.05%
Liu Jun	9,000,000	beneficial owner	personal	0.05%

Save as disclosed above and in the section headed "**SHARE OPTION SCHEME**" as set out in the Report of the Directors on pages 40 to 44 of this Annual Report, as at 31 December 2012, 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 40 to 44 of this Annual Report, at no time during the year ended 31 December 2012 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 2012, 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. Gao Lei, Li Jing Qi, Li Lu Ning and Liu Jun are the directors of Ultrarich which has an interest in the 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 2012, 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 2012, the interests and short positions of other persons in the shares and underlying shares of the Company, which are known to the Company or 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:

Name of shareholders	**Number of ordinary shares held**	**Capacity**	**Approximate % of issued share capital of the Company**
	Note (1)		
RARE Infrastructure Limited	990,176,000 (L)	investment manager	6.05%
UBS AG	1,017,203 (L)	beneficial owner	0.006%
	162,500 (S)	beneficial owner	0.001%
	318,742,500 (L)	person having a security interest in shares	1.95%
	593,315,000 (L) – *Note (2)*	interest of controlled corporation	3.62%
UBS Global Asset Management (Hong Kong) Limited	92,177,500 (L)	beneficial owner	0.56%
UBS Fund Services (Luxembourg) S.A.	469,375,000 (L)	beneficial owner	2.87%
UBS Global Asset Management (Singapore) Ltd	31,662,500 (L)	beneficial owner	0.19%
UBS Financial Services Inc.	100,000 (L)	beneficial owner	0.0006%

Notes:

(1) *"L" represents other persons' long position in underlying securities, "S" represents other persons' short position in underlying securities.*

(2) *Each of UBS Global Asset Management (Hong Kong) Limited, UBS Fund Services (Luxembourg) S.A., UBS Global Asset Management (Singapore) Ltd and UBS Financial Services Inc. is a wholly-owned subsidiary of UBS AG and accordingly, UBS AG is deemed to be interested in the aggregate of 593,315,000 ordinary shares of the Company held by these companies as disclosed above.*

Save as disclosed above, as at 31 December 2012, 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 known to the Company or as recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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 62 to 138, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 2012, 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, 28 March 2013

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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CONSOLIDATED BALANCE SHEET

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 December 2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	6	**3,829,067**	4,024,897
Investment properties	7	**72,000**	62,900
Land use rights	8	**651,750**	663,930
Construction in progress	9	**398,468**	181,415
Intangible assets	10	**24,188,532**	24,386,045
Investments in associates	12	**5,021,531**	2,829,232
Investments in jointly controlled entities	13	**317,382**	319,819
Available-for-sale financial assets	14	**37,511**	246,879
Deferred income tax assets	23	**96,842**	72,609
Other non-current assets	15	**81,144**	953,470
		34,694,227	33,741,196
Current assets			
Inventories		**8,636**	8,413
Available-for-sale financial assets	14	**1,646,963**	1,488,061
Trade and other receivables	16	**1,165,060**	916,769
Restricted bank deposits	17	**2,302**	9,518
Cash and cash equivalents	17	**4,866,080**	3,723,557
		7,689,041	6,146,318
Assets held for sale		**–**	13,320
Total assets		**42,383,268**	39,900,834
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital and share premium	18	**4,952,487**	4,937,120
Other reserves	19	**637,250**	474,490
Retained earnings			
– Proposed dividends	34	**612,349**	540,281
– Others		**6,443,120**	5,262,310
		12,645,206	11,214,201
Non-controlling interests		**7,342,934**	6,934,105
Total equity		**19,988,140**	18,148,306

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31 December 2012	2011
Liabilities			
Non-current liabilities			
Borrowings	20	**14,072,020**	15,321,113
Derivative financial instruments	21	**36,003**	59,327
Provision for maintenance/resurfacing obligations	22	**243,556**	439,208
Deferred income tax liabilities	23	**1,547,673**	1,523,944
		15,899,252	17,343,592
Current liabilities			
Trade and other payables	24	**2,082,289**	2,244,671
Income tax payable		**123,412**	310,837
Provision for maintenance/resurfacing obligations	22	**377,447**	438,784
Borrowings	20	**3,897,663**	1,412,841
Derivative financial instruments	21	**15,065**	1,803
		6,495,876	4,408,936
Total liabilities		**22,395,128**	21,752,528
Total equity and liabilities		**42,383,268**	39,900,834
Net current assets		**1,193,165**	1,750,702
Total assets less current liabilities		**35,887,392**	35,491,898

The notes on pages 70 to 138 are an integral part of these consolidated financial statements.

The financial statements on page 62 to 138 were approved by the Board of Directors on 28 March 2013 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 2012	2011
ASSETS			
Non-current assets			
Investments in subsidiaries	11(a)	**5,472,242**	5,408,750
Amount due from a subsidiary	11(b)	**2,200,233**	1,224,160
		7,672,475	6,632,910
Current assets			
Other receivables	16	**1,642**	1,325
Dividends due from subsidiaries		**3,874,884**	3,321,608
Cash and cash equivalents	17	**261,932**	23,738
		4,138,458	3,346,671
Total assets		**11,810,933**	9,979,581
EQUITY AND LIABILITIES			
Share capital and share premium	18	**4,952,487**	4,937,120
Other reserves	19	**1,250,484**	1,177,510
Retained earnings	32		
– Proposed dividends	34	**612,349**	540,281
– Others		**710,976**	812,179
Total equity		**7,526,296**	7,467,090
Liabilities			
Non-current liabilities			
Borrowings	20	**3,258,765**	1,908,192
Derivative financial instruments	21	**16,022**	45,311
		3,274,787	1,953,503
Current liabilities			
Other payables	24	**11,104**	14,066
Borrowings	20	**980,274**	540,881
Derivative financial instruments	21	**15,065**	649
Amount due to a subsidiary		**3,407**	3,392
		1,009,850	558,988
Total liabilities		**4,284,637**	2,512,491
Total equity and liabilities		**11,810,933**	9,979,581
Net current assets		**3,128,608**	2,787,683
Total assets less current liabilities		**10,801,083**	9,420,593

The notes on pages 70 to 138 are an integral part of these consolidated financial statements.

The financial statements on page 62 to 138 were approved by the Board of Directors on 28 March 2013 and were signed on its behalf.

Li Jing Qi
Director

Liu Jun
Director

CONSOLIDATED INCOME STATEMENT

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2012	2011
Revenue	5, 25	**5,739,514**	5,581,043
Cost of sales	28	**(3,101,685)**	(2,839,131)
Gross profit		**2,637,829**	2,741,912
Other (losses)/gains – net	26	**(2,638)**	366,477
Other income	27	**82,841**	117,592
Distribution costs	28	**(42,607)**	(34,870)
Administrative expenses	28	**(336,758)**	(330,432)
Operating profit		**2,338,667**	2,860,679
Share of profit of jointly controlled entities	13	**15,223**	3,407
Share of profit of associates	12	**1,275,655**	582,546
Profit before finance costs and tax		**3,629,545**	3,446,632
Finance income	30	**73,277**	35,531
Finance costs	30	**(927,843)**	(679,443)
Finance costs – net	30	**(854,566)**	(643,912)
Profit before income tax		**2,774,979**	2,802,720
Income tax expense	31	**(479,409)**	(539,946)
Profit for the year		**2,295,570**	2,262,774
Attributable to:			
Equity holder of the Company		**1,878,312**	1,745,231
Non-controlling interests		**417,258**	517,543
		2,295,570	2,262,774
Earnings per share attributable to equity holders of the Company during the year (expressed in HK cents per share)			
– Basic	33	**11.47**	10.66
– Diluted	33	**11.46**	10.65

The notes on pages 70 to 138 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2012	2011
Dividends	34	**612,349**	540,281

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2012	2011
Profit for the year		**2,295,570**	2,262,774
Other comprehensive income:			
Fair value losses on available-for-sale financial assets, net of tax	19	**(31,623)**	(1,315,014)
Transfer of fair value gains to income statement upon disposal of available-for-sale financial assets, net of tax	19	**–**	(259,713)
Fair value gains on derivative financial instruments, net of tax	21	**10,268**	48,948
Derecognition of cash flow hedges, net of tax		**1,506**	–
Share of other comprehensive loss of an associate		**(4)**	(28)
Currency translation differences		**153,243**	942,594
Other comprehensive income/(loss) for the year, net of tax		**133,390**	(583,213)
Total comprehensive income for the year		**2,428,960**	1,679,561
Total comprehensive income attributable to:			
Equity holders of the Company		**1,955,919**	844,073
Non-controlling interests		**473,041**	835,488
Total comprehensive income for the year		**2,428,960**	1,679,561

The notes on pages 70 to 138 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

	Attributable to equity holders of the Company					
	Share capital and share premium	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2011	4,919,854	1,219,263	4,704,910	10,844,027	6,179,498	17,023,525
Comprehensive income						
Profit for the year	–	–	1,745,231	1,745,231	517,543	2,262,774
Other comprehensive income						
Fair value losses on available-for-sale financial assets, net of tax	–	(1,315,014)	–	(1,315,014)	–	(1,315,014)
Transfer of fair value gain to income statement upon disposal of available-for-sale financial assets, net of tax	–	(259,713)	–	(259,713)	–	(259,713)
Fair value gains on derivative financial instruments, net of tax	–	31,160	–	31,160	17,788	48,948
Share of other comprehensive loss of an associate	–	(28)	–	(28)	–	(28)
Currency translation differences	–	642,437	–	642,437	300,157	942,594
Total other comprehensive (loss)/income	–	(901,158)	–	(901,158)	317,945	(583,213)
Total comprehensive income	–	(901,158)	1,745,231	844,073	835,488	1,679,561
Transactions with owners in their capacity as owners						
Employee share options – value of employee services	17,266	–	–	17,266	–	17,266
Transfer to reserves	–	156,385	(156,385)	–	–	–
Dividend relating to 2010	–	–	(491,165)	(491,165)	–	(491,165)
Dividend paid to non-controlling interests by subsidiaries	–	–	–	–	(232,043)	(232,043)
Injection by non-controlling interests	–	–	–	–	151,162	151,162
Total transactions with owners	17,266	156,385	(647,550)	(473,899)	(80,881)	(554,780)
Balance at 31 December 2011	4,937,120	474,490	5,802,591	11,214,201	6,934,105	18,148,306

Consolidated Statement of Changes in Equity

(All amounts in HK dollar thousands unless otherwise stated)

	Attributable to equity holders of the Company					
	Share capital and share premium	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2012	**4,937,120**	**474,490**	**5,802,591**	**11,214,201**	**6,934,105**	**18,148,306**
Comprehensive income						
Profit for the year	**–**	**–**	**1,878,312**	**1,878,312**	**417,258**	**2,295,570**
Other comprehensive income						
Fair value losses on available-for-sale financial assets, net of tax	–	(31,623)	–	(31,623)	–	(31,623)
Fair value gains/(losses) on derivative financial instruments, net of tax	–	12,426	–	12,426	(2,158)	10,268
Derecognition of cash flow hedges, net of tax	–	1,506	–	1,506	–	1,506
Share of other comprehensive loss of an associate	–	(4)	–	(4)	–	(4)
Currency translation differences	–	95,302	–	95,302	57,941	153,243
Total other comprehensive income	–	77,607	–	77,607	55,783	133,390
Total comprehensive income	**–**	**77,607**	**1,878,312**	**1,955,919**	**473,041**	**2,428,960**
Transactions with owners in their capacity as owners						
Employee share options						
– proceeds from shares issued	464	–	–	464	–	464
– value of employee services	14,903	–	–	14,903	–	14,903
Transfer to reserves	–	85,153	(85,153)	–	–	–
Dividend relating to 2011	–	–	(540,281)	(540,281)	–	(540,281)
Dividend paid to non-controlling interests by subsidiaries	–	–	–	–	(241,678)	(241,678)
Injection by non-controlling interests	–	–	–	–	177,466	177,466
Total transactions with owners	**15,367**	**85,153**	**(625,434)**	**(524,914)**	**(64,212)**	**(589,126)**
Balance at 31 December 2012	**4,952,487**	**637,250**	**7,055,469**	**12,645,206**	**7,342,934**	**19,988,140**

