

# Financial Review

## MANAGEMENTS' DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial information of the Group included in the financial statements (together with the notes thereto) included elsewhere in this annual report. The financial statements have been prepared in accordance with International Accounting Standards ("IAS"). The selected historical results as discussed herein is not a prediction of the future business operations of the Group.

### Overview

In the year ended December 31, 2000 ("Year 2000"), profit before taxation of the Group was approximately RMB353.1 million, representing an increase of 12.1 per cent. over the year ended December 31, 1999 ("Year 1999"). EBITDA was approximately RMB453.0 million, representing an increase of 12.1 per cent. over Year 1999. Net profit was approximately RMB256.6 million, representing an increase of 23.3 per cent. over the previous year. The increase in profitability of the Group was mainly due to the growth of the Group's businesses, especially in the ETD and APP sectors.



Basic and diluted earnings per share of the Company in Year 2000 was approximately RMB0.44.

### Total revenues

The total revenues of the Group for Year 2000 were RMB742.0 million, an increase of approximately RMB138.3 million, or approximately 22.9 per cent., from RMB603.7 million Year 1999. The increase resulted principally from growth in the businesses of the Group and usage of the Group's services, which can be attributed to the growth of the PRC economy and the PRC air travel and tourism industries. The increase in total revenues reflected the following:

Financial information presented in this "Financial Review" section has been extracted from the consolidated financial statements of the Group presented elsewhere in this annual report. Such consolidated financial statements have been prepared on the basis that the current structure of the Group had been in existence throughout the two years ended December 31, 2000

- \* ETD revenues represented 59.2 per cent. of the total revenues of the Group in Year 2000 as compared to 59.4 per cent. in Year 1999. ETD revenues increased by 22.4 per cent. to RMB439.1 million in Year 2000 from RMB358.8 million in Year 1999. The increase resulted primarily from increased volume in the usage of ETD services, due to the growth of the PRC economy and the PRC air travel and tourism industries, as well as increased usage of ETD services by foreign and regional airlines.
- \* APP revenues represented 21.0 per cent. of the Group's total revenues in Year 2000 as compared to 16.3 per cent. in Year 1999. APP revenues increased by 58.4 per cent. to RMB155.5 million in Year 2000 from RMB98.2 million in Year 1999. The increase resulted primarily from increased volume in the sales of APP services to new airports adopting APP services during 1999 which was not fully reflected in the revenues for Year 1999 and new airports adopting APP services during Year 2000, as well as increased usage of APP services by existing customers of the Group.



- \* Data network revenues represented 14.7 per cent. of the Group's total revenues in Year 2000 as compared to 16.5 per cent. in Year 1999. Data network revenues increased by 9.1 per cent. to RMB109.0 million in Year 2000 from RMB99.9 million in Year 1999. The increase in data network revenues resulted from the growth in the number of travel suppliers and travel agencies connected to the systems of the Group and the expansion of the Group's businesses through newly established LDCs.
- \* Equipment sales and other revenues declined by 18.0 per cent. to RMB38.4 million in Year 2000 from RMB46.8 million in Year 1999. The decline principally reflected a substantial decline in sales of equipment, APP contract revenues, one-off initiation and installation fees for connections to the Group's ICS and BSP, offset to an extent by an increase in browser access fees for the Group's Internet-based travel platform services.



### **Net revenues**

Net revenues increased by 22.8 per cent. to RMB717.3 million in Year 2000 from RMB584.3 million in Year 1999.

## Operating expenses

Total operating expenses for Year 2000 were RMB369.8 million, an increase of RMB100.8 million, or 37.5 per cent., from RMB269.0 million in Year 1999. The increase in operating expenses of 37.5 per cent. was more than the percentage increase in total revenues of 22.9 per cent. due to the build up of the Group's new generation ETD system and the expansion of its operations to support the growth of the Group's businesses. The increase in operating expenses also reflected the following:

- \* depreciation increased by 18.9 per cent. primarily due to the purchase of a new mainframe computer as part of the Group's ETD business strategy in early 2000;



- \* total cost of network usage increased by 57.4 per cent. due to the increased volume of network usage to support the growth of the Group's ETD and APP businesses;
- \* operating lease rentals increased by 68.8 per cent. due to a lease for the new corporate headquarters of the Company, which commenced in late 1999;
- \* technical support services increased substantially by 180.4 per cent. due to additional technical support expenses associated with the development of the new generation ETD system of the Group;



- \* repairs and maintenance increased by 66.5 per cent. due to the signing of new agreements with Unisys and IBM for additional services to improve the Group's ETD and ACS operations;
- \* commission and promotional expenses increased by 49.6 per cent. due to the growth in new APP customers and the success of the Group's APP promotional programmes, which resulted in the payment of additional revenue-based commissions to airports for promoting the APP services of the Group;



As a result of the above changes in net revenues and operating expenses, the operating profit of the Group increased by RMB32.1 million, or 10.2 per cent., to RMB347.4 million in Year 2000 from RMB315.3 million in Year 1999.

### **Net financial income**

Net financial income was RMB4.9 million in Year 2000 compared to net financial charges of RMB1.0 million in Year 1999. The principal reason for this improvement was a substantial decline in interest expense to RMB47,000 in Year 2000 from RMB4.4 million in Year 1999. This was due to the repayment of substantially all of the Company's bank loans during the first quarter of 1999.

### **Taxation**

Taxation decreased by 9.2 per cent. to RMB94.2 million in Year 2000 from RMB103.7 million in Year 1999 as the Company was granted certain tax benefits arising from its establishment in Zhongguancun Haidian Science Park as a new technology enterprise, which in accordance with relevant PRC laws entitles the Company to certain tax reliefs. On February 20, 2001, the Company obtained a tax exemption approval from the relevant authority, the effect of which is that the Company will not be subject to any enterprise income tax for the period from October 1, 2000 to December 31, 2002. The Company effectively paid a 33 per cent. income tax for the first ten months of Year 2000 and no income tax for the remaining two months of Year 2000.

