Notes to the Financial Statements

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

1. COMPANY ORGANIZATION AND PRINCIPAL ACTIVITIES

TravelSky Technology Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on October 18, 2000 to engage in the provision of electronic travel distribution, airport passenger processing, air cargo systems, data network and internet—based travel platform services in the PRC. Prior to the formation of the Company, these businesses were carried on by China Civil Aviation Computer Information Centre ("CACI") and its subsidiaries. These entities are hereinafter collectively referred to as the "Predecessor Entities". CACI underwent a group reorganisation (the "Reorganisation") in preparation for an offering of the Company's shares (the "Offering"). Pursuant to the Reorganisation, the Company issued 100% of its ordinary shares ("Domestic Shares") in exchange for the assets, liabilities, equity interests in certain subsidiaries and associated companies, and the business of providing electronic travel distribution, airport passenger processing, air cargo systems, data network service and internet—based travel platform services in the PRC previously owned by CACI. CACI is under the direct supervision and control of Civil Aviation Administration of China ("CAAC"), a ministry level body under the direct supervision of the State Council of the PRC responsible for the administration and development of the aviation industry in the PRC. A significant portion of the transactions undertaken by the Group were effected on terms determined by CAAC and other relevant PRC authorities.

According to the Reorganisation, 47% of such shares were held by CACI and the remaining 53% were transferred from CACI to ten airline companies under the direct supervision and control of CAAC at no consideration. CACI retained the ownership of certain assets and liabilities not relating to the provision of electronic travel distribution, airport passenger processing, air cargo systems, data network service and internet—based travel platform services in the PRC, including staff quarters, premises for providing social and training services to employees, certain office buildings and the domain names for operating an Internet travel information website. In addition, the above ten airline companies and other ten airline companies subscribed for additional Domestic Shares in the Company for a cash consideration approximately RMB240 million. Following the Reorganisation, the respective shareholding percentages of the shareholders are as disclosed in Note 18 (1) below.

As at December 31, 2000, the Company had direct or indirect interests in the following subsidiaries and associated companies. All of these subsidiaries are limited liability companies incorporated in the PRC.

Name	Date of incorporation	Percentage of equity interest held Direct	Indirect	Issued and fully paid capital RMB	Principal activities
Subsidiaries					
Hainan Civil Aviation Cares Co., Ltd. ("Hainan Cares")	March 2, 1994	51.47%	—	6,615,000	Provision of electronic travel distribution and cargo management services; and sale and installation of there lated information systems
Cares Shenzhen Co., Ltd. ("Shenzhen Cares")	April 14, 1995	61.47%	—	7,000,000	Provision of electronic travel distribution and cargo management services; and sale and installation of there lated information systems
Cares Hubei Co., Ltd. ("Hubei Cares")	July 25, 1997	50%	12.5%	5,000,000	Provision of electronic travel distribution, airport passenger processing and cargo management services; and sale and installation of there lated information systems

Cares Chongqing Information Technology Co., Ltd. ("Chongqing Cares")	December 1, 1998	51%	—	9,800,000	Provision of electronic travel distribution, airport passenger processing and cargo management services; and sale and installation of there lated information systems
Aviation Cares of Yunnan Information Co., Ltd. ("Yunnan Cares")	June 15, 2000	50%*	—	2,000,000	Computer hardware and software development and network services
InfoSky Technology Company Limited ("InfoSky")	September 20, 2000	51%	—	20,695,000	Provision Cargo of management services and related software and technology development; and provision of technical support, training and consulting services

* The Company has the power to control the financial and operating policies of Yunnan Cares since these policies were decided by the board of directors of Yunnan Cares by simple majority votes and the Company can appoint 3 of the 5 board members.

The Company and its subsidiaries are hereinafter collectively referred to as the "Group".

Name	Date of incorporation	Percentage of equity interest held Direct	Indirect	Issued and fully paid capital RMB	Principal activities
Associated companies					
Shanghai Civil Aviation East China Cares System Integration Co., Ltd. ("Huadong Cares")	May 21, 1999	47%	—	2,000,000	Computer hardware and software development and network services
Shenyang Civil Aviation Cares of Northeast China, Ltd. ("Dongbei Cares")	November 2, 1999	46%	—	2,000,000	Computer hardware and software development and network services
Aviation Cares of Southwest Chengdu, Ltd. ("Xinan Cares")	November 29, 1999	44%	—	2,000,000	Computer hardware and software development and network services

2. BASIS OF PRESENTATION

The Reorganisation was accounted for as a reorganisation of the Group as a continuing operation and accordingly, the financial statements have been prepared as if the current structure of the Company and the Group had been in existence throughout the two years ended December 31, 2000, rather than from the date on which the Reorganisation was completed. The Company's directors are of the opinion that the financial statements prepared on this basis present fairly the financial position of the Company and the Group, and the consolidated results of operations and cash flows of the Group as a whole. Therefore the net profit for the year ended December 31, 2000 includes the consolidated results of operations before the Reorganisation.

As the Company was incorporated on October 18, 2000, there are no prior year financial statements of the company and the Group to be presented for comparative purposes. The financial statements of the Company and the Group as at and for the year ended December 31, 1999 present the assets and liabilities of the Company, the consolidated assets and liabilities, and the consolidated results of operations and cash flows of the Predecessor Entities taken over by the Company upon the Reorganisation as if the business activities had been conducted by the Company and the Group throughout the year ended December 31, 1999.