The notes on pages 70 to 138 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31 December 2012	2011
Cash flows from operating activities			
Cash generated from operations	35	**3,338,672**	2,928,064
Interest paid		**(767,646)**	(484,318)
Income tax paid		**(642,090)**	(590,323)
Net cash generated from operating activities		**1,928,936**	1,853,423
Cash flows from investing activities			
Down payment for acquisition of an associate		**–**	(875,394)
Proceeds from the disposal of asset held for sale		**9,261**	3,996
Purchase of property, plant and equipment, construction in progress, intangible assets and other assets		**(1,318,348)**	(1,578,381)
Purchase of land use rights		**–**	(2,704)
Increase in investments in associates		**(97,266)**	–
Increase in investments in a jointly controlled entity		**–**	(6,043)
Purchase of available-for-sale financial assets		**–**	(2,060)
Proceeds from disposal of property, plant and equipment	35	**29,386**	25,697
Proceeds from disposal of a jointly controlled entity		**6,588**	–
Proceeds from disposal of available-for-sale financial assets		**–**	365,860
Interest received		**71,311**	35,761
Dividends received		**152,523**	227,694
Net cash used in investing activities		**(1,146,545)**	(1,805,574)
Cash flows from financing activities			
Proceeds from derivative financial instruments		**–**	18,017
Capital contribution by non-controlling interests		**177,466**	151,162
Proceeds from borrowings		**563,646**	3,032,814
Proceeds from issuance of senior notes		**2,296,794**	–
Proceeds from issuance of private placement notes		**992,664**	–
Proceeds from issuance of corporate bonds		**–**	1,827,208
Proceeds from issuance of ordinary shares		**464**	–
Repayments of borrowings		**(2,896,383)**	(2,706,723)
Decrease in restricted bank deposits		**7,216**	340,055
Dividends paid to the Company and subsidiaries' shareholders		**(781,959)**	(723,208)
Net cash generated from financing activities		**359,908**	1,939,325
Net increase in cash and cash equivalents		**1,142,299**	1,987,174
Cash and cash equivalents at beginning of year		**3,723,557**	1,729,590
Exchange gain		**224**	6,793
Cash and cash equivalents at end of year	17	**4,866,080**	3,723,557

The notes on pages 70 to 138 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in HK dollar thousands unless otherwise stated)

1. GENERAL INFORMATION

The principal activities of Shenzhen International Holdings Limited (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 Group has operations mainly in the People's Republic of China ("PRC").

The Company is a limited liability company incorporated in Bermuda and is an investment holding company. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, 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.

As at 31 December 2012, Ultrarich International Limited ("Ultrarich") owns 7,955,216,814 ordinary shares of the Company directly, representing approximately 48.59% of the issued share capital of the Company. As Shenzhen Investment Holdings Company Limited ("SIHCL") held the 100% equity interests in Ultrarich, it had a deemed interest in 48.59% of the equity in the Company held by Ultrarich and was the largest shareholder of the Company. SIHCL is supervised and managed by Shenzhen Municipal People's Government State-owned Assets Supervision and Administration Commission ("Shenzhen SASAC"). The directors of the Company regard that Shenzhen SASAC controls the financial and operating policies of the Company and is the de facto controller of the Company.

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 28 March 2013.

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, derivative financial instruments 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.

(a) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2012 have no material impact on or are not currently relevant to the Group.

(All amounts in HK dollar thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) New and revised standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

		Effective for annual periods beginning on or after
Amendment to HKAS 1	Presentation of financial statements – Presentation of items of other comprehensive income	1 July 2012
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKFRS 12	Disclosure of Interest in other entities	1 January 2013
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Transition Guidance	1 January 2013
HKFRS 13	Fair value measurement	1 January 2013
Amendment to HKAS 19	Employee benefits	1 January 2013
HKAS 27 (revised 2011)	Separated financial statements	1 January 2013
HKAS 28 (revised 2011)	Investment in associates and joint ventures	1 January 2013
Amendment to HKFRS 7	Financial Instruments: Disclosures on assets and liabilities offsetting	1 January 2013
Amendment to HKAS 32	Financial Instruments: Presentation on assets and liabilities offsetting	1 January 2014
HKFRS 9	Financial instruments	1 January 2015
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date and transition disclosures	1 January 2015

The Group has assessed the impact of the above new and revised standards, and amendments to existing standards and based on the preliminary results of assessment, the Group currently does not expect the adoption of these standards and amendments would have a significant impact on 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

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 to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. 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 recognised amounts of acquiree's identifiable net assets.

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 consolidated 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 used for business combinations under common control by the Group.

Under merger accounting, the consolidated financial statements include the financial position, results and cash flows of the combining companies 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(b) Common control combination (continued)

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

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

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

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

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

(c) Change in ownership interest in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

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

(e) 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, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment 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 is reclassified to profit or loss where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(e) Associates (continued)

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.

The Group determines at each balance sheet date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

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.

(f) 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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"). As the Company is listed on the Hong Kong Stock Exchange, the consolidated financial statements are presented in HKD which is the presentation currency of the Group and the Company.

(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/(losses) – 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.

(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. Exchange differences arising are recognised in other comprehensive income.

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.

(All amounts in HK dollar thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

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	10-129 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

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 (Note 2.10).

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

2.6 Construction in progress

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

2.7 Investment properties

Investment property, principally comprising commercial buildings and carpark spaces, is held for long-term rental yields and is not occupied by the Group. Investment property is 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/(losses) – net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Land use rights

Land use rights 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 arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

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

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

(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 a 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 (CGUs). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

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

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: 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) ***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.

(b) ***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 end of the reporting period.

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 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets (continued)

2.11.2 Recognition and measurement (continued)

When securities classified as available-for-sale are sold or impaired, the fair value adjustments accumulated recognised in equity are reclassified to the income statement as 'other gains/(losses) – net'.

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

The fair values of quoted investments are based on current bid prices. 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of financial assets (continued)

(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 income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated 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 asset or 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 21. Movements on the hedging reserve in shareholders' equity are shown in Note 19. 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, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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

Amounts accumulated in equity are reclassified to profit or loss 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/(losses) – 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/(losses) – net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Inventories

Inventories mainly represent toll tickets and materials and spare parts for the repairs and maintenance of expressways, and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, represents the actual cost of purchase. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2.16 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.

2.17 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.

2.18 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.

2.19 Trade payables

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

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

2.20 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.22 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.

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.23 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.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Current and deferred income tax (continued)

(b) **Deferred income tax**

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Outside basis differences

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

(c) **Offsetting**

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

2.24 Employee benefits and share-based payments

(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.

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.

Apart from these, the Group has no legal or constructive obligations for further payments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Employee benefits and share-based payments (continued)

(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
- excluding the impact of any non-vesting conditions.

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 end of each reporting period, 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.

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.

2.25 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Provisions (continued)

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.

2.26 Revenue recognition

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

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

(a) Toll revenue

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

(b) Construction 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) Rental income

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

(d) Logistic related service revenues

Logistic related service revenues includes: (i) provision of logistics management, including freight forwarding services, and other ancillary services; and (ii) cargo shipment, transhipment and godown storage of port. Logistics related service revenues are recognised when the related services are rendered.

(e) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Revenue recognition (continued)

(f) Dividend income

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

2.27 Operating leases

(a) When a group company is the lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to 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.

2.28 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.

2.29 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.

2.30 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments disclosed in Note 21 to hedge certain risk exposures.

Risk management is carried out under policies approved by the board of directors. The Group identifies and evaluates financial risks in close co-operation with the Group's operating units. The board of directors 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 2012, the Group has cash and bank balances of HKD24,179,000 (2011: HKD68,652,000) and bank borrowings of HKD2,723,357,000 (2011: HKD3,732,103,000) denominated in HKD, and the Company has cash and bank balances of HKD5,583,000 (2011: HKD14,332,000), and bank borrowings of HKD1,922,930,000 (2011: HKD2,449,073,000) denominated in HKD. The Group and the Company have borrowings of HKD2,316,109,000 and HKD2,316,109,000 respectively (2011: HKD522,000 and Nil respectively) denominated in USD. The Group and the Company have cash and bank balances of HKD2,781,000 and HKD764,000 respectively (2011: HKD2,518,000 and HKD31,000 respectively) denominated in USD. Apart from these, the Group and the Company did not have significant exposure to foreign exchange risk. Nevertheless, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. As at 31 December 2012, the Group had outstanding cross currency and interest rate swap contract with notional principal amount of HKD357,000,000 (2011: HKD378,000,000) to hedge foreign exchange and interest rate risk against its variable-rate foreign currency loans.

(All amounts in HK dollar thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) **Market risk** (continued)

(i) ***Currency risk** (continued)*

As at 31 December 2012, should HKD and USD be weakened/strengthened by 5% against RMB, with all other factors remain unchanged, the profit after income tax for the year would be affected as follows:

	Change of profit after income tax – increase/(decrease)			
	Group		Company	
	2012	2011	**2012**	2011
HKD against RMB				
– Weakened by 5%	**96,199**	113,807	**79,290**	99,539
– Strengthened by 5%	**(96,199)**	(113,807)	**(79,290)**	(99,539)
USD against RMB				
– Weakened by 5%	**95,674**	(75)	**95,749**	(1)
– Strengthened by 5%	**(95,674)**	75	**(95,749)**	1

(ii) ***Cash flow and fair value interest rate risk***

The Group

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

The Group's interest rate risk arises from long-term bank borrowings, convertible bonds, medium-term notes, senior notes, corporate bonds and private placement notes. Bank borrowings and medium-term notes issued at variable rates expose the Group to cash flow interest rate risk. Convertible bonds, senior notes, corporate bonds and private placement notes 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 2012 and 2011, 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 2012, the balance of bank borrowings and medium-term notes of the Group which were issued at floating rates, amounted to approximately HKD7,577,000,000 (2011: HKD8,316,000,000). As at 31 December 2012, 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 HKD37,885,000 (2011: HKD41,580,000).

(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*** *(continued)*

The Company

The Company's interest rate risk arises from long-term bank borrowings and senior notes. Bank borrowings issued at variable rates expose the Company to cash flow interest rate risk. Senior notes issued at fixed rates expose the Company to fair value interest rate risk.

As at 31 December 2012, the balance of bank borrowings of the Company which were issued at floating rates, amounted to approximately HKD717,000,000 (2011: HKD796,000,000). As at 31 December 2012, should the interest rate be increased/decreased by 50 basis points with all other factors remain unchanged, the finance costs of the Company would be increased/decreased by approximately HKD3,585,000 (2011: HKD3,980,000).