### **Minority Interest**

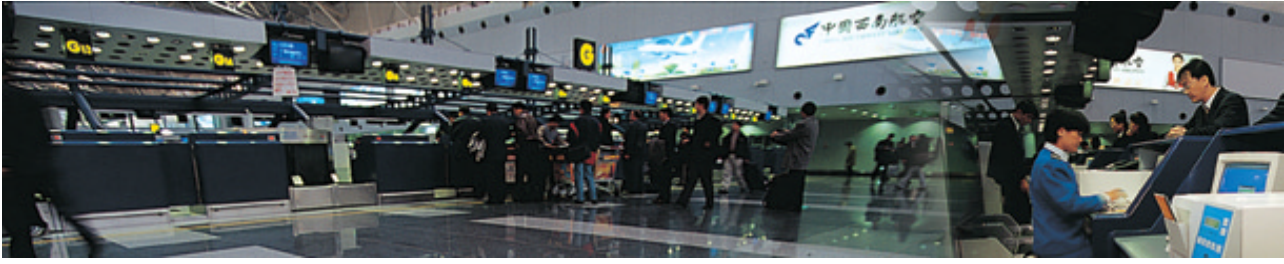
Minority interest decreased by 27.8 per cent. to RMB2.3 million in Year 2000 from RMB3.2 million in Year 1999 primarily because approximately RMB1.3 million of the total revaluation deficit of RMB2.7 million on buildings of a subsidiary was attributable to the minority shareholders.

### **Net Profit**

As a result of the above factors, the Group's net profit increased by RMB48.6 million, or 23.3 per cent., to RMB256.6 million in Year 2000 from RMB208.0 million in Year 1999.

### **Special Dividend**

The Company was registered and incorporated in the PRC on October 18, 2000. The then existing shareholders of the Company passed a resolution on October 18, 2000 to pay a special dividend in an amount equal to the lesser of (i) the distributable profits under PRC generally accepted accounting principles of the Group for the period from April 1, 2000 to December 31, 2000; and (ii) 10 per cent. of the net proceeds of the Company's initial public offering (the "Offering"). The payment of the special dividend will be funded from the Company's existing cash resources. The holders of the H shares are not entitled to this special dividend. The special dividend determined pursuant to such resolution amounted to approximately RMB124.1 million, which is approximately RMB2 million less than 10 per cent. of the net proceeds of the Offering. CACI was obligated to pay the shortfall and was entitled to seek repayment from those parties who were shareholders immediately prior to the Offering on a pro rata basis within two years. Other than the special dividend as mentioned above, the Company has not declared or paid any dividend since its incorporation, and will not declare any other dividend for Year 2000.



## Net Cash Flows

The following table summarises the cash flows of the Group for the years presented:

	<b>Year Ended December 31,</b>	
	<b>1999</b>	<b>2000</b>
	<i>(RMB in millions)</i>	
Net cash inflows from operating activities	367.2	414.1
Net cash used in investing activities	(140.2)	(67.3)
Net cash (used in) provided by financing activities	(569.9)	74.9
Net (decrease) increase in cash and cash equivalents	(342.9)	421.7

The Group had positive net cash inflow from operating activities of RMB414.1 million in the year ended December 31, 2000. Net cash inflow from operating activities exceeded net profit for the period principally due to the depreciation expenses of the Group. In 2000, the Company received cash proceeds of RMB239.8 million from share subscriptions by all of its airline shareholders in connection with its incorporation. The Company also received a cash contribution from CAAC of RMB280.0 million to finance part of the construction costs of its new generation ETD system.

The Group had no outstanding long-term bank loans throughout 2000 other than the current portion of a long term bank loan of RMB800,000 which had been repaid in December 2000. As at December 31, 2000, the Group did not have any short-term and long-term bank loans. In 2000, the interest coverage multiple (the ratio of earnings before interest income, interest expenses and tax to interest expenses) amounted to 7,407 times (71 times in 1999).



At the end of 2000, the sum of cash and cash equivalents and short-term bank deposits of the Group were RMB612.1 million, of which approximately 99.7 per cent. and 0.3 per cent. were denominated in RMB and Hong Kong dollars, respectively.

### **Capital Expenditures**

The total capital expenditures of the Group were RMB64.1 million in Year 2000, a substantial decrease of RMB71.0 million from RMB135.1 million in Year 1999.

The capital expenditures of the Group in Year 2000 consisted principally of purchases of software and equipment in accordance with the Group's ETD business strategy.

The Group's planned total capital expenditures for the years 2001 and 2002 are approximately RMB335.5 million and RMB263.0 million, respectively. The principal components of the Group's capital expenditure programme in these two years are to develop and progressively implement the new generation ETD and expand the APP, the ACS and other new businesses.

The Board of Directors estimates that completion of the development of the new generation ETD system will require total capital expenditures of approximately RMB1.0 billion through 2004.

The Group is exposed to foreign exchange risk related to its capital expenditures because a substantial portion of its capital expenditures represent imported equipment that is purchased in U.S. dollars. Under the current foreign exchange system in China, the Group is not able to hedge effectively against currency risks.

In relation to funding the capital expenditure commitments, it is expected that the sources of funds will include net proceeds from the Offering of the Company and internal cash flow generated from operations.

### **Transactions in securities**

Pursuant to the reorganisation in preparation for its listing, the Company issued 577,303,500 domestic shares to its promoters during 2000.

In February 2001, the Company issued a total of 310,854,000 H shares upon its listing on the Stock Exchange.