All material intra—group transactions and balances have been eliminated on consolidating the financial statements of the Company and its subsidiaries.

3. PRINCIPAL ACCOUNTING POLICIES

The following principal accounting policies have been adopted by the Company and its subsidiaries in preparing the financial statements in conformity with International Accounting Standards("IAS"):

(a) Property, plant and equipment

Property, plant and equipment, other than buildings, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to expense in the year in which they are incurred. When the expenditure results in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised.

Buildings are stated at revalued amounts less accumulated depreciation and accumulated impairment loss. Any increase in valuation of buildings is credited to revaluation surplus in equity, any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter charged to the statement of income. Increase on revaluation directly related to a previous decrease in carrying amount for the same investment that was recognised as an expense is credited to income to the extent that it offsets the previously recorded decrease. Upon disposal of revalued property, the realised portion of the revaluation surplus is transferred from the valuation surplus directly to retained earnings.

Depreciation of property, plant and equipment is provided using the straight—line method over their estimated useful lives, after taking into consideration their estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Computer systems and software	3—11 years
Motor vehicles	6 years
Furniture, fixtures and other equipment	5—9 years

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the determination of net profit.

Assets under construction represent buildings under construction and computer systems and equipment pending installation, and are stated at cost. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the period of construction or installation and testing. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for use.

(b) Subsidiaries

A subsidiary is an enterprise in which the Group holds, directly or indirectly, more than 50% of the equity interest as a long—term investment and/or otherwise has the power to control the financial and operating policies of the enterprise so as to obtain benefits from its activities.

In the Company's financial statements, investment in the subsidiaries is accounted for using the equity method. An assessment of investment in the subsidiaries is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(c) Associated companies

An associated company is a company, excluding a subsidiary or a joint venture to which the Group is a party, in which the Group has significant influence. Significant influence exists when the Group has the power to participate in, but not control, the financial and operating decisions of the associated company.

Investments in associated companies are accounted for using the equity method. An assessment of investments in associated companies is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(d) Cash and cash equivalents

Cash represents cash in hand and deposits with banks or other financial institutions which are repayable on demand.

Cash equivalents represent short—term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(e) Inventories

Inventories, which principally comprise equipment for sale, spare parts and consumable items, are carried at the lower of cost or net realisable value. Cost is based on the first—in, first—out ("FIFO") method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

When inventories are sold, their carrying amount is charged to expense in the year in which the revenue is recognised. Writedowns for declines in net realisable value or for losses of inventories are recognised as an expense in the year the impairment or loss occurs.

(f) Research and development costs

Expenditures for research and development are charged against income in the period incurred except for software development costs which comply strictly with the following criteria:

* the software is clearly defined and costs are separately identified and measured reliably;

* the technical feasibility of the software is demonstrated;

* the software will be sold or used in—house;

* a potential market for the software or its usefulness for internal use is demonstrated; and

* adequate technical, financial and other resources required for completion of the software development are available.

Capitalised development costs are amortised on a straight—line basis over their expected useful lives. The period of amortisation does not normally exceed 5 years. During the years ended December 31, 2000 and 1999, no development costs were capitalised as they did not meet all the conditions listed above.

The recoverable amount of development costs is estimated whenever there is an indication that the asset has been impaired or that the impairment losses recognised in previous years no longer exist.

(g) Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Rental payments under operating leases are charged to expense based on the straight—line method over the period of the leases.

(h) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition and construction of the property, plant and equipment that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalised as part of the cost of that assets. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised at the weighted average cost of the related borrowings until the asset is ready for its intended use. No borrowing costs were capitalised during the years ended December 31, 2000 and 1999.

(i) Revenue recognition

Revenue is recognised net of sales discount when it is probable that the economic benefits associated with the transaction will flow to the Group and the revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably on the following basis:

* Revenue for electronic travel distribution services from fixed price contracts is recognised on the straight—line basis over the period of the contracts;

* Revenue for electronic travel distribution services from contracts other than fixed price contracts is recognised when the services are rendered;

* Revenue for airport passenger processing services is recognised when the services are rendered;

* Revenue for data communication services comprises Physical Identified Device ("PID") fee and connection fee, which are recognised as revenue when the services are rendered;

* Sale of equipment is recognised when title passes to the buyer;

* Revenue for equipment installation project is recognised when the installation project is completed and accepted by the customers; and

* Interest income from deposits in banks or other financial institutions is recognised on an accrual basis.

(j) Foreign currency translation

The Group maintains its books and records in Renminbi ("RMB"), which is not freely convertible into foreign currencies. Transactions denominated in currencies other than RMB are translated into RMB at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are translated into RMB at exchange rates prevailing at the balance sheet date. Non—monetary assets and liabilities in other currencies are translated at historical rates. Exchange gains or losses arising from changes in exchange rates subsequent to the transaction dates are included in the determination of net profit.

(k) Retirement scheme

The fixed contributions for retirement benefits made under defined contribution schemes are charged to expense in the year to which they relate.

(l) Taxation

Taxation of the Group is based on the tax laws and regulations applicable to PRC enterprises. The Group provides for enterprise income tax on the basis of its income for statutory financial reporting purposes, adjusted for income and expense items that are not assessable or deductible for tax purposes.

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

Other tax liabilities are provided in accordance with the regulations issued by the PRC government authorities.

(m) Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimation can be made for the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimation. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(n) Impairment of assets

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of property, plant and equipment carried at cost and treated as a revaluation decrease for buildings that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same building. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase.