The Company's balances with subsidiaries are 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)	
	2012	2011
Share price		
– Increased by 5%	**50,738**	55,372
– Decreased by 5%	**(50,738)**	(55,372)

(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. No significant credit risk is expected as the banks in the PRC and Hong Kong are state-owned banks, 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 HKD4,826,000 (2011: HKD9,309,000) during the year, management does not expect any losses from non-performance by customers.

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, restricted bank deposits and amounts due from subsidiaries substantially represent the Group and the Company's maximum exposure to credit risk.

(All amounts in HK dollar thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(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 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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Group				
At 31 December 2012				
Bank borrowings (including the portion of interest expenses)	**1,494,446**	**1,526,486**	**3,474,976**	**5,065,691**
Convertible and corporate bonds (including the portion of interest expenses)	**2,050,230**	**166,605**	**2,252,891**	**1,268,184**
Medium-term notes (including the portion of interest expenses)	**913,577**	**–**	**–**	**–**
Senior notes (including the portion of interest expenses)	**101,755**	**101,755**	**2,579,688**	**–**
Private placement notes (including the portion of interest expenses)	**58,685**	**58,685**	**1,053,338**	**–**
Trade and other payables (excluding other taxes payable and staff welfare benefit payable)	**1,861,554**	**–**	**–**	**–**
Derivative financial instruments	**17,043**	**28,731**	**16,022**	**–**
At 31 December 2011				
Bank borrowings (including the portion of interest expenses)	1,827,295	2,160,607	4,853,779	5,476,072
Other borrowings (including the portion of interest expenses)	46,972	–	–	–
Convertible and corporate bonds (including the portion of interest expenses)	183,769	2,033,794	2,345,831	1,312,284
Medium-term notes (including the portion of interest expenses)	38,592	901,936	–	–
Trade and other payables (excluding other taxes payable and staff welfare benefit payable)	2,051,437	–	–	–
Derivative financial instruments	3,235	36,206	39,448	–

(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
Company			
At 31 December 2012			
Bank borrowings (including the portion of interest expenses)	**1,015,271**	**460,095**	**512,756**
Senior notes (including the portion of interest expenses)	**101,755**	**101,755**	**2,579,688**
Other payables	**11,104**	**–**	**–**
Amount due to a subsidiary	**3,407**	**–**	**–**
Derivative financial instruments	**15,065**	**–**	**16,022**
At 31 December 2011			
Bank borrowings (including the portion of interest expenses)	560,147	1,003,038	968,261
Other payables	14,066	–	–
Amounts due to a subsidiary	3,392	–	–
Derivative financial instruments	649	34,425	10,886

As at 31 December 2012, the Group and the Company had undrawn banking facilities of HKD17,096,079,000 (2011: HKD11,120,470,000) and HKD8,298,265,000 (2011: HKD1,637,917,000) respectively.

3.2 Capital risk management

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

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

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

(All amounts in HK dollar thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management (continued)

The Group maintained a consistent strategy to maintain the gearing ratio within 120%. The gearing ratios at 31 December 2012 and 2011 were as follows:

	2012	2011
Total borrowings	**17,969,683**	16,733,954
Less: cash and bank balances	**(4,868,382)**	(3,733,075)
Net debt	**13,101,301**	13,000,879
Total capital	**19,988,140**	18,148,306
Gearing ratio	**66%**	72%

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).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012:

	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	**1,365,974**	**–**	**280,989**	**1,646,963**
Liabilities				
Derivatives	**–**	**51,068**	**–**	**51,068**

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011:

	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	1,488,061	–	209,669	1,697,730
Liabilities				
Derivatives	–	61,130	–	61,130

(All amounts in HK dollar thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

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, in which the fair value is estimated based on the underlying value of the investment which mainly includes cash and listed securities.

The following table presents the changes in level 3 instruments for the year ended 31 December 2012 and 2011:

	Unlisted equity investments	
	2012	2011
Opening balance	**209,669**	113,714
Net fair value changes	**69,626**	90,528
Exchange difference	**1,694**	5,427
Closing balance	**280,989**	209,669
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.

(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. The Group appointed an independent professional traffic consultant to reassess the aggregate future traffic volume of Longda Expressway. The Group has adjusted the amortisation unit for concession intangible assets according to the revised total projected traffic volume since 1 January 2012 on a prospective basis. Such change in accounting estimate has resulted in increase in profit after income tax of HKD24,481,000 for the year ended 31 December 2012 and will affect the amortisation charges of the Group in the future.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Critical accounting estimates and assumptions (continued)

(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) Impairment of concession intangible assets

According to the accounting policy stated in Note 2.10, concession intangible assets are tested by the Group for impairment if there is any indication that the assets may be impaired at the balance sheet date. During the year, the operating results of Nanguang Expressway, Yanba Expressway and Qinglian Expressway, which were still at its early stage of operation period, were lower than expected. The Group assessed and considered that since the recoverable amount of concession intangible assets exceeded their carrying value, there was no need to make any impairment provision. The assessment relied on the projected traffic volume of related expressway. Should there be a material difference between the projected traffic volume and the actual results, a change of accounting estimate would have been made.

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

On 4 January 2012, the Group completed the acquisition of 24% equity interest in Shenzhen Airlines Limited ("Shenzhen Airlines"). In accordance with the accounting policy of the Group, the identifiable assets and liabilities acquired in the acquisition are recorded at fair value.

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 building 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 fiscal or economics 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)

(f) Income tax and deferred tax

The Group is subject to income taxes mainly in the PRC. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Group in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises deferred tax assets based on estimates that it is probable to generate enough taxable incomes in the foreseeable future that the deductible losses will be utilised. The recognition of deferred tax assets mainly involved management's judgments and estimations about the timing and the amount of taxable incomes of the company who has tax loss. Where the final outcome of timing and amount is different from that initially estimated, such differences will impact the current income taxes and deferred tax assets in the period in which such determination is made.

5. SEGMENT INFORMATION

The Group's operations are 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 reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

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.

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

(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 2012

	Toll roads	Logistic business				Head office function	Total
		Logistic parks	Logistic services	Port	Subtotal		
Revenue	4,817,383[(a)]	494,199	310,984	116,948	922,131	–	5,739,514
Operating profit	2,173,546	174,134	4,686	42,020	220,840	(55,719)	2,338,667
Share of profit of jointly controlled entities	3,626	11,323	274	–	11,597	–	15,223
Share of profit of associates	154,810	–	2,009	–	2,009	1,118,836	1,275,655
Finance income	47,514	1,746	1,014	661	3,421	22,342	73,277
Finance costs	(801,323)	(14,172)	(112)	(24,320)	(38,604)	(87,916)	(927,843)
Profit before income tax	1,578,173	173,031	7,871	18,361	199,263	997,543	2,774,979
Income tax expense	(380,716)	(39,134)	(2,638)	–	(41,772)	(56,921)	(479,409)
Profit for the year	1,197,457	133,897	5,233	18,361	157,491	940,622	2,295,570
Non-controlling interests	(402,257)	(9,244)	(259)	(5,498)	(15,001)	–	(417,258)
Profit attributable to equity holders of the Company	795,200	124,653	4,974	12,863	142,490	940,622	1,878,312
Depreciation and amortisation	1,022,980	73,112	12,746	36,040	121,898	12,354	1,157,232
Capital expenditure							
– Additions in property, plant and equipment, construction in progress, land use rights and intangible assets	527,690	238,378	29,330	15,281	282,989	18,177	828,856
– Additions in investments in associates	–	–	–	–	–	97,266	97,266

(All amounts in HK dollar thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

For the year ended 31 December 2011

	Toll roads	Logistic business				Head office function	Total
		Logistic parks	Logistic services	Port	Subtotal		
Revenue	4,774,303[a]	457,656	251,475	97,609	806,740	–	5,581,043
Operating profit	2,337,903	140,527	12,691	30,755	183,973	338,803	2,860,679
Share of (loss)/profit of jointly controlled entities	(2,702)	6,841	(732)	–	6,109	–	3,407
Share of profit of associates	156,932	–	1,832	–	1,832	423,782	582,546
Finance income	22,550	2,172	930	885	3,987	8,994	35,531
Finance costs	(673,781)	(12,931)	(2,542)	(16,942)	(32,415)	26,753	(679,443)
Profit before income tax	1,840,902	136,609	12,179	14,698	163,486	798,332	2,802,720
Income tax expense	(421,503)	(29,530)	(2,612)	–	(32,142)	(86,301)	(539,946)
Profit for the year	1,419,399	107,079	9,567	14,698	131,344	712,031	2,262,774
Non-controlling interests	(506,268)	(5,828)	(1,038)	(4,409)	(11,275)	–	(517,543)
Profit attributable to equity holders of the Company	913,131	101,251	8,529	10,289	120,069	712,031	1,745,231
Depreciation and amortisation	938,955	76,044	11,996	30,321	118,361	11,991	1,069,307
Capital expenditure							
– Additions in property, plant and equipment, construction in progress, land use rights and intangible assets	1,007,118	170,149	17,398	183,523	371,070	17,865	1,396,053
– Additions in investments in jointly controlled entities	6,043	–	–	–	–	–	6,043

a) The revenue from toll roads included construction service revenue under service concession arrangements of HKD411,389,000 (2011: HKD635,574,000) for the year.

b) The Group has a number of customers. Revenue of approximately HKD187,782,000 (2011: HKD325,513,000) was derived from a single external customer. The related revenue was attributable to construction service revenue.

c) The Group's non-current assets are mainly located in the PRC.

(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	Loading equipments and facilities in port	Total
At 1 January 2011						
Cost	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
Year ended 31 December 2011						
Opening net book amount	1,854,137	6,490	38,322	786,788	540,415	3,226,152
Additions	82,647	2,401	13,141	25,945	–	124,134
Transfer from construction in progress (Note 9)	233,617	–	3,694	307,852	270,987	816,150
Disposals	(5,048)	(1,269)	(5,145)	(4,289)	(10,521)	(26,272)
Impairment	(13,458)	–	–	–	–	(13,458)
Exchange difference	83,117	207	1,834	35,975	37,693	158,826
Depreciation	(91,447)	(1,024)	(10,416)	(132,395)	(25,353)	(260,635)
Closing net book amount	2,143,565	6,805	41,430	1,019,876	813,221	4,024,897
Year ended 31 December 2011						
Costs	2,489,920	11,402	84,327	1,667,080	852,764	5,105,493
Accumulated depreciation and impairment	(346,355)	(4,597)	(42,897)	(647,204)	(39,543)	(1,080,596)
Net book amount	2,143,565	6,805	41,430	1,019,876	813,221	4,024,897

(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
Year ended 31 December 2012						
Opening net book amount	2,143,565	6,805	41,430	1,019,876	813,221	4,024,897
Additions	4,888	57	3,265	48,687	2,214	59,111
Transfer from construction in progress (Note 9)	41,514	–	–	57,256	3,049	101,819
Adjustment to cost due to final settlement in current year	(36,931)	–	–	(24,925)	–	(61,856)
Disposals	(13,957)	(3,118)	(1,645)	(16,113)	–	(34,833)
Exchange difference	15,517	53	228	6,834	6,280	28,912
Depreciation	(99,849)	(209)	(11,195)	(147,111)	(30,619)	(288,983)
Closing net book amount	2,054,747	3,588	32,083	944,504	794,145	3,829,067
Year ended 31 December 2012						
Costs	2,503,043	10,251	85,090	1,726,619	864,920	5,189,923
Accumulated depreciation and impairment	(448,296)	(6,663)	(53,007)	(782,115)	(70,775)	(1,360,856)
Net book amount	2,054,747	3,588	32,083	944,504	794,145	3,829,067

Property ownership certificates for buildings and structures with net book amount of HKD420,339,000 (2011: HKD470,002,000) 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.

