NOTES TO THE FINANCIAL STATEMENTS

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

1. COMPANY ORGANISATION 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, data network, air cargo system 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 Center ("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, data network, air cargo system 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 Domestic Shares were to be 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, data network, air cargo system 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 ten other airline companies subscribed for additional Domestic Shares in the Company for a cash consideration of approximately RMB240 million.

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. Following the Offering, the respective shareholding percentages of the shareholders are as disclosed in

Note 20(1).

As at December 31, 2001, the Company had direct or indirect interests in the following subsidiaries and associated companies. All of these subsidiaries and associated companies are limited liability companies incorporated in the PRC except for TravelSky Technology (Hong Kong) Limited, which is a limited liability company incorporated in Hong Kong.

Name	**Date of Incorporation**	**Percentage of equity interest held**		**Issued and fully paid capital RMB**	**Principal activities**
		Direct	**Indirect**		
Subsidiaries					
Hainan Civil Aviation Cares Co., Ltd. ("Hainan Cares")	March 2, 1994	55.63%	-	6,615,000	Provision of electronic travel distribution and cargo management services; and sale and installation of the related 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 the related 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 the related 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 the related information systems
Aviation Cares of Yunnan Information Co., Ltd. ("Yunnan Cares")	June 15, 2000	50%*	-	2,000,000	Computer hardware and software development and data network services
InfoSky Technology Co, Ltd. ("InfoSky")	September 20, 2000	51%	-	20,695,000	Provision of Cargo management services and related software and technology development; and provision of technical support, training and consulting services
TravelSky Technology (Hong Kong) Limited	December 13, 2000	100%	-	2,122,200	Commercial services
Civil Aviation Cares of Xiamen Ltd. ("Xiamen Cares")	September 14, 2001	51%	-	2,000,000	Computer hardware and software development and data network 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	Percentage of equity interest held 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 data 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 data network services
Aviation Cares of of Southwest Chengdu, Ltd. ("Xinan Cares")	November 29, 1999	44%	-	2,000,000	Computer hardware and software development and data 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 year 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 of the Group before the Reorganisation.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company and its subsidiaries are as follows:

(A) BASIS OF PREPARATION

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board, effective as at December 31, 2001.

They are prepared under the historical cost convention, except that buildings are carried at revalued amounts as disclosed in Note 3(d).

(B) MEASUREMENT CURRENCY

Based on the economic substance of the underlying events and circumstances relevant to the Company and its PRC subsidiaries, the measurement currency of the Company and its PRC subsidiaries has been determined to be RMB, and the measurement currency of TravelSky Technology (Hong Kong) Limited has been determined to be Hong Kong dollars. In preparing the consolidated financial statements, financial statements of TravelSky Technology (Hong Kong) Limited are translated based on the policies as described in Note 3 (p).

(C) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Group include the accounts of the Company and the companies that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders are shown separately in the balance sheet and statement of income, respectively.

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed off during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Investments in associated companies (generally investments of between 20% to 50%

in a company's equity), where significant influence is exercised by the Company, are accounted for using the equity method. An assessment of investments in associates is performed when there is an indication that the assets have been impaired or the impairment losses recognised in prior years no longer exist .

When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment.

All other investments are accounted for in accordance with IAS 39, Financial Instruments.

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the associates, against the investment in the associates. Unrealised losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than buildings, are stated at cost less accumulated depreciation and accumulated impairment loss. 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 asset 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 revaluation 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.

(E) INTANGIBLE ASSETS

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight line basis over their estimated useful lives. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

Cost of acquisition of the new software is capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised on a straight line basis over 3 years.

Costs incurred in order to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

(F) 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, investments in subsidiaries are accounted for using the equity method. An assessment of investments in subsidiaries is performed when there is an indication that the assets have been impaired or the impairment losses recognised in prior years no longer exist.

(G) 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 assets have been impaired or the impairment losses recognised in prior years no longer exist.

(H) INVESTMENTS

The Company adopted IAS 39, Financial Instruments: Recognition and Measurement on January 1, 2001. Accordingly, investments are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the company, are classified as available-for-sale.

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realise them within 12 months of the balance sheet date.