4. PROPERTY, PLANT AND EQUIPMENT, NET

As at December 31, property, plant and equipment comprised:

The Group:

	Buildings	Computer systems and software	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation						
As at January 1, 1999	5,099	604,521	6,508	3,951	31,502	651,581
Purchases	—	59,481	4,013	3,684	67,895	135,073
Transfer upon completion	—	3,787	—	—	(3,787)	—
Disposal	—	(12,018)	—	(48)	—	(12,066)
As at December 31, 1999	5,099	655,771	10,521	7,587	95,610	774,588
Purchases	939	56,341	2,055	1,800	2,997	64,132
Transfer upon completion	—	95,375	—	—	(95,375)	—
Property revaluation deficit	(2,190)	—	—	—	—	(2,190)
Disposals	—	(4,694)	(528)	(1,138)	—	(6,360)
As at December 31,2000	3,848	802,793	12,048	8,249	3,232	830,170
Accumulated depreciation						
As at January 1,1999	(940)	(364,896)	(3,419)	(1,546)	—	(370,801)
Charge for the year	(168)	(85,929)	(1,137)	(984)	—	(88,218)
Write— back on disposals	—	11,320	—	32	—	11,352
As at December 31,1999	(1,108)	(439,505)	(4,556)	(2,498)	—	(447,667)
Charge for the year	(261)	(102,028)	(1,478)	(1,090)	—	(104,857)
Write— back on disposals	—	3,655	267	376	—	4,298
As at December 31, 2000	(1,369)	(537,878)	(5,767)	(3,212)	—	(548,226)
Net book value						
As at December 31, 1999	3,991	216,266	5,965	5,089	95,610	326,921
As at December 31, 2000	2,479	264,915	6,281	5,037	3,232	281,944

As at December 31, property, plant and equipment comprised:

The Company:

	Buildings RMB'000	Computer systems and software RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Assets under construction RMB'000	Total RMB'000
Cost or valuation						
As at January 1, 1999	—	589,188	4,732	2,195	31,502	627,617
Purchases	—	56,499	3,419	3,034	67,895	130,847
Transfer upon completion	—	3,787	—	—	(3,787)	—
Disposals	—	(11,994)	—	(48)	—	(12,042)
As at December 31, 1999	—	637,480	8,151	5,181	95,610	746,422
Purchases	—	52,454	1,058	1,546	2,997	58,055
Transfer upon completion	—	95,375	—	—	(95,375)	—
Disposals	—	(2,577)	(526)	(225)	—	(3,328)
As at December 31, 2000	—	782,732	8,683	6,502	3,232	801,149
Accumulated depreciation						
As at January 1, 1999	—	(357,343)	(2,156)	(791)	—	(360,290)
Charge for the year	—	(82,867)	(658)	(743)	—	(84,268)
Write— back on disposals	—	11,296	—	32	—	11,328
As at December 31, 1999	—	(428,914)	(2,814)	(1,502)	—	(433,230)
Charge for the year	—	(99,500)	(1,110)	(916)	—	(101,526)
Write— back on disposals	—	2,559	248	203	—	3,010
As at December 31, 2000	—	(525,855)	(3,676)	(2,215)	—	(531,746)
Net book value						
As at December 31, 1999	—	208,566	5,337	3,679	95,610	313,192
As at December 31, 2000	—	256,877	5,007	4,287	3,232	269,403

On November 30, 2000, the buildings of the subsidiaries of the Company were revalued by Chesterton Petty Limited (the "Valuer"), a qualified independent professional valuer in Hong Kong, using a fair market value approach. A net valuation deficit of approximately RMB2,190,000 (net of a valuation surplus of approximately RMB510,000 on certain buildings) resulted from the revaluation and was recorded in the Group's financial statements. Had the buildings been carried at cost less accumulated depreciation and impairment losses, their carrying amount included in the Group's financial statements as of December 31, 2000 would have been approximately RMB1,970,000 (1999: RMB1,291,000).

5. INVESTMENTS IN SUBSIDIARIES

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	—	—	37,983	27,238

6. INVESTMENTS IN ASSOCIATED COMPANIES

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	6,424	3,132	6,424	3,132

7. ACCOUNTS RECEIVABLE, NET

As at December 31, accounts receivable comprised:

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts receivable	58,473	51,897	60,435	57,244
Provision for doubtful debts	(2,189)	(1,298)	(2,025)	(1,298)
Accounts receivables, net	56,284	50,599	58,410	55,946

The credit period is normally six months after the services are rendered.

The aging analysis of accounts receivable is as follows:

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	38,143	32,622	40,105	37,969
Over 6 months but within 1 year	15,114	5,714	15,114	5,714
Over 1 year but within 2 years	4,336	8,334	4,336	8,334
Over 2 years but within 3 years	880	4,443	880	4,443
Over 3 years but within 4 years	—	784	—	784
	58,473	51,897	60,435	57,244

8. INVENTORIES

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Equipment for sale	7,195	7,506	6,207	7,506
Spare parts	2,947	5,851	2,947	5,851
Other	507	2,329	507	1,168
Total	10,649	15,686	9,661	14,525
Less: Provision for decline in net realisable value	(969)	(536)	(969)	(536)
	9,680	15,150	8,692	13,989

Inventories with a total carrying value of approximately RMB6,776,000 and RMB814,000 as at December 31, 2000 and 1999, respectively, are stated at net realisable value.