The net book value of the Group's interests in leasehold land classified as finance lease are analysed as follows:

	2012	2011
In Hong Kong, held on:		
Leases of between 10 to 50 years	**58,107**	59,815
Leases of over 50 years	**2,947**	2,971
	61,054	62,786

(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:

	2012	2011
Beginning of year	**62,900**	49,989
Fair value gains	**9,100**	12,667
Exchange differences	**–**	244
End of year	**72,000**	62,900

a) Amounts recognised in profit and loss for investment properties

	2012	2011
Rental income	**4,613**	4,345
Direct operating expenses arising from investment properties that generate rental income	**(1,667)**	(1,792)
	2,946	2,553

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:

	2012	2011
Within one year	**2,052**	1,434
Later than one year but not later than 5 years	**4,082**	5,136
	6,134	6,570

(All amounts in HK dollar thousands unless otherwise stated)

8. LAND USE RIGHTS – GROUP

	2012	2011
Beginning of year	**663,930**	647,623
Additions	**–**	2,704
Amortisation	**(17,379)**	(16,949)
Exchange difference	**5,199**	30,552
End of year	**651,750**	663,930

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

	31 December	
	2012	2011
Outside Hong Kong – PRC, held on:		
Leases of between 10 to 50 years	**576,421**	587,278
Leases of more than 50 years	**71,511**	72,713
Leases with unspecified periods*	**3,818**	3,939
	651,750	663,930

* As at 31 December 2012 and 2011, procedures for procuring certificates of these land use rights were not yet completed.

9. CONSTRUCTION IN PROGRESS – GROUP

	2012	2011
Beginning of year	**181,415**	368,096
Additions	**317,571**	620,158
Transfer to property, plant and equipment (Note 6)	**(101,819)**	(816,150)
Exchange difference	**1,301**	9,311
End of year	**398,468**	181,415

(All amounts in HK dollar thousands unless otherwise stated)

10. INTANGIBLE ASSETS – GROUP

	Concession intangible assets
At 1 January 2011	
Cost	25,640,401
Accumulated amortisation	(2,193,421)
Net book amount	23,446,980
Year ended 31 December 2011	
Opening net book amount	23,446,980
Additions	649,057
Exchange difference	1,081,731
Amortisation	(791,723)
Closing net book amount	24,386,045
At 31 December 2011	
Cost	27,365,792
Accumulated amortisation	(2,979,747)
Net book amount	24,386,045
Year ended 31 December 2012	
Opening net book amount	**24,386,045**
Additions	**452,174**
Exchange difference	**201,183**
Amortisation	**(850,870)**
Closing net book amount	**24,188,532**
At 31 December 2012	
Cost	**28,196,416**
Accumulated amortisation	**(4,007,884)**
Net book amount	**24,188,532**

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 10 to 23 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 with net book value of HKD11,246,107,000 (2011: HKD11,311,325,000) of Guangdong Qinglian Highway Development Company Limited ("Qinglian Company"), a subsidiary of the Group, pledged for the secured bank borrowings totalling to HKD5,398,016,000 (RMB4,341,624,000) (2011: HKD5,251,164,000 (RMB4,257,644,000)) (Note 20(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 Corporation, which is in turn secured by the 47.30% of the operating rights of Nanguang Expressway (Note 20(b)).

Amortisation of HKD850,870,000 (2011: HKD791,723,000) has all been charged in the income statement within 'cost of sales' in 2012.

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

		2012	2011
(a)	Investments in subsidiaries		
	Unlisted investments, at cost	**116,484**	115,550
	Amounts due from subsidiaries (Note (i))	**5,355,758**	5,293,200
		5,472,242	5,408,750
	Market value of listed shares indirectly held	**4,637,465**	5,232,029

Particulars of the principal subsidiaries are set out in Note 39.

(i) The amounts are unsecured, interest-free and have no fixed repayment term.

(b) The amount due from a subsidiary is denominated in HKD and unsecured; it bears interest at prevailing borrowing rate in Hong Kong and has no fixed repayment term.

12. INVESTMENTS IN ASSOCIATES – GROUP

	2012	2011
Beginning of year	**2,829,232**	2,280,452
Transfer from other non-current assets (Note (b))	**875,394**	–
Additions	**97,266**	–
Share of profit of associates	**1,275,655**	582,546
Share of other comprehensive loss of an associate	**(4)**	(28)
Dividends received	**(98,011)**	(151,725)
Exchange difference	**41,999**	117,987
End of year	**5,021,531**	2,829,232

(All amounts in HK dollar thousands unless otherwise stated)

12. INVESTMENTS IN ASSOCIATES – GROUP (continued)

The year end balance comprises the following:

	2012	2011
Unlisted investments, at cost		
Share of net assets other than goodwill	**3,964,866**	2,068,803
Goodwill on acquisition (Note (d))	**1,056,665**	760,429
	5,021,531	2,829,232

(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
2012					
Shenzhen Airlines (Note (c))	**22,188,659**	**18,979,618**	**13,411,760**	**1,118,836**	**49%**
Shenzhen Qinglong Expressway Company Limited ("Qinglong Company") (Note (e))	**1,047,825**	**744,996**	**219,578**	**71,130**	**40%**
Guangdong Jiangzhong Expressway Company Limited ("Jiangzhong Company")	**822,647**	**483,106**	**112,732**	**855**	**25%**
Guangzhou Western Second Ring Expressway Company Limited ("GZ W2 Company")	**810,399**	**536,483**	**81,533**	**3,723**	**25%**
Shenzhen Huayu Expressway Investment Company Limited ("Huayu Company")	**246,057**	**182,214**	**28,499**	**(6,269)**	**40%**
Shenzhen Expressway Engineering Consulting Company Limited ("Consulting Company")	**38,971**	**18,859**	**54,375**	**3,721**	**24%**
Nanjing Yangzi River Third Bridge Company Limited ("Nanjing Third Bridge Company")	**1,031,428**	**716,696**	**103,398**	**7,493**	**25%**
Guangdong Yangmao Expressway Company Limited ("Yangmao Company")	**615,546**	**308,646**	**161,884**	**48,640**	**25%**
Yunfu Guangyun Expressway Company Limited ("Yunfu Guangyun Company")	**459,529**	**279,917**	**93,268**	**25,517**	**30%**
Other associates	**13,815**	**2,810**	**8,604**	**2,009**	
Total	**27,274,876**	**22,253,345**	**14,275,631**	**1,275,655**	
2011					
Shenzhen Airlines	9,734,103	8,643,936	6,277,028	423,782	25%
Qinglong Company	1,029,044	790,522	199,777	76,711	40%
Jiangzhong Company	858,810	522,848	114,870	4,426	25%
GZ W2 Company	811,913	543,921	82,397	7,884	25%
Huayu Company	256,320	186,709	35,268	(1,548)	40%
Consulting Company	34,801	18,578	54,725	3,408	24%
Nanjing Third Bridge Company	1,050,390	745,685	93,412	4,116	25%
Yangmao Company	634,658	341,931	144,165	41,680	25%
Yunfu Guangyun Company	468,537	264,119	85,977	20,255	30%
Other associates	11,962	3,057	7,193	1,832	
Total	14,890,538	12,061,306	7,094,812	582,546	

(All amounts in HK dollar thousands unless otherwise stated)

12. INVESTMENTS IN ASSOCIATES – GROUP (continued)

(b) The Group's acquisition of 24% equity interest in Shenzhen Airlines was completed on 4 January 2012. The prepayment of HKD875,394,000 which was classified under 'other non-current assets' as at 31 December 2011 was transferred to 'investments in associates' during the year accordingly.

(c) In May 2011, Shenzhen Airlines received an originating summons from the Higher People's Court of Guangdong Province in respect of an outstanding loan totalling RMB390,000,000 borrowed by Shenzhen Huirun Investment Co., Ltd ("Huirun") from a third party. It is alleged that Shenzhen Airlines has entered into several guarantee agreements with the third party and Huirun, pursuant to which Shenzhen Airlines acted as guarantor in favour of the third party for the amount borrowed by Huirun in or before the year 2009. Shenzhen Airlines has questioned the authenticity of the guarantee agreements and is awaiting the court ruling on this issue. The directors of Shenzhen Airlines have made a reasonable estimate on the potential loss on these guarantees and a provision of RMB130,000,000 was made in year 2011. The directors of the Company believe no adjustment is needed for provision during the year.

(d) The balance represents the goodwill arising from the acquisition of equity interests in Jiangzhong Company, Yangmao Company, Qinglong Company and Shenzhen Airlines amounting to RMB30,135,000 (HKD37,467,000), RMB45,165,000 (HKD56,154,000), RMB1,636,000 (HKD2,034,000) and RMB772,941,000 (HKD961,010,000), respectively in previous years. After the assessment made by the directors of the Company, there was no impairment loss incurred as at 31 December 2012 (2011: Nil).

(e) The 40% equity interest in Qinglong Company is secured for bank borrowings amounted to HKD702,474,000 (RMB565,000,000) (Note 20(a)).

13. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES – GROUP

	2012	2011
Beginning of year	**319,819**	306,821
Additions	**–**	6,043
Disposals	**(6,034)**	–
Share of profit of jointly controlled entities	**15,223**	3,407
Dividends received	**(14,208)**	(11,217)
Exchange difference	**2,582**	14,765
End of year	**317,382**	319,819

The year end balance comprises the following:

	2012	2011
Unlisted investments, at cost		
Share of net assets	**27,937**	24,633
Advances to jointly controlled entities (Note (c))	**289,445**	295,186
	317,382	319,819

(All amounts in HK dollar thousands unless otherwise stated)

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

(a) The following is a list of all jointly controlled entities of the Group at 31 December 2012, 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%

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

	2012				
	SZ Airport Express Center	Citic Logistics Fritz	Longzhuo Logistics	Shenchang Company	Total
Non-current assets	24,621	9,285	277	218,906	253,089
Current assets	48,966	26,881	5,578	7,153	88,578
Total assets	73,587	36,166	5,855	226,059	341,667
Non-current liabilities	–	–	–	289,445	289,445
Current liabilities	9,980	3,035	2,343	8,927	24,285
Total liabilities	9,980	3,035	2,343	298,372	313,730
Revenue	33,890	35,465	11,680	29,448	110,483
Cost and expenses	(23,995)	(35,191)	(10,252)	(25,822)	(95,260)
Profit after income tax	9,895	274	1,428	3,626	15,223

(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: (continued)

	2011					
	SZ Airport Express Center	Citic Logistics Fritz	Longzhuo Logistics	Shenchang Company	Guizhou Guilong Urban Economic Region Investment and Development Company Limited	Total
Non-current assets	25,949	9,226	356	224,852	–	260,383
Current assets	39,444	25,974	5,005	7,797	6,043	84,263
Total assets	65,393	35,200	5,361	232,649	6,043	344,646
Non-current liabilities	–	–	–	295,186	–	295,186
Current liabilities	7,272	2,608	2,120	12,827	–	24,827
Total liabilities	7,272	2,608	2,120	308,013	–	320,013
Revenue	25,755	35,458	12,200	21,087	–	94,500
Cost and expenses	(20,209)	(36,190)	(10,905)	(23,789)	–	(91,093)
Profit/(loss) after income tax	5,546	(732)	1,295	(2,702)	–	3,407

(c) The amounts represented advances made to Shenchang Company. The advances were made by 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, interest-free 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 2012.