All purchases and sales of investments are recognised on the trade date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale and trading investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date.

Gains or losses on measurement to fair value of available-for-sale investments are recognised directly in the fair value reserve in shareholders' equity, until the investment is sold or otherwise disposed off, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

Changes in the fair values of trading investments are included in financial expense.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method.

(I) 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.

(J) RECEIVABLES

Receivables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.

(K) 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 determined 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.

(L) 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 year ended December 31, 2001, no development costs were capitalised as they did not meet all the conditions listed above (2000: nil).

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.

(M) 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.

(N) 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 year ended December 31, 2001 (2000: nil).

(O) 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 network 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 by reference to the stage of completion when this can be measured reliably. The stage of completion is determined in the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of expenses recognised that are recoverable. In the period in which it is determined that a loss will result from the performance of the contract, the entire amount of the estimated ultimate loss is charged against income; and

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

(P) FOREIGN CURRENCIES

Foreign currencies transactions

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.

Foreign operations

Where the operations of a foreign company are integral to the operations of the Company, the translation principles are applied as if the transactions of the foreign operation had been those of the Company. At each balance sheet date, foreign currency monetary items are translated using the closing rate, non-monetary items, which are carried at historical cost, are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined. Income and expense items are translated at the exchange rates in place on the dates of the transactions. Resulting exchange differences are recognised in the statement of income during the year.

Foreign entities

The foreign consolidated subsidiary is regarded as foreign entity if it is financially, economically and organisationally autonomous. Its reporting currency is the respective local currency. Financial statements of a foreign consolidated subsidiary are translated at year-end exchange rates with respect to the balance sheet, and at exchange rates at the dates of the transactions with respect to the income statement. All resulting translation differences are included in a translation reserve in equity.

Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign entity are recorded using the exchange rate at the effective date of the transaction. Exchange differences arising on a monetary item that, in substance, forms part of the Company's net investment in a foreign entity are classified as equity in the consolidated financial statements until the disposal of the net investment. Exchange differences on transactions which hedge the Company's net investment in a foreign entity are taken directly to the translation reserve in equity.

On the disposal of a foreign entity, the cumulative amount of exchange differences that relate to the foreign entity is recognised as income or as expenses in the same period in which the gain or loss on disposal is recognised.

(Q) RETIREMENT SCHEME

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

(R) TAXATION

Taxation of the Group except for TravelSky Technology (Hong Kong) Limited is provided based on the tax laws and regulations applicable to PRC enterprises. The Group provides for PRC 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.

Hong Kong profits tax of TravelSky Technology (Hong Kong) Limited is provided on the estimated assessable profits arising in or derived from Hong Kong during the year.

(R) TAXATION

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.

(S) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities carried on the balance sheet mainly include cash and cash equivalents, short-term bank deposits, accounts receivable, advance to suppliers, due from associated companies and related parties, treasury bonds, other long-term assets, accounts payable and due to related parties. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

Financial instruments issued by the Group are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company and the Group have a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(T) 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. When discounting is used, the increase in provision reflecting the passage of time is recognized as interest expense.

(U) IMPAIRMENT OF ASSETS

Financial instruments are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the company will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognised in the income statement. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognised to the extent it does not exceed what amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets, the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period when there is objective evidence that the asset is impaired. The recoverable amount of a debt instrument remeasured to fair value is the present value of expected future cash flows discounted at the current market interest rates for a similar financial asset. A reversal of an impairment loss is recorded when the decrease in the impairment loss can be objectively related to an event occurring after the write down. Such reversal is recorded in income.

Property, plant and equipment, intangible assets, investment in subsidiaries and associated companies 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, intangible assets, investment in subsidiaries and associated companies carried at cost or 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 to which the asset belongs.