9. PREPAYMENTS AND OTHER CURRENT ASSETS

As at December 31, prepayments and other current assets comprised:

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	16,221	3,898	16,182	3,489
Other current assets	15,141	14,843	15,932	11,022
Total	31,362	18,741	32,114	14,511

10. LONG-TERM BANK LOAN

As at December 31, 2000 and 1999, the Company and the Group had borrowed the following long-term bank loan.

	Interest rate and final maturity	2000	1999
		RMB'000	*RMB'000*
Renminbi denominated bank loan	Floating interest rate ranging from 5.94% to 15.12% per annum with maturity in December 2000	—	800
Less: current portion		—	(800)
Total		—	—

The above bank loan was guaranteed by a company under the management control of CAAC. The bank loan was fully repaid in December 2000.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Payable for equipment purchases	6,360	19,470	6,360	19,470
Accounts payable	6,920	1,930	6,781	1,802
Accrued expenses for repair and maintenance	1,031	959	1,031	959
Accrued technical support fee	2,690	—	2,690	—
Accrued technical bonus to employees	8,550	8,550	8,550	8,550
Accrued rentals	44	—	44	—
Accrued network usage fees	978	2,415	978	2,415
Accrued commission	29,046	18,372	33,486	18,372
Pension	336	356	336	356
Other current liabilities	9,203	4,950	7,727	3,863
	65,158	57,002	67,983	55,787

As of December 31, 2000 and 1999, RMB11,491,000 and RMB22,287,000 of the above balances were denominated in US dollars respectively.

The aging analysis of payable for equipment purchases is as follows:

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	5,779	7,356	5,779	7,356
Over 6 months but within 1 year	—	9,959	—	9,959
Over 1 year but within 2 years	581	1,155	581	1,155
Over 2 years but within 3 years	—	—	—	—
Over 3 years but within 4 years	—	1,000	—	1,000
	6,360	19,470	6,360	19,470

12. TAXES PAYABLE

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Enterprise income tax payable	210,421	155,028	209,710	154,709
Business tax payable	10,257	12,911	10,140	12,911
VAT payable	(479)	185	(510)	185
Other	457	119	401	119
	220,656	168,243	219,741	167,924

13. PAID-IN CAPITAL

The paid-in capital as at December 31, 1999 represented the paid in capital of CACI prior to the Reorganisation as of that date.

Pursuant to the Reorgansation, the assets and liabilities related to the Group's existing business as at March 31, 2000 were transferred to the Group. The net value of these assets and liabilities was converted into the Company's legal capital of 577,304,000 Domestic Shares of RMB1 each with all the then existing reserves eliminated and the resulting difference credited to capital surplus. The reorganisation adjustments in the consolidated statements of changes in shareholders' equity reflect the effect of adjustments necessary to arrive at the legal capital of the Company upon completion of the Reorganisation and incorporation of the Company.

The paid-in capital as at December 31, 2000 represented Domestic Shares that are issued by the Company upon incorporation.

	2000	2000
	Number of shares '000	RMB'000
Authorised:		
Domestic Shares of RMB1 each	577,304	577,304
Issued and fully paid:		
Domestic Shares of RMB1 each	577,304	577,304

14. APPROPRIATIONS AND DISTRIBUTION OF PROFIT

As part of the Reorganisation as described in Note 1, certain assets acquired with cash generated from the business now assumed by the Group were retained by CACI. The distributions to CACI in the consolidated statements of changes in shareholders' equity during the years represented such amounts of cash appropriated to CACI during the years for acquisition of those assets retained by CACI.

Subsequent to the Reorganisation, in accordance with the Articles of Association of the Company, earnings available for distribution by the Company will be deemed to be the lower of the amounts determined in accordance with (a) PRC GAAP, and (b) IAS.

According to the Articles of Association of the Company, the distributable net profit after taxation and minority interests is determined after allowance has been made for:

(i) making up cumulative prior years' losses, if any;

(ii) appropriation to the statutory surplus reserve at 10% of the after-tax profit, as determined under PRC GAAP, until the cumulative amounts reach 50% of the Company's registered capital. The statutory surplus reserve may be converted into capital provided that it is approved by a resolution at a shareholders' general meeting and its balance does not fall below 25% of the new registered capital; and

(iii) appropriation to the public welfare reserve at 5% to 10% (at the discretion of the Board of Directors) of the after-tax profit, as determined under PRC GAAP, which can only be used for the collective welfare of the employees.

15. REVENUES

Revenue primarily comprises the fees earned by the Group for the use of the Group's electronic travel distribution, airport passenger processing and air cargo systems, which provide flight seat control and sales, real-time check in, flight allocation, cargo management services and data-intensive communication services.

These fees are primarily effected on terms determined by CAAC and other relevant PRC authorities. A substantial portion of these fees was generated from customers which have become shareholders of the Company after the Reorganisation.

(1) Electronic travel distribution services are provided by the Group's Inventory Control System and Computer Reservation System, which provide real-time flight seat control and flight reservation information for the airlines and travel agencies.

(2) Airport passenger processing services are provided by the Group's Airport Passenger Processing System, which provides check-in, boarding, baggage control, flight navigation and flight allocation services for airlines and airports located in the PRC and in several foreign cities.

(3) The Group charges airlines, airports and travel agencies for the use of the Group's systems for data communication.

(4) The Group provides air cargo systems and computer system installation services to airlines and airports. In addition, the Group also sells equipment related to the use of the Group's systems to airlines, airports and travel agencies.

16. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging (crediting) the following:

	2000	1999
	RMB'000	*RMB'000*
After charging:		
Interest expense on bank loans repayable within five years	47	4,436
Less: amounts capitalised in assets under construction	—	—
Net interest expense	47	4,436
Depreciation	104,857	88,218
(Gain) loss on disposal of property, plant and equipment	(20)	563
Operating lease rentals	31,516	18,670
Provision for decline in net realisable value of inventories	433	25
Write—off and provision for doubtful debts	891	407
Cost of inventories	20,273	21,944
Contributions to defined contribution pension scheme	857	385
Auditor's remuneration	1,143	265
Exchange loss	43	14
Contribution to housing fund	826	365
After crediting:		
Interest income	5,043	3,056

17. TAXATION

Enterprise Income Tax

	2000	1999
	RMB'000	*RMB'000*
PRC enterprise income tax	94,166	103,742
Deferred taxation	—	—
	94,166	103,742

Under PRC income tax law, the Company is subject to enterprise income tax at a rate of 33% on the taxable income as reported in its statutory accounts which are prepared based on the accounting principles and financial regulations applicable to PRC enterprises. However, the Company was registered as a new technology enterprise in October 2000 in Zhongguancun Haidian Science Park and has been approved by the Haidian State Tax Bureau ("HSTB") to enjoy an exemption from enterprise income tax from October 1, 2000 to December 31, 2002.

The Company's subsidiaries are entitled to different preferential tax rates, ranging from 7.5% to 33%. These subsidiaries are located in special economic zones (Hainan Cares and Shenzhen Cares) for which the applicable tax rate is 15%, or designated as "New Technology Enterprise" (Chongqing Cares) for which the applicable tax rate is 33%. In addition, these subsidiaries are entitled to certain reductions in tax rates in their initial years of operation.

The reconciliation of enterprise income tax at the statutory rate of 33% applied to income before taxation for the years ended December 31, 2000 and 1999, to the effective rate actually recorded in the consolidated statements of income, is as follows:

	2000	1999
Statutory tax rate	33.0%	33.0%
Effect of tax holidays available to the Company	(5.9)%	—
Effect of preferential tax rates applicable to certain subsidiaries	(0.4)%	(0.1)%
Effective income tax rate	26.7%	32.9%

There were no material temporary differences for which deferred taxation had not been provided for as at the balance sheet dates.

The effect of tax holidays available to the Company and the preferential tax rates applicable to certain subsidiaries is as follows:

	2000 ***RMB'000***	1999 *RMB'000*
Aggregate amount	22,342	195
Per share effect	0.0387	0.0003

Business Taxes

The Group is subject to business taxes on its service revenues:

Electronic travel distribution, airport passenger processing, air cargo systems and data communication services	3%
Training, technical support service, rental and others	5%

Value-Added Tax ("VAT")

The Group was certified by the tax authorities as a smal-scale VAT payer, and required to pay VAT at the rate of 4% levied on certain of its revenue items, including equipment sales, maintenance and design services. Input VAT paid on purchase of goods and services could not be used to offset VAT payable. Since the incorporation of the Company on October 18, 2000, the Company has been required to pay VAT at the rate of 17% as an ordinary VAT payer. An input VAT credit is available whereby input VAT previously paid on purchases of equipment for sale and spare parts can be used to offset the output VAT on sales.

18. RELATED PARTY TRANSACTIONS

Entities are considered to be related if one has the ability to control the other, directly or indirectly, or has the ability to exercise significant influence over the financial and operating decisions of the other. Entities are also considered to be related if they are subject to common control or common significant influence.

The following is a summary of significant recurring transactions carried out with the Group's related parties for the years ended December 31, 2000 and 1999.

(1) Related parties

The related parties of the Company and the group are as follows:

Name	Relation ship with the Company	Shareholding percentage
CACI	Shareholder of the Company	34.38%
Southern Airlines Group Co. (i)	Shareholder of the Company	14.41%
Eastern Air Group Co. (i)	Shareholder of the Company	11.90%
Air China (i)	Shareholder of the Company	10.07%
China Southwest Airlines Co. (i)	Shareholder of the Company	4.40%
China Northern Airlines Co. (i)	Shareholder of the Company	4.27%
China Northwest Airlines Co. (i)	Shareholder of the Company	4.02%
Yunnan Airlines (i)	Shareholder of the Company	3.03%
Xinjiang Airlines (i)	Shareholder of the Company	1.49%
China National Aviation Corp. (i)	Shareholder of the Company	1.02%
Air Greatwall Co. (i)	Shareholder of the Company	0.46%
Xiamen Airlines Limited Company (ii)	Shareholder of the Company	3.80%
Hainan Airlines Company Limited (ii)	Shareholder of the Company	1.92%
China Xinhua Airlines Co. (ii)	Shareholder of the Company	1.31%
Shenzhen Airlines Ltd. Co. (ii)	Shareholder of the Company	1.08%
Shanghai Airlines Ltd. Co. (ii)	Shareholder of the Company	0.99%
Shandong Airlines Co., Ltd. (ii)	Shareholder of the Company	0.75%
Sichuan Airlines Co. (ii)	Shareholder of the Company	0.30%
Wuhan Airlines Co. (ii)	Shareholder of the Company	0.23%
Changan Airlines Limited (ii)	Shareholder of the Company	0.14%
Shanxi Airlines Co. (ii)	Shareholder of the Company	0.03%
Macau Airlines Limited	Subsidiary of China National Aviation Corp.	—
Zhejiang Airlines	Subsidiary of China National Aviation Corp.	—
Fujian Airlines Co.	Subsidiary of Xiamen Airlines Limited Company	—