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

(All amounts in HK dollar thousands unless otherwise stated)

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2012	2011
Beginning of year	1,734,940	3,583,228
Additions	–	2,060
Net change in fair value	(64,488)	(1,665,254)
Disposals	–	(356,124)
Exchange difference	14,022	171,030
End of year	1,684,474	1,734,940
Less: non-current portion	(37,511)	(246,879)
Current portion	1,646,963	1,488,061

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

	2012	2011
Listed securities in the PRC, at fair value (Note (a) and Note 3.3)	1,365,974	1,488,061
Unlisted equity investments:		
at fair value (Note (b) and Note 3.3)	280,989	209,669
at cost less impairment		
– Cost	61,606	61,305
– Provision for impairment	(24,095)	(24,095)
	37,511	37,210
	318,500	246,879
	1,684,474	1,734,940

(a) As at 31 December 2012, listed equity investments stated at market price represent 6.42% interest (equivalent to 133,170,000 shares) in CSG.

(b) As at 31 December 2012, the fair value of unlisted equity investments is based on cash flows discounted using a rate of 14.24%, which is based on the market interest rate and the risk premium specific to the unlisted equity investments.

15. OTHER NON-CURRENT ASSETS – GROUP

As at 31 December 2012, other non-current assets mainly represented certain leased assets and the prepayments for construction.

(All amounts in HK dollar thousands unless otherwise stated)

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
Trade receivables	**652,323**	583,303	**–**	–
Less: Provision for impairment	**(4,826)**	(9,309)	**–**	–
Trade receivables – net	**647,497**	573,994	**–**	–
Other receivables and prepayments (Note (a))	**517,563**	342,775	**1,642**	1,325
	1,165,060	916,769	**1,642**	1,325

(a) Other receivables and prepayments included approximately HKD384,198,000 (2011: Nil) of prepayment for certain land use rights in the PRC.

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 2012 and 2011, the ageing analysis of the trade receivables of the Group based on revenue recognition date is as follows:

	2012	2011
0-90 days	**536,901**	304,320
91-180 days	**10,188**	38,599
181-365 days	**2,979**	2,257
Over 365 days (i)	**102,255**	238,127
	652,323	583,303

(i) Trade receivables due over 365 days mainly comprised the amount of HKD97,532,000 (2011: HKD214,797,000) arising from the Group's development and management of certain toll road projects administrated for Shenzhen Traffic and Transportation Committee.

As at 31 December 2012, trade receivables of HKD722,000 (2011: HKD792,000) were past due but not impaired. These relate to a number of independent customers and based on past experiences, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	2012	2011
121-180 days	**9**	599
181-365 days	**713**	193
	722	792

As at 31 December 2012, trade receivables of HKD4,826,000 (2011: HKD9,309,000) were fully impaired. These individually impaired trade receivables mainly relate to customers which are under unexpected difficult economic situations.

(All amounts in HK dollar thousands unless otherwise stated)

16. TRADE AND OTHER RECEIVABLES (continued)

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 2012, the fair value of the trade and other receivables approximated their carrying values.

The maximum exposure to credit risk at the balance sheet 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:

	2012	2011
Counterparty		
– Government authorities in the PRC	**391,943**	239,535
– Existing customers with no defaults in the past	**223,674**	296,518
– New customers	**31,158**	37,149
	646,775	573,202

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
Cash at bank and in hand (i)	**4,868,382**	3,733,075	**261,932**	23,738
Less: Restricted bank deposits (ii)	**(2,302)**	(9,518)	**–**	–
	4,866,080	3,723,557	**261,932**	23,738

(i) As at 31 December 2012 and 2011, cash at bank could be withdrawn on demand, the effective interest rates on bank balances were 1.37% per annum and 1.06% per annum respectively. The balances were denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
RMB	**4,841,128**	3,661,763	**255,455**	9,375
HKD	**24,179**	68,652	**5,583**	14,332
Other currencies	**3,075**	2,660	**894**	31
	4,868,382	3,733,075	**261,932**	23,738

17. CASH AND CASH EQUIVALENTS (continued)

(ii) Restricted bank deposits are as follows:

	Group 2012	Group 2011
Project funds retained for construction management contracts	**2,302**	9,518

(iii) As at 31 December 2012, the maximum exposure of the Group's and the Company's cash and cash equivalents to credit risk was the carrying value.

18. SHARE CAPITAL AND SHARE PREMIUM – GROUP AND COMPANY

	Number of issued shares (share)	Ordinary share capital	Share premium	Total
At 1 January 2011	**16,372,173,064**	**1,637,217**	**3,282,637**	**4,919,854**
Employee share option scheme				
– value of employee services	–	–	17,266	17,266
At 31 December 2011	**16,372,173,064**	**1,637,217**	**3,299,903**	**4,937,120**
Employee share option scheme				
– proceeds from shares issued	**800,000**	**80**	**384**	**464**
– value of employee services	**–**	**–**	**14,903**	**14,903**
At 31 December 2012	**16,372,973,064**	**1,637,297**	**3,315,190**	**4,952,487**

i) Authorised and issued shares

The Company's total authorised number of ordinary shares is 20,000 million shares (2011: 20,000 million shares) with par value of HKD0.1 per share (2011: HKD0.1 per share). All issued shares are fully paid.

ii) Share options

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

	2012 Average exercise price (HKD per share)	2012 Number of share options (thousands)	2011 Average exercise price (HKD per share)	2011 Number of share options (thousands)
At 1 January	**0.574**	**308,800**	0.575	321,600
Lapsed	**0.530**	**(35,000)**	–	–
Exercised	**0.580**	**(800)**	–	–
Forfeited	**0.580**	**(1,041)**	0.580	(12,800)
At 31 December	**0.580**	**271,959**	0.574	308,800

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

ii) Share options (continued)

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

Date of maturity	Exercise price (HKD per share)	Number of share options (thousands) 2012	2011
5 February 2012 (Note (a))	–	**–**	35,000
27 September 2015 (Note (b))	0.580	**271,959**	273,800
		271,959	308,800

(a) 35,000,000 share options (2011: 35,000,000 options) granted to certain directors and employees on 6 February 2007 are unconditional and vested immediately. No share option was exercised in 2012 (2011: Nil) and 35,000,000 share options were lapsed during the year (2011: Nil).

(b) 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 certain 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. 1,040,800 share options were forfeited during the year (2011: 12,800,000), and 800,000 share options were exercised in 2012 (2011: Nil).

(All amounts in HK dollar thousands unless otherwise stated)

19. OTHER RESERVES

(a) Group

	Equity component of convertible bonds	Fair value reserve	Reserve funds (Note (ii))	Capital reserve	Goodwill reserve	Hedging reserve	Merger reserves	Revaluation surplus	Other reserves (Note (iii))	Currency translation reserve	Contributed surplus (Note (i))	Total
At 1 January 2011	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
Transfer from retained earnings to reserve funds	–	–	156,385	–	–	–	–	–	–	–	–	156,385
Fair value loss on available-for-sale financial assets, net of tax	–	(1,315,014)	–	–	–	–	–	–	–	–	–	(1,315,014)
Transfer of fair value gain to income statement upon disposal of available-for-sale financial assets, net of tax	–	(259,713)	–	–	–	–	–	–	–	–	–	(259,713)
Fair value gain on derivative financial instruments, net of tax	–	–	–	–	–	31,160	–	–	–	–	–	31,160
Share of other comprehensive loss of an associate	–	–	–	–	–	–	–	–	(28)	–	–	(28)
Currency translation differences	–	164,001	–	–	–	–	–	–	–	478,436	–	642,437
At 31 December 2011	133,978	1,062,192	1,619,317	59,723	(159,583)	(33,199)	(4,082,110)	507,216	(165,047)	1,518,998	13,005	474,490
At 1 January 2012	**133,978**	**1,062,192**	**1,619,317**	**59,723**	**(159,583)**	**(33,199)**	**(4,082,110)**	**507,216**	**(165,047)**	**1,518,998**	**13,005**	**474,490**
Transfer from retained earnings to reserve funds	**-**	**-**	**85,153**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**85,153**
Fair value losses on available-for-sale financial assets, net of tax	**-**	**(31,623)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(31,623)**
Fair value gains on derivative financial instruments, net of tax	**-**	**-**	**-**	**-**	**-**	**12,426**	**-**	**-**	**-**	**-**	**-**	**12,426**
Derecognition of cash flow hedges, net of tax	**-**	**-**	**-**	**-**	**-**	**1,506**	**-**	**-**	**-**	**-**	**-**	**1,506**
Share of other comprehensive loss of an associate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**-**	**(4)**
Currency translation differences	**-**	**14,267**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**81,035**	**-**	**95,302**
At 31 December 2012	**133,978**	**1,044,836**	**1,704,470**	**59,723**	**(159,583)**	**(19,267)**	**(4,082,110)**	**507,216**	**(165,051)**	**1,600,033**	**13,005**	**637,250**

(All amounts in HK dollar thousands unless otherwise stated)

19. OTHER RESERVES (continued)

(b) Company

	Contributed surplus (Note (i))	Hedging reserve	Currency translation reserve	Total
At 1 January 2011	58,515	(56,705)	822,116	823,926
Fair value gains on derivative financial instruments	–	12,729	–	12,729
Currency translation difference	–	–	340,855	340,855
At 31 December 2011	58,515	(43,976)	1,162,971	1,177,510
Fair value gains on derivative financial instruments	**–**	**16,167**	**–**	**16,167**
Currency translation difference	**–**	**–**	**56,807**	**56,807**
At 31 December 2012	**58,515**	**(27,809)**	**1,219,778**	**1,250,484**

(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 therefor.

(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 interests.

(All amounts in HK dollar thousands unless otherwise stated)

20. BORROWINGS

	Group		Company	
	2012	2011	**2012**	2011
Non-current				
Long-term bank borrowings				
– Secured (Note (a))	**6,270,490**	6,281,342	**–**	–
– Unsecured	**2,830,441**	4,793,521	**1,913,430**	2,428,973
Convertible bonds (Note (b))	**1,798,390**	1,701,659	**–**	–
Medium-term notes (Note (c))	**869,730**	862,758	**–**	–
Senior notes (Note (d))	**2,316,109**	–	**2,316,109**	–
Corporate bonds (Note (e))	**2,839,089**	2,807,623	**–**	–
Private placement notes (Note (f))	**992,418**	–	**–**	–
	17,916,667	16,446,903	**4,229,539**	2,428,973
Less: Current portion	**(3,844,647)**	(1,125,790)	**(970,774)**	(520,781)
	14,072,020	15,321,113	**3,258,765**	1,908,192
Current				
Short-term bank borrowings				
– Secured	**–**	170,000	**–**	–
– Unsecured	**53,016**	70,079	**9,500**	20,100
Current portion of long-term borrowings				
Bank borrowings				
– Secured	**123,337**	601,053	**–**	–
– Unsecured	**1,053,190**	524,737	**970,774**	520,781
Convertible bonds (Note (b))	**1,798,390**	–	**–**	–
Medium-term notes (Note (c))	**869,730**	–	**–**	–
Other borrowings – unsecured	**–**	46,972	**–**	–
	3,897,663	1,412,841	**980,274**	540,881
Total borrowings	**17,969,683**	16,733,954	**4,239,039**	2,449,073

(a) For the secured bank borrowings, HKD170,000,000 (2011: HKD210,000,000) are secured by the Group's 55% equity interest in Jade Emperor Limited, a wholly owned subsidiary. In addition, bank borrowings of HKD5,398,016,000 (RMB4,341,624,000) (2011: HKD5,251,164,000 (RMB4,257,644,000)) is secured by a pledge of the operating rights of Qinglian Class I Highway, Qinglian Class II Highway and Qinglian Expressway of Qinglian Company (Note 10), of which HKD123,337,000 (RMB99,200,000) (2011: HKD186,581,000 (RMB151,280,000)) was current portion of the non-current bank borrowings. HKD702,474,000 (RMB565,000,000) (2011: HKD820,178,000 (RMB665,000,000)) is secured by a pledge of the 40% equity interest in Qinglong Company, an associate of the Group (Note 12(e)).

(All amounts in HK dollar thousands unless otherwise stated)

20. BORROWINGS (continued)

(b) The movement of convertible bonds, which is issued by Shenzhen Expressway, a subsidiary of the Group, during the year is as follows:

	2012			
	Face value	**Liability component**	**Equity component**	**Total**
Beginning of year	**1,702,804**	**1,701,659**	**344,810**	**2,046,469**
Interest expense (Note 30)	**–**	**82,192**	**–**	**82,192**
Exchange difference	**–**	**14,539**	**–**	**14,539**
End of year	**1,702,804**	**1,798,390**	**344,810**	**2,143,200**

	2011			
	Face value	Liability component	Equity component	Total
Beginning of year	1,702,804	1,549,341	344,810	1,894,151
Interest expense (Note 30)	–	76,738	–	76,738
Exchange difference	–	75,580	–	75,580
End of year	1,702,804	1,701,659	344,810	2,046,469

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 to subscribe for newly issued A shares of Shenzhen Expressway at the rate of 7.2 shares per bond. The rights have expired in 2009.

Following the expiry of the rights, the bonds have been included in borrowings. At 31 December 2012, the bond was classified as current portion of long-term borrowings as it will be repayable upon maturity on 9 October 2013.

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 Corporation, 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.

(c) The medium-term notes with principal amount of RMB700 million (2011: 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, 4.47% per annum for the second year and 4.97% per annum for the third year. At 31 December 2012, the medium-term notes was classified as current portion of long-term borrowings as it will mature in March 2013.

(d) In April 2012, the Company issued senior notes in an aggregate principal amount of USD300 million (the "Senior Notes"). The Senior Notes bear interest at the rate of 4.375% per annum, payable semi-annually in arrears on 20 April and 20 October, and will mature on 20 April 2017, unless redeemed earlier.

(All amounts in HK dollar thousands unless otherwise stated)

20. BORROWINGS (continued)

The Senior Notes may be redeemed at the option of the Company in whole, but not in part, in the event of certain changes affecting taxes of Bermuda or Hong Kong. At any time following a change of control in the Company, the holders of each Senior Notes will have the right to require the Company to redeem in whole but not in part such holder's Senior Notes at 101% of their principal amount, together with accrued but unpaid interest.

(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 ("Corporate Bond A"). Interest is payable annually and the principal is repayable in full upon maturity on 31 July 2022. The full amount of principal and interest of the Corporate Bond A 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.

In August 2011, Shenzhen Expressway issued another corporate bonds with face value of RMB1,500 million which are fixed interest rate with maturity of 5 years ("Corporate Bond B") and the principal is repayable in full upon maturity on 27 July 2016, with attached options that Shenzhen Expressway can regulate upward the coupon rate and investors can request for redemption upon the end of third year from the date of issuance of the bonds. The nominal interest rate of the Corporate Bond B is 6% per annum.

(f) On 18 December 2012, Shenzhen Expressway obtained the approval by the National Association of Financial Market Institutional Investors in relation to the issuance of private placement notes amounting to RMB1,500 million. The registered quota shall be valid for two years from the date of issue of the Notice of the Acceptance of Registration, and Shenzhen Expressway is allowed to issue the private placement notes in tranches during the validity period. On 20 December 2012, Shenzhen Expressway completed the initial issue of private placement notes amounting to RMB800 million, which bearing a term of 3 years and a fixed interest of 5.90% per annum with interest repayable annually and the principal repayable in full upon maturity on 20 December 2015.

(g) At 31 December 2012, the borrowings were repayable as follows:

	Group		Company	
	2012	2011	**2012**	2011
Within 1 year	**3,897,663**	1,412,841	**980,274**	540,881
Between 1 and 2 years	**1,147,428**	4,290,600	**448,631**	969,063
Between 2 and 5 years	**7,662,823**	5,638,367	**2,810,134**	939,129
Over 5 years	**5,261,769**	5,392,146	**–**	–
	17,969,683	16,733,954	**4,239,039**	2,449,073

	Group		Company	
	2012	2011	**2012**	2011
Wholly repayable within 5 years	**10,851,745**	8,096,622	**4,239,039**	2,449,073
Wholly repayable after 5 years	**7,117,938**	8,637,332	**–**	–
	17,969,683	16,733,954	**4,239,039**	2,449,073

(All amounts in HK dollar thousands unless otherwise stated)

20. BORROWINGS (continued)

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

	Group		Company	
	2012	2011	**2012**	2011
HKD	**2,723,357**	3,732,103	**1,922,930**	2,449,073
RMB	**12,930,217**	13,001,329	**–**	–
USD	**2,316,109**	522	**2,316,109**	–
	17,969,683	16,733,954	**4,239,039**	2,449,073

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

	2012			2011		
	HKD	**RMB**	**USD**	HKD	RMB	USD
Bank borrowings and other borrowings	**1.90%-3.93%**	**5.508%-6.55%**	**–**	1.93% -3.765%	4.86%-6.65%	1.5%

(j) The undrawn banking facilities are as follows:

	Group		Company	
	2012	2011	**2012**	2011
Floating rate				
– Expiring within one year	**3,198,279**	4,738,501	**440,500**	379,900
– Expiring beyond one year	**13,897,800**	6,381,969	**7,857,765**	1,258,017
	17,096,079	11,120,470	**8,298,265**	1,637,917

(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	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Bank borrowings	**7,924,404**	9,949,073	**7,904,065**	9,907,342	**942,656**	1,908,192	**942,656**	1,911,552
Corporate bonds	**2,839,089**	2,807,623	**2,843,903**	2,758,069	**–**	–	**–**	–
Convertible bonds	**–**	1,701,659	**–**	1,675,262	**–**	–	**–**	–
Medium-term notes	**–**	862,758	**–**	862,758	**–**	–	**–**	–
Senior notes	**2,316,109**	–	**2,336,861**	–	**2,316,109**	–	**2,336,861**	–
Private placement notes	**992,418**	–	**992,418**	–	**–**	–	**–**	–
	14,072,020	15,321,113	**14,077,247**	15,203,431	**3,258,765**	1,908,192	**3,279,517**	1,911,552

The fair values of bank borrowings are determined based on cash flows discounted using effective interest rates ascertained based on the rates of general bank borrowings at 1.93% to 6.71% (2011: 1.93% to 6.65%) per annum.

The fair value of the convertible bonds is calculated using cash flows discounted at a rate based on a market interest rate of comparable bond at 4.33% (2011: 4.40%) per annum.

(All amounts in HK dollar thousands unless otherwise stated)

20. BORROWINGS (continued)

The fair values of the Corporate Bond A and Corporate Bond B are calculated using cash flows discounted at rates based on market interest rates of comparable corporate bonds at 5.27% and 5.201% (2011: 5.24% and 6.21%) per annum respectively.

The fair value of the Senior Notes is calculated using cash flows discounted at a rate based on market interest rate of notes at 4.466% (2011: Nil) per annum.

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

(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	
	2012	2011	**2012**	2011
Borrowings with floating rate:				
6 months or less	**3,272,042**	3,286,753	**1,743,926**	2,250,560
6 months to 12 months	**82,841**	223,582	**–**	–
1 to 5 years	**1,745,989**	2,318,859	**–**	–
Over 5 years	**4,038,840**	4,518,504	**–**	–
	9,139,712	10,347,698	**1,743,926**	2,250,560

21. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2012	2011	**2012**	2011
Interest rate swaps				
– non-current liabilities – cash flow hedges (Note (a))	**16,022**	45,311	**16,022**	45,311
– current liabilities – cash flow hedges	**15,065**	649	**15,065**	649
Cross currency and interest rate swap				
– non-current liabilities – cash flow hedges (Note (b))	**19,981**	14,016	**–**	–
Foreign exchange forward contract				
– current liabilities – cash flow hedges (Note (c))	**–**	1,154	**–**	–
	51,068	61,130	**31,087**	45,960

For the year ended 31 December 2012, the fair value change of derivative financial instruments recognised in other comprehensive income and income statement amounted to HKD10,268,000 (2011: HKD48,948,000) and HKD1,506,000 (2011: HKD1,915,000) respectively.

(All amounts in HK dollar thousands unless otherwise stated)

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(a) Interest rate swaps

At 31 December 2012, the fixed interest rates vary from 1.29% to 2.9% (2011: 1.29% 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 19) on interest rate swap contracts as of 31 December 2012 will be continuously released to the income statement until the repayment of the bank borrowings.

As at 31 December 2012, the aggregate notional amount of the interest rate swaps for cash flow hedge purpose amounted to HKD1,211,875,000 (2011: HKD1,663,125,000).

Outstanding notional principal amount HKD	31 December 2012 balance of the derivative financial instruments HKD	Maturity date
711,875,000	15,065,000	31 July 2013
400,000,000	13,544,000	28 October 2016
100,000,000	2,478,000	28 October 2016
1,211,875,000	31,087,000	

(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 2012 was HKD357,000,000 (2011: HKD378,000,000). 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 used a foreign exchange forward contract to hedge its exchange rate risk against one of its foreign currency loans. 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 was settled on 17 September 2012.

(All amounts in HK dollar thousands unless otherwise stated)

22. PROVISION FOR MAINTENANCE/RESURFACING OBLIGATIONS – GROUP

	2012	2011
Opening net book amount	**877,992**	1,110,712
Charged to the income statement:		
Additions	**6,281**	87,687
Reversals	**–**	(408,496)
Increase due to passage of time (Note 30)	**45,435**	62,570
Utilised	**(313,297)**	(21,560)
Exchange difference	**4,592**	47,079
Closing net book amount	**621,003**	877,992
Less: current portion	**(377,447)**	(438,784)
Non-current portion	**243,556**	439,208

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.