Guizhou Airlines Company Limited	Subsidiary of Southern Airlines Group Co.	—
Nanjing Airlines Co.	Subsidiary of China Northwest Airlines Co.	—
China Northern Airlines Sanya Ltd.	Subsidiary of China Northern Airlines Co.	—
China North Swan Airlines Co.	Subsidiary of China Northern Airlines Co.	—
Societe Internationale De Telecommunications Aeronautiques S.C. ("SITA")	Parent Company of Societe Internationale de Teleommunications Aeronautiques Greater China Holdings Limited ("SITA Subsidiary"), a joint venture partner in InfoSky, a joint venture enterprise established between CACI and SITA Subsidiary	—

Note:

(i) Representing the ten airline companies under the direct supervision and control of CAAC which received the Company's Domestic Shares at no consideration pursuant to the Reorganisation as mentioned in Note 1.

(ii) Representing other airline companies which subscribed for Domestic Shares in the Company pursuant to the Reorganisation as mentioned in Note 1.

(2) Related party transactions

The Group had the following material related party transactions for the years ended December 31, 2000 and 1999.

(i) Revenue for electronic travel distribution, airport passenger processing, data communication services and air cargo systems services, the pricing of which was based on negotiated prices with these related parties with reference to the pricing standards prescribed by CAAC where applicable.

Name	**2000** **RMB'000**	1999 *RMB'000*
Southern Airlines Group Co.	90,646	82,890
Eastern Air Group Co.	56,790	53,045
Air China	68,205	60,694
China Southwest Airlines	43,218	38,050
China Northern Airlines	39,334	28,073
China Northwest Airlines	31,739	17,456
China Yunnan Airlines	27,594	27,744
China Xinjiang Airlines	14,263	9,905
China National Aviation Corp.	2,328	2,662
Xiamen Airlines	35,956	29,699
Hainan Airlines Company Limited	31,732	21,833
China Xinhua Airlines	13,224	11,790
Shenzhen Airlines Ltd.	11,490	6,800
Shanghai Airlines Ltd.	25,106	18,668
Shandong Airlines Co., Ltd.	12,232	7,458
Air Greatwall	2,501	2,682

Sichuan Airlines	12,462	9,130
Wuhan Airlines	9,203	6,110
Changan Airlines Limited	1,099	853
Shanxi Airlines	453	210
Air Macau Company Limited	10,216	10,132
Zhejiang Airlines	7,517	6,359
Fujian Airlines	2,256	2,216
Guizhou Airlines Company Limited	167	430
Nanjing Airlines	3,242	1,593
China Northern Airlines Sanya Ltd.	3,909	3,355
China Northern Swan Airlines	4,547	3,617
Total	561,429	463,454

In the Directors' opinion, these transactions were carried out with related parties in the ordinary course of business and on normal commercial terms.

(ii) Lease of office and equipment from CACI

For the years ended December 31, 2000 and 1999, operating lease rentals for lease of office buildings and equipment from CACI amounted to RMB20,620,000 and RMB7,360,000 respectively. The pricing of operating lease rentals for buildings is based on agreed rates with CACI with reference to market rentals. The operating lease rentals for equipment is determined based on the historical depreciation expenses of the equipment.

(iii) Network usage fees paid to SITA

For the years ended December 31, 2000 and 1999, network usage fees paid to SITA amounted to RMB37,481,000 and RMB20,971,000 respectively. The network usage fees were determined based on the rates agreed between SITA and the Company.

(3) Balance with related parties

Balances with related parties mainly comprised:

(i) Due from related parties

	The Group		**The Company**	
Name	**2000**	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Southern Airlines Group Co.	—	200	—	200
Eastern Air Group Co.	28,085	72,532	28,085	72,532
Air China	24,092	59,464	24,092	59,464
China Southwest Airlines Co.	30,181	25,709	30,181	25,709
China Northern Airlines Co.	22,582	16,079	22,582	16,079
China Northwest Airlines Co.	26,878	14,990	26,878	14,990
Yunnan Airlines Co.	4,229	3,764	4,229	3,764

Xinjiang Airlines Co.	1,867	1,430	1,867	1,430
China National Aviation Corp.	1,930	3,898	1,930	3,898
Xiamen Airlines Limited Company	12,527	4,748	12,527	4,748
Hainan Airlines Company Limited	19,196	10,289	19,196	10,289
China Xinhuan Airlines Co.	7,237	6,257	7,237	6,257
Shenzhen Airlines Ltd.	5,263	2,018	5,263	2,018
Shanghai Airlines Ltd. Co.	11,768	6,689	11,768	6,689
Shandong Airlines Co., Ltd.	4,650	5,221	4,650	5,221
Air Greatwall Co.	580	765	580	765
Sichuan Airlines Co.	3,188	3,029	3,188	3,029
Wuhan Airlines Co.	6,101	2,396	6,101	2,396
Changan Airlines Limited	934	199	934	199
Shanxi Airlines Co.	57	—	57	—
Macau Airlines Limited	9,918	14,869	9,918	14,869
Zhejiang Airlines	2,634	1,099	2,634	1,099
Fujian Airlines Co.	146	687	146	687
Guizhou Airlines Company Limited	2	14	2	14
Nanjing Airlines	1,897	620	1,897	620
China Northern Airlines Sanya Ltd.	266	686	266	686
China North Swan Airlines	3,637	2,316	3,637	2,316
Total	229,845	259,968	229,845	259,968

(ii) Due to related parties

Name	**The Group**		**The Company**	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Eastern Air Group Co.	256	256	256	256
China Northern Airlines Co.	179	179	179	179
Southern Airlines Group Co.	—	4,622	—	4,622
China Southwest Airlines Co.	—	959	—	959
CACI	—	30,350	—	30,350
SITA	3,407	—	3,407	—
Air Great Wall Co.	2,840	—	2,840	—
Total	6,682	36,366	6,682	36,366

The balance with related parties were unsecured, non-interest bearing and generally repayable within six months.