23. DEFERRED INCOME TAX – GROUP

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

	2012	2011
Deferred tax assets		
– to be recovered after more than 12 months	**201,964**	296,374
– to be recovered within 12 months	**100,869**	22,666
	302,833	319,040
Offset within the same tax jurisdiction	**(205,991)**	(246,431)
Net deferred tax assets	**96,842**	72,609
Deferred tax liabilities		
– to be settled after more than 12 months	**1,327,891**	1,304,352
– to be settled within 12 months	**425,773**	466,023
	1,753,664	1,770,375
Offset within the same tax jurisdiction	**(205,991)**	(246,431)
Net deferred tax liabilities	**1,547,673**	1,523,944

(All amounts in HK dollar thousands unless otherwise stated)

23. DEFERRED INCOME TAX – GROUP (continued)

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

	2012	2011
At 1 January	**1,451,335**	1,903,901
Tax credited relating to components of other comprehensive income	**(32,866)**	(427,663)
Charged/(credited) to the income statement (Note 31)	**24,744**	(64,982)
Exchange difference	**7,618**	40,079
At 31 December	**1,450,831**	1,451,335

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**	**Tax losses**	**Total**
Balance at 1 January 2011	277,727	28,672	10,831	–	317,230
(Charged)/credited to the income statement	(69,949)	(725)	5,268	53,141	(12,265)
Exchange differences	11,274	1,354	319	1,128	14,075
Balance at 31 December 2011	219,052	29,301	16,418	54,269	319,040
Balance at 1 January 2012	**219,052**	**29,301**	**16,418**	**54,269**	**319,040**
(Charged)/credited to the income statement	**(65,395)**	**(823)**	**(27)**	**47,761**	**(18,484)**
Exchange differences	**1,080**	**233**	**68**	**896**	**2,277**
Balance at 31 December 2012	**154,737**	**28,711**	**16,459**	**102,926**	**302,833**

(All amounts in HK dollar thousands unless otherwise stated)

23. DEFERRED INCOME TAX – GROUP (continued)

	Deferred tax liabilities				
	Fair value gains of available-for-sale financial assets	Concession intangible assets	Convertible bonds	Others	Total
Balance at 1 January 2011	810,481	1,312,481	49,062	49,107	2,221,131
Credited to equity					
– Change of fair value of available-for-sale financial assets	(350,240)	–	–	–	(350,240)
– Transfer out upon disposal of available-for-sale financial assets	(77,423)	–	–	–	(77,423)
Credited to the income statement	–	(59,302)	–	(1,074)	(60,376)
Difference between effective interest and nominal interest of convertible bonds	–	–	(16,871)	–	(16,871)
Exchange differences	479	51,324	1,984	367	54,154
Balance at 31 December 2011	383,297	1,304,503	34,175	48,400	1,770,375
Balance at 1 January 2012	**383,297**	**1,304,503**	**34,175**	**48,400**	**1,770,375**
Credited to equity					
– Change of fair value of available-for-sale financial assets	**(32,866)**	**–**	**–**	**–**	**(32,866)**
(Credited)/charged to the income statement	**–**	**(23,428)**	**–**	**48,593**	**25,165**
Difference between effective interest and nominal interest of convertible bonds	**–**	**–**	**(18,905)**	**–**	**(18,905)**
Exchange differences	**268**	**8,965**	**95**	**567**	**9,895**
Balance at 31 December 2012	**350,699**	**1,290,040**	**15,365**	**97,560**	**1,753,664**

(All amounts in HK dollar thousands unless otherwise stated)

23. DEFERRED INCOME TAX – GROUP (continued)

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

	2012			2011		
	Before tax	**Tax credit**	**After tax**	Before tax	Tax credit	After tax
Fair value losses on available-for-sale financial assets	**(64,489)**	**32,866**	**(31,623)**	(1,665,254)	350,240	(1,315,014)
Transfer of fair value gain to income statement upon disposal of available-for-sale financial assets	**–**	**–**	**–**	(337,136)	77,423	(259,713)
Fair value gains on derivative financial instruments	**10,268**	**–**	**10,268**	48,948	–	48,948
Derecognition of cash flow hedges	**1,506**	**–**	**1,506**	–	–	–
Share of other comprehensive loss in an associate	**(4)**	**–**	**(4)**	(28)	–	(28)
Currency translation differences	**153,243**	**–**	**153,243**	942,594	–	942,594
	100,524	**32,866**	**133,390**	(1,010,876)	427,663	(583,213)

(a) 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 HKD271,032,000 (2011: HKD259,960,000) that can be carried forward against future taxable income.

The expiry year of tax losses without deferred tax assets provided at 31 December 2012 is as follows:

Year	**2012**	2011
2012	**–**	14,990
2013	**33,219**	32,953
2014	**37,474**	37,172
2015	**157,467**	156,205
2016	**18,790**	18,640
2017	**24,082**	–
	271,032	259,960

(All amounts in HK dollar thousands unless otherwise stated)

24. TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
Trade payables (Note (a))	**78,674**	71,906	**–**	–
Payables relating to construction projects	**1,152,976**	1,321,355	**–**	–
Advance from associates (Note (b))	**77,305**	64,190	**–**	–
Other payables and accrued expenses	**773,334**	787,220	**11,104**	14,066
	2,082,289	2,244,671	**11,104**	14,066

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

	Group	
	2012	2011
0-90 days	**77,375**	65,165
91-180 days	**741**	1,470
181-365 days	**128**	1,814
Over 365 days	**430**	3,457
	78,674	71,906

(b) The amounts of HKD49,167,000 (2011: HKD48,773,000), HKD27,975,000 (2011: HKD15,417,000) and HKD163,000 (2011: Nil) due from Nanjing Third Bridge Company and GZ W2 Company and Consulting Company, associates of the Group, respectively, which are interest-free, unsecured and repayable on demand.

25. REVENUE

	2012	2011
Toll Roads		
– Toll revenue	**4,405,994**	4,138,729
– Construction service revenue under Service Concession	**411,389**	635,574
Logistic Business		
– Logistic parks	**494,199**	457,656
– Logistic services	**310,984**	251,475
– Port	**116,948**	97,609
	5,739,514	5,581,043

(All amounts in HK dollar thousands unless otherwise stated)

26. OTHER (LOSSES)/GAINS – NET

	2012	2011
Gain on disposal of available-for-sale financial assets	–	346,872
Fair value (losses)/gains on derivative financial instruments	(1,506)	1,915
Losses on disposal of property, plant and equipment	(5,447)	(575)
Others	4,315	18,265
	(2,638)	366,477

27. OTHER INCOME

	2012	2011
Dividend income	40,304	64,752
Rental income	25,984	26,831
Government grants	5,276	20,303
Others	11,277	5,706
	82,841	117,592

28. EXPENSES BY NATURE

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

	2012	2011
Construction cost under Service Concession	411,389	635,574
Provision/(reversals) for maintenance/resurfacing obligations – net	6,281	(320,809)
Depreciation and amortisation	1,157,232	1,069,307
Employee benefit expenses (Note 29)	508,822	450,767
Transportation expenses and contractors' cost	309,346	274,321
Rental charges	29,609	25,739
Other tax expenses	192,215	182,563
Commission, management fee and maintenance expenses for toll roads	179,077	393,726
Auditors' remuneration		
– Audit services	6,509	6,749
– Non-audit services	3,562	2,752
Legal and consultancy fees	24,036	19,931
Others	652,972	463,813
	3,481,050	3,204,433

(All amounts in HK dollar thousands unless otherwise stated)

29. EMPLOYEE BENEFIT EXPENSES

	2012	2011
Wages and salaries	376,131	329,311
Pension costs – defined contribution plans	47,017	30,699
Share-based payment expenses (Note 18)	14,903	17,266
Others	70,771	73,491
	508,822	450,767

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 (2011: Nil) were utilised during the year and none is available at the year-end to reduce future contribution.

(a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2012 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
Gao Lei (i)	–	99	250	–	22	–	–	371
Guo Yuan (ii)	–	197	501	–	78	–	764	1,540
Li Jing Qi (v)	–	296	714	–	111	–	934	2,055
Li Lu Ning (i)	–	219	78	4	32	–	–	333
Liu Jun	–	695	248	14	105	–	786	1,848
Yang Hai	–	872	232	21	108	–	786	2,019
Wang Dao Hai (ii)	–	–	–	–	–	–	–	–
Wong Yuk Shan (iv)	300	–	–	–	–	–	–	300
Leung Ming Yuen, Simon	300	–	–	–	–	–	–	300
Ding Xun	300	–	–	–	–	–	–	300
Nip Yun Wing	300	–	–	–	–	–	–	300
								9,366

(All amounts in HK dollar thousands unless otherwise stated)

29. EMPLOYEE BENEFIT EXPENSES (continued)

(a) Directors' emoluments (continued)

The remuneration of every Director for the year ended 31 December 2011 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	–	290	775	–	108	–	1,143	2,316
Li Jing Qi (v)	–	290	736	–	105	–	1,085	2,216
Liu Jun	–	738	221	13	99	–	913	1,984
Yang Hai	–	917	240	21	65	–	913	2,156
To Chi Keung, Simon (iii)	–	–	–	–	–	–	–	–
Wang Dao Hai	–	–	–	–	–	–	–	–
Wong Yuk Shan (iv)	175	–	–	–	–	–	–	175
Leung Ming Yuen, Simon	300	–	–	–	–	–	–	300
Ding Xun	300	–	–	–	–	–	–	300
Nip Yun Wing	300	–	–	–	–	–	–	300
								9,747

(i) Appointed on 18 September 2012.
(ii) Resigned on 18 September 2012.
(iii) Retired on 18 May 2011.
(iv) Appointed on 13 June 2011.
(v) The chief executive of the Company.

During the year ended 31 December 2012, Messrs Gao Lei, Guo Yuan, Li Jing Qi, Li Lu Ning and Liu Jun have waived directors' emoluments of HKD49,000 (2011: Nil), HKD184,000 (2011: HKD267,000), HKD319,000 (2011: HKD308,000), HKD17,000 (2011: Nil) and HKD138,000 (2011: HKD129,000) respectively.

During the years ended 31 December 2012 and 2011, 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 (2011: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2011: one) individual during the year are as follows:

	2012	2011
Basic salaries and allowances	**3,018**	2,400
Year-end bonuses	**1,019**	717
Contributions to the retirement scheme	**136**	12
Share-based payment expenses	**1,572**	913
Other benefits	**16**	3
	5,761	4,045

(All amounts in HK dollar thousands unless otherwise stated)

29. EMPLOYEE BENEFIT EXPENSES (continued)

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Emolument band		
HKD1,500,001 – HKD2,000,000	**1**	–
HKD4,000,001 – HKD4,500,000	**1**	1

30. FINANCE INCOME AND COSTS

	2012	2011
Interest income from bank deposits	**(73,277)**	(35,531)
Interest expense		
– Bank borrowings wholly repayable within 5 years	**202,161**	226,799
– Bank borrowings wholly repayable after 5 years	**381,294**	328,229
– Convertible bonds wholly repayable within 5 years (Note 20)	**82,192**	76,738
– Medium-term notes wholly repayable within 5 years	**44,507**	35,206
– Senior Notes wholly repayable within 5 years	**72,020**	–
– Corporate bonds and other notes wholly repayable within 5 years	**120,322**	72,051
– Corporate bonds wholly repayable after 5 years	**55,046**	54,913
– Other interest expense (Note 22)	**45,435**	62,570
Net foreign exchange gains directly attributable to borrowings	**(45,181)**	(160,466)
Less: interest expense capitalised on construction in progress	**(29,953)**	(16,597)
	927,843	679,443
Net finance costs	**854,566**	643,912

Borrowing costs of HKD29,953,000 (2011: HKD16,597,000) have been capitalised for the construction of toll roads and related facilities and other construction in progress in 2012. Borrowing costs arising on financing specifically arranged for the construction of toll roads and related facilities were capitalised using the rates ranged from 5.76% to 6.25% (2011: 5.37% to 5.99%) per annum, and other borrowing costs were capitalised using an average interest rate of 3.87% (2011: 3.50%) per annum.

(All amounts in HK dollar thousands unless otherwise stated)

31. 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 25% (2011: 24%) applicable to the respective companies.

	2012	2011
Current income tax		
PRC corporate income tax	**454,665**	604,928
Deferred income tax (Note 23)	**24,744**	(64,982)
	479,409	539,946

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:

	2012	2011
Profit before income tax	**2,774,979**	2,802,720
Tax calculated at a tax rate of 25% (2011: 24%)	**693,745**	672,653
Tax impact of:		
– Different tax rates in other locations	**(5,381)**	(10,540)
– Income not subject to tax	**(20,714)**	(44,581)
– Expenses not deductible for tax purposes	**73,665**	43,202
– Unrecognised tax losses	**5,887**	4,380
– Share of profit of jointly controlled entities and associates	**(322,720)**	(140,629)
– Withholding tax on dividends (Note (a))	**54,927**	15,461
Income tax expense	**479,409**	539,946

(a) 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.

During the year, the directors of the Company reassessed the dividend policy of PRC subsidiaries based on the Group's current business plan and financial position, certain profits generated by the relevant PRC subsidiaries would be distributed to their non-PRC registered intermediate holding companies and as such, deferred tax liability in this respect was provided accordingly in the consolidated financial statements of the Group for the current year to the extent that such earnings are estimated by the directors of the Company to be distributed in the foreseeable future.

The amount of profits on which withholding tax has not been recognized at 31 December 2012 was HKD4,777,165,000 (2011: HKD3,563,863,000).

32. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of HKD511,146,000 (2011: HKD256,408,000).

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

	Company	
	2012	2011
Beginning of year	**1,352,460**	1,587,217
Profit for the year	**511,146**	256,408
Dividends	**(540,281)**	(491,165)
End of year	**1,323,325**	1,352,460

33. 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.

	2012	2011
Profit attributable to equity holders of the Company	**1,878,312**	1,745,231
Weighted average number of ordinary shares in issue (thousands)	**16,372,210**	16,372,173
Basic earnings per share (HK cents per share)	**11.47**	10.66

33. EARNINGS PER SHARE (continued)

(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 one category of dilutive potential ordinary shares: 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.

	2012	2011
Profit attributable to equity holders of the Company	**1,878,312**	1,745,231
Profit used to determine diluted earnings per share	**1,878,312**	1,745,231
Weighted average number of ordinary shares in issue (thousands)	**16,372,210**	16,372,173
Adjustments – share options (thousands)	**13,631**	18,001
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**16,385,841**	16,390,174
Diluted earnings per share (HK cents per share)	**11.46**	10.65

34. DIVIDENDS

The year of 2011 final dividend and special dividend paid in 2012 were HKD409,304,000 (HK cents 2.5 per share) and HKD130,977,000 (HK cents 0.8 per share), respectively. The year of 2010 final dividend and special dividend paid in 2011 amounted to HKD352,002,000 (HK cents 2.15 per share) and HKD139,163,000 (HK cents 0.85 per share). At the meeting on 28 March 2013, the board recommended the payment of the year of 2012 final dividend of HK cents 3.74 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.

	2012	2011
Proposed final dividend of HK cents 3.74 (2011: HK cents 2.5) per ordinary share	**612,349**	409,304
Proposed special dividend: Nil (2011: HK cents 0.8 per ordinary share)	**–**	130,977
Proposed total dividend of HK cents 3.74 (2011: HK cents 3.3) per ordinary share	**612,349**	540,281

The board recommended that the final dividend be satisfied wholly in the form of an allotment of scrip shares. Shareholders will be given the option of receiving the final dividend wholly in cash in lieu of such allotment, or partly in cash and partly in the form of scrip shares. The arrangement is subject to: (1) the approval of proposed final dividend at the forthcoming Annual General Meeting; and (2) the Hong Kong Stock Exchange granting the listing of and permission to deal in the new shares to be issued pursuant thereto.

(All amounts in HK dollar thousands unless otherwise stated)

35. CASH GENERATED FROM OPERATIONS

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

	2012	2011
Profit before income tax	2,774,979	2,802,720
Adjustments for:		
– Depreciation (Note 6)	288,983	260,635
– Amortisation of land use rights (Note 8)	17,379	16,949
– Amortisation of intangible assets (Note 10)	850,870	791,723
– Impairment of property, plant and equipment (Note 6)	–	13,458
– Impairment of assets held for sale	–	2,402
– Provision/(reversals) for maintenance/ resurfacing obligations –net (Note 28)	6,281	(320,809)
– (Reversal)/provision for impairment of trade receivables (Note 16)	(4,483)	6,375
– Gain on disposal of available-for-sale financial assets (Note 26)	–	(346,872)
– Gain on disposal of investments in jointly controlled entities	(554)	–
– Share-based payment expenses (Note 29)	14,903	17,266
– Losses on disposal of property, plant and equipment (Note 26)	5,447	575
– Fair value gains on investment properties (Note 7)	(9,100)	(12,667)
– Interest income (Note 30)	(73,277)	(35,531)
– Interest expense (Note 30)	927,843	679,443
– Change in fair value on derivative financial instruments (Note 21)	1,506	1,915
– Share of profit of associates/jointly controlled entities (Note 12 and Note 13)	(1,290,878)	(585,953)
– Dividend income (Note 27)	(40,304)	(64,752)
Changes in working capital (excluding the effect of exchange differences on consolidation):		
– Inventories	(223)	(8,413)
– Trade and other receivables	145,127	(300,074)
– Trade and other payables	37,470	31,234
– Provision for maintenance/resurfacing obligation	(313,297)	(21,560)
Cash generated from operations	3,338,672	2,928,064

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2012	2011
Net book amounts (Note 6)	34,833	26,272
Losses on disposal (Note 26)	(5,447)	(575)
Proceeds from disposal	29,386	25,697

(All amounts in HK dollar thousands unless otherwise stated)

36. GUARANTEES AND CONTINGENCIES

(a) During year 2011, Shenzhen Expressway had construction management contracts and arranged with bank to issue irrevocable performance guarantees amounting to RMB2,000,000 (HKD2,487,000) and RMB200,000,000 (HKD248,663,000) on its behalf to Shenzhen Traffic Public Facilities Construction Center and Shenzhen Guangshen Coastal Expressway Investment Co., Ltd., ("Coastal Company") respectively.

(b) Upon the government approval, Qinglian Company upgraded Qinglian Class I Highway to an expressway and the project was completed on 25 January 2011. During the year 2011, Qinglian Fengyun Eco-tourism Development Company Limited sued against Qinglian Company in Qingyuan Intermediate People's Court for the objection to closing of exit of expressway due to the upgrade project. The decision was favourable to Qinglian Company in the first instance judgment. During the year 2011, the company mentioned above lodged an appeal to the Higher People's Court of Guangdong Province, which have remitted the case to Qingyuan Intermediate People's Court for re-trial. As at the date of approval of these financial statements, the litigation is still in progress. According to the nature and construction status of the upgrade project, the directors of the Company considered that the outcome of the litigation will have no significant impact on the Group's operating results.

(c) Details of contingences of associates are set out in Note 12.

37. COMMITMENTS

(a) Capital commitments

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

	2012	2011
Capital commitments – expenditure of property, plant and equipment and concession intangible assets		
– Contracted but not provided for	**998,657**	892,932
– Authorised but not contracted for	**324,512**	495,060
	1,323,169	1,387,992
Investment commitments		
– Contracted but not provided for	**–**	97,266
– Authorised but not contracted for	**52,717**	140,355
	52,717	237,621
	1,375,886	1,625,613

(All amounts in HK dollar thousands unless otherwise stated)

37. COMMITMENTS (continued)

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

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

	2012	2011
Land and buildings:		
Not later than 1 year	**4,454**	6,373
Later than 1 year and not later than 5 years	**1,517**	4,829
	5,971	11,202

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

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

	2012	2011
Land and buildings:		
Not later than 1 year	**151,471**	166,625
Later than 1 year and not later than 5 years	**79,993**	136,051
Over 5 years	**30,589**	50,871
	262,053	353,547

38. RELATED-PARTY TRANSACTIONS

As described in Note 1, the Company is de facto controlled by Shenzhen SASAC. The transactions as mentioned in Notes 16, 24(b), and 36(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 2012 and 2011, 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 2012 and 2011 and payable balances due to state-owned contractors for construction projects and guaranteed deposits as of 31 December 2012 and 2011.

(c) Shenzhen Expressway entered into project management service contracts with Consulting Company, an 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 HKD227,617,000. During the year, Shenzhen Expressway paid a management fee of approximately HKD40,484,000 (2011: HKD36,096,000) to Consulting Company. The cumulative management fee paid by Shenzhen Expressway to Consulting Company amounted to approximately HKD198,284,000 up to 31 December 2012.

(All amounts in HK dollar thousands unless otherwise stated)

38. RELATED-PARTY TRANSACTIONS (continued)

(d) Shenzhen Expressway provides project management services for construction, operation and maintenance of Guangshen Coastal Expressway (Shenzhen Section) Project ("Coastal Project") for the authority of the Shenzhen Municipal Government. The Coastal Project is owned by Coastal Company which is wholly owned by SIHCL. The project management service revenue received from Shenzhen Expressway is 1.5% of the construction budget. On 9 September 2011, Shenzhen Expressway and Coastal Company entered into the entrusted construction management agreement to formalise the terms of these arrangements. During the year, Shenzhen Expressway has recognised construction management service revenue amounting to RMB35,861,000 (HKD44,164,000) (2011: RMB96,664,000 (HKD116,744,000)).

(e) Details of key management compensation are set out in Note 29.

39. 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:				
Shenzhen International 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.[@]	RMB240,000,000	—	100	Development, construction, operation and management of South China Logistic Park
Shenzhen International Holdings (SZ) Limited[△]	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. [@*]	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

(All amounts in HK dollar thousands unless otherwise stated)

39. 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
Shenzhen Expressway Company Limited^	RMB2,180,770,326	–	50.89	Investment, construction, operation and management of toll highways and roads
Hubei Magerk Expressway Management Private Limited△*	USD28,000,000	–	100	Operation and management of highways and expressways
Shenzhen International Booming Total 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 Wharf and Logistics Centres at Xiba Port of Nanjing
Shenzhen Meiguan Expressway Company Limited@	RMB332,400,000	–	100	Construction, operation and management of an expressway
Guangdong Qinglian Highway Development Company Limited◊	RMB3,105,959,998	–	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.@*	RMB60,000,000	–	51	Logistic services and related warehouse facilities
New Vision Limited	USD100	100	–	Investment holding
Shenzhen International Ports Development (HK) Limited	HKD2	–	100	Investment holding
Advance Great Limited	USD1	–	100	Investment holding
Successful Plan Assets Limited	USD1	–	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 operate in the PRC (except for New Vision Limited, Advance Great Limited and Successful Plan Assets Limited which are incorporated in British Virgin Islands and Shenzhen International Ports Development (HK) Limited, which is incorporated in Hong Kong). To give details of other subsidiaries would result in particulars of excessive length.

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