The balances with related parties primarily arose from the above related party transactions.

19. DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS

	2000	1999
	RMB'000	*RMB'000*
Fees for executive directors	—	—
Fees for non—executive directors	—	—
Fees for supervisors	—	—
Other emoluments for executive directors:		
— basic salaries and allowances	227	123
— bonus	379	297
— retirement benefits	33	16
Other emoluments for non—executive directors	277	223
Other emoluments for supervisors	338	270
Total emoluments	1,254	929

No director had waived or agreed to waive any emoluments during the years.

Details of emoluments paid to the five highest—paid employees (mainly senior executives) were:

	2000	1999
	RMB'000	*RMB'000*
Basic salaries and allowances	253	172
Bonus	449	391
Retirement benefits	37	22
Other	—	—
	739	585
Number of directors	4	3
Number of employees	1	2
	5	5

The annual emoluments paid during the years ended December 31, 2000 and 1999 to each of the directors (including the five highest paid employees) fell within the band from RMB nil to RMB1 million.

During the years ended December 31, 2000 and 1999, no emolument was paid to the five highest—paid individuals (including directors and employees) as an inducement to join or upon joining the Company or as compensation for loss of office.

20. RETIREMENT BENEFITS

All the full time employees of the Group are covered by a state—sponsored pension scheme under which the employees are entitled to an annual pension equal to their basic salaries at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group was required to make specified contributions to the state—sponsored pension scheme at the rates of 14.5% and 13% of the employees' basic salaries for the years ended December 31, 2000 and 1999 respectively. The contribution to the pension scheme made by Group for the years ended December 31, 2000 and 1999 amounted to RMB857,000 and RMB385,000 respectively. Under this scheme, the Group has no obligation for post—retirement benefits beyond the annual contributions made.

21. HOUSING FUND

All the full—time employees of the Group are entitled to participate in a state—sponsored housing fund. The fund can be used by the Group for the construction of employee quarters, by the employees for housing purchases, or may be withdrawn upon their retirement. The Group is required to make annual contributions to a state—sponsored housing fund equivalent to a certain percentage of each employee's salary. The contribution by the Group to the housing fund for the years ended December 31, 2000 and 1999 amounted to approximately RMB826,000 and RMB365,000, respectively.

All of the employees of the Group who were previously employees of CACI were covered by CACI's employee housing benefits scheme. That scheme reflected the State housing reform policy of the PRC applicable to CACI. Under the scheme, CACI staff were entitled to purchase staff quarters at preferential rates set by the PRC government. The cost of these housing benefits incurred and borne by CACI amounted to approximately RMB32.4 million and RMB13.6 million, for the years ended December 31, 2000 and 1999, respectively. CACI has given an undertaking to the Group that it would continue to provide such housing benefits to those employees of the Group who were previously employees of CACI and who were beneficiaries under CACI's employee housing benefits scheme. CACI has undertaken that it would not require the Group to reimburse any costs or losses that CACI has incurred or would incur in this regard. Except for the contributions to the housing fund described above, the Group does not have any contractual obligations to provide these benefits to its employees or otherwise reimburse CACI any costs of providing these benefits.

22. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share for the years ended December 31, 2000 and 1999 have been computed by dividing net profit of RMB256,592,000 and RMB208,038,000 respectively, by 577 million shares outstanding immediately prior to the offering of the Company's shares.

Earnings per share presented for the years ended December 31, 2000 and 1999 are calculated on the above basis without adjusting for the pro forma changes in the number of new shares that might have resulted from additional contributions from CACI over the two years.

No diluted earnings per share was presented as there were no potential dilutive ordinary shares outstanding during the years ended December 31, 2000 and 1999.

Pursuant to a shareholders' resolution dated October 18, 2000, the Company decided to declare a special dividend to its existing shareholders in an amount equal to the lesser of (i) the distributable profits under PRC GAAP of the Group for the period from April 1, 2000 to December 31, 2000 and (ii) 10% of the net proceeds of the Offering. 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% of the estimated net proceeds of the Offering. CACI is obligated to pay the shortfall and is entitled to seek repayment from those parties who were shareholders immediately prior to the Offering on a pro rata basis within two years.

After the special dividend of RMB124.1 million as mentioned above, the reserve available for distribution as at December 31, 2000 was nil, which is the lesser of the amounts determined in accordance with PRC GAAP and IAS.

23. COMMITMENTS

(a) Capital commitments

As at December 31, 2000, the Group had the following capital commitments:

	RMB'000
Authorised and contracted for	31,138
Authorised but not contracted for	—
Total	31,138

The above capital commitments primarily relate to the acquisition and installation of the new generation electronic travel distribution system.

Approximately RMB29.4 million capital commitments outstanding as at December 31, 2000 was denominated in U.S. dollars (approximately US$3.6 million).

(b) Operating lease commitments

As at December 31, 2000, the Group had the following commitments under operating leases:

	RMB'000
Within one year	30,230
Later than one year but not later than five years	113,845
Later than five years	141,751
Total	285,826

(c) Technical support fee

As at December 31, 2000, the Group had total technical support fee commitments of approximately RMB14.2 million.

24. NOTES TO STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to cash generated from operations:

	2000	1999
	RMB'000	*RMB'000*
Profit before taxation and minority interests	353,054	314,960
Adjustments for:		
Depreciation and amortization	104,857	88,218
Interest income	(5,043)	(3,056)
Interest expense	47	4,436
(Gain) Loss on disposal of property, plant and equipment	(20)	563
Loss on revaluation of property, plant and equipment	2,700	—
Write—off and provision for doubtful debts	891	407
Provision for decline in net realisable value of Inventories	433	25
Share of results from associated companies	(3,446)	(392)
Operating profit before working capital changes	453,473	405,161
(Increase) Decrease in current assets:		
Accounts receivable	(6,576)	(14,969)
Inventories	5,037	3,430
Prepayments and other current assets	(12,621)	(10,321)
Due from related parties	30,123	(1,128)
Increase (Decrease) in current liabilities:		
Accounts payable and accrued liabilities	8,156	(14,598)
Deferred revenue	7,592	(1,537)
Due to related parties	(29,684)	12,941
Taxes payable	45,337	2,436
Cash generated from operations	500,837	381,415

(b) Analysis of cash and cash equivalents

As at December 31, cash and cash equivalents consisted of:

	The Group		The Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash				
RMB	133	246	1	204
Demand deposits				
RMB	583,845	162,699	550,770	143,391
HKD denominated	751	92	—	—
	584,596	162,791	550,770	143,391
Total cash and cash equivalents	584,729	163,037	550,771	143,595

25. FINANCIAL INSTRUMENTS

The Group's financial instruments mainly consist of demand deposits with bank, short—term bank deposits, accounts receivable, due from related parties, accounts payable, due to related parties and bank loans. The carrying amounts of the Group's demand deposits with bank, short—term bank deposits, balances with related parties, accounts receivable and accounts payable approximated their fair values as at the balance sheet dates because of the short maturity of those instruments. The carrying amount of bank loans approximated its fair value based on borrowing rates available for bank loans with similar terms and maturity.

Credit risks

The extent of the Group's credit exposure is represented by aggregated balance of demand deposits with bank, short—term bank deposits, accounts receivable and amounts due from related parties. The maximum credit risk exposure in the event that other parties fail to perform their obligation under these financial instruments was approximately RMB899 million and RMB490 million as at December 31, 2000 and 1999, respectively.

Counterparties to financial instruments consist of State—owned banks in the PRC, and a large number of airlines and travel agents. The Group does not expect any counterparties to fail to meet their obligations. The Group has concentrations of credit risk with these entities.

Interest rate risk

The interest rates and terms of repayment of bank loans of the Group are disclosed in Note 10 above.

Foreign currency risk

The Group has foreign currency risk as certain of its payables to equipment suppliers are denominated in foreign currencies, principally U.S. dollars. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

26. BUSINESS AND OTHER RISKS

Business risks

The Group conducts its operations in the PRC and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities in United States of America and Western European countries. These include risks associated with, among others, the political, economic and legal environments, influence of national authorities over pricing regulation and competition in the industry.

Adequate financing for future expansion

Substantial financing will be required by the Group to broaden its existing range of services and develop new services, in particular, the construction of a new generation electronic travel distribution system. There is no assurance that adequate financing will be available to the Group on acceptable terms. If adequate capital is not available, the business prospects of the Group will be adversely affected.

Taxation risk

Since PRC tax laws are subject to interpretations by relevant PRC authorities, the tax positions adopted by various entities comprising the Group may be subject to examination by PRC authorities during the normal course of the business. The preferential tax treatment these entities obtained, including the exemption from enterprise income tax available to the Company, may also be subject to review and confirmation by higher authorities. Management believes that the possibility of material additional tax liabilities that may accrue for the year ended December 31, 2000 in the course of a future tax examination of the Group is remote.

27. SEGMENT REPORTING

The Group conducts its business within one business segment — the business of providing electronic travel distribution, airport passenger processing, air cargo system, data network service and internet—based travel platform services in the PRC. The Group's chief decision maker for operation is considered to be the Group's General Manager. The information reviewed by the General Manager is identical to the information presented in the consolidated statement of income. No segment income statement has been prepared by the Group during the years ended December 31, 2000 and 1999. The Group also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

28. NEW ACCOUNTING STANDARDS

The IASC issued IAS 39, "Financial Instruments — Recognition and Measurement" and IAS 40, "Investment Property", in 1998 and 2000, respectively. Both standards will become effective for the fiscal year beginning on or after January 1, 2001. IAS 39 establishes standards for recognising, measuring and disclosing information about an enterprise's financial assets and financial liabilities, including accounting for hedging transactions. IAS 40 prescribes the accounting treatment for investment property. Management believes the effect of adoption of IAS 39 and IAS 40 will not have a material impact on the Group's consolidated financial statements.

29. SUBSEQUENT EVENTS

The Company issued 310,854,000 H shares at HK$4.1 per share in February 2001, which were listed on The Stock Exchange of Hong Kong Limited on February 7, 2001.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of directors on April 11, 2001.