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. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

(V) CONTINGENCIES

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(W) SUBSEQUENT EVENTS

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

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, 2000	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
Purchases	7,115	75,213	2,822	6,274	143,103	234,527

Transfer upon completion	1,532	143,822	-	-	(145,354)	-
Disposals	-	(94,193)	-	(1,177)	-	(95,370)
As at December 31,2001	12,495	927,635	14,870	13,346	981	969,327
Accumulated depreciation						
As at January 1, 2000	(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)
Charge for the year	(335)	(102,697)	(1,668)	(1,600)	-	(106,300)
Write-back on disposals	-	88,315	-	881	-	89,196
As at December 31, 2001	(1,704)	(552,260)	(7,435)	(3,931)	-	(565,330)
Net book value						
As at December 31, 2000	2,479	264,915	6,281	5,037	3,232	281,944
As at December 31, 2001	10,791	375,375	7,435	9,415	981	403,997

The Company:

	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, 2000	-	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
Purchases	-	73,323	1,586	4,390	142,842	222,141
Transfer upon completion	1,532	143,822	-	-	(145,354)	-
Disposals	-	(93,921)	-	(977)	-	(94,898)

As at December 31, 2001	1,532	905,956	10,269	9,915	720	928,392
Accumulated depreciation						
As at January 1, 2000	-	(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)
Charge for the year	(21)	(99,812)	(1,287)	(1,297)	-	(102,417)
Write-back on disposals	-	88,143	-	863	-	89,006
As at December 31, 2001	(21)	(537,524)	(4,963)	(2,649)	-	(545,157)
Net book value						
As at December 31, 2000	-	256,877	5,007	4,287	3,232	269,403
As at December 31, 2001	1,511	368,432	5,306	7,266	720	383,235

On November 30, 2000, the buildings of the Group were revalued by Chesterton Petty Limited, 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. Buildings acquired by the Group in 2001 were stated at their cost which approximated their fair value as at December 31, 2001. Had the buildings of the Group been carried at cost less accumulated depreciation and impairment losses, their carrying amount included in the Group's financial statements as of December 31, 2001 would have been approximately RMB12,981,000 (2000: RMB4,669,000).

5. INTANGIBLE ASSETS, NET

	The Group		**The Company**	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
As at January 1	-	-	-	-
Additions	17,596	-	15,053	-
Disposals	-	-	-	-

As at December 31	17,596	-	15,053	-
Accumulated amortisation				
As at January 1	-	-	-	-
Amortisation for the year	(3,358)	-	(2,855)	-
Disposals	-	-	-	-
As at December 31	(3,358)	-	(2,855)	-
Net book value as at December 31	14,238	-	12,198	-

The intangible assets of the Group and Company represent computer software acquired.

6. INVESTMENTS IN SUBSIDIARIES

	The Group		**The Company**	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets	-	-	43,127	37,983

7. INVESTMENTS IN ASSOCIATED COMPANIES

	The Group		**The Company**	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets	12,391	6,424	12,391	6,424

8. OTHER LONG-TERM INVESTMENT

As at December 31, the Company and the Group had the following held-to-maturity investment:

	Interest rate and maturity	**2001**	**2000**
		RMB'000	*RMB'000*
Treasury bonds	3% per annum with maturity in December 2008	100,000	-

9. OTHER LONG-TERM ASSETS

As at December 31, other long-term assets comprised:

	The Group		The Company	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayment for purchase of buildings	3,833	-	-	-
Rental deposits and other long term assets	4,632	-	1,411	-
Total	8,465	-	1,411	-

10. ACCOUNTS RECEIVABLE, NET

As at December 31, accounts receivable comprised:

	The Group		The Company	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 31)		(Note 31)
Accounts receivable	16,452	47,057	15,901	47,202
Provision for doubtful debts	(1,615)	(2,189)	(1,356)	(2,025)
Accounts receivables, net	14,837	44,868	14,545	45,177

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

The aging analysis of accounts receivable is as follows:

	The Group		The Company	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 6 months	13,596	31,380	13,045	31,525

Over 6 months but within 1 year	835	10,461	835	10,461
Over 1 year but within 2 years	730	4,336	730	4,336
Over 2 years but within 3 years	1,291	880	1,291	880
	16,452	47,057	15,901	47,202

11. INVENTORIES

	The Group		**The Company**	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Equipment for sale	1,953	7,195	385	6,207
Spare parts	781	2,947	774	2,947
Other	33	507	30	507
Total	2,767	10,649	1,189	9,661
Less: Provision for decline in net realisable value	-	(969)	-	(969)
	2,767	9,680	1,189	8,692

Inventories with a total carrying value of approximately RMB nil as at December 31, 2001 (2000: RMB6,776,000) are stated at net realisable value.

12. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	The Group		**The Company**	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Note 31)
Prepayments	2,694	16,221	1,439	16,182
Other current assets	12,662	15,141	11,563	13,853
Total	15,356	31,362	13,002	30,035

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	The Group		The Company	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Note 31)
Accounts payable	59,777	13,280	57,781	13,141
Accrued commission	45,728	29,046	45,728	26,994
Accrued technical bonus to employees	27,091	8,550	27,091	8,550
Accrued rentals	5,485	44	5,485	44
Accrued expenses for repairs and maintenance	-	1,031	-	1,031
Accrued technical support fee	3,212	2,690	3,212	2,690
Accrued network usage fees	1,060	978	1,060	978
Pension contributions	340	336	340	336
Other accruals	24,399	9,203	15,621	7,728
	167,092	65,158	156,318	61,492

As of December 31, 2001, approximately RMB53,315,000 of the above balances were denominated in US dollars (2000: RMB11,491,000).

The aging analysis of accounts payable is as follows:

	The Group		The Company	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 6 months	57,136	7,480	55,238	7,344
Over 6 months but within 1 year	1,736	2,502	1,639	2,502
Over 1 year but within 2 years	-	2,140	-	2,140
Over 2 years but within 3 years	324	1,158	323	1,155
Over 3 years but within 4 years	581	-	581	-
Total accounts payable	59,777	13,280	57,781	13,141
Accrued liabilities	107,315	51,878	98,537	48,351
	167,092	65,158	156,318	61,492

14. TAXES PAYABLE

	The Group		The Company	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Enterprise income tax payable	81,862	210,421	80,148	209,710
Business tax payable	12,575	10,257	12,190	10,140
VAT payable	(204)	(479)	(182)	(510)
Other	290	457	158	401
	94,523	220,656	92,314	219,741

15. PAID-IN CAPITAL

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

Pursuant to the Reorganisation, 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 statement 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, 2001 represented 577,304,000 Domestic Shares that were issued by the Company upon incorporation and 310,854,000 H shares that were issued by the Company in February, 2001.

15. PAID-IN CAPITAL (CONT'D)

	2001	**2001**
	Number of shares	**Amount**
	'000	*RMB'000*

Authorised:

Domestic Shares of RMB1 each:		
As at December 31, 2000	577,304	577,304
H Shares of RMB1 each:		
Offering of shares in February 2001	310,854	310,854
Total shares of RMB1 each:		
As at December 31, 2001	888,158	888,158

Issued and fully paid:

Domestic Shares of RMB1 each:		
As at December 31, 2000	577,304	577,304
H Shares of RMB1 each:		
Offering of shares in February 2001	310,854	310,854
Total shares of RMB1 each:		
As at December 31, 2001	888,158	888,158

The amount of share premium arising from the listing of the H shares was approximately RMB947,302,000 after netting off of listing expenses of RMB94,217,000.

16. 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 distribution to CACI in the consolidated statement of changes in shareholders' equity during the year ended December 31, 2000 represented such amounts of cash appropriated during that year 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) the applicable financial rules and regulations in the PRC ("PRC GAAP"), and (b) IFRS.

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.

For the year ended December 31, 2001, the Board of Directors proposed appropriations of 10%, 10% and 20% of the net profit (2000: 10%, 5% and 0% respectively) as reflected in the Company's statutory financial statements prepared under PRC GAAP, or RMB36,442,000, RMB36,441,000 and RMB72,883,000 (2000: RMB16,801,000, RMB8,401,000 and nil for the period from October 18, 2000 to December 31, 2000), to the statutory surplus reserve fund , the statutory public welfare fund and the discretionary surplus reserve fund, respectively.

The proposed appropriation of RMB72,883,000 (20% of net profit after tax) to the discretionary surplus reserve fund for the year ended December 31, 2001 is subject to shareholders' approval at the next general meeting. Because of the adoption of the revised IAS 10, "Events After the Balance Sheet Date", the appropriation to the discretionary surplus reserve fund that was proposed after December 31, 2001 will be recorded in the Group's financial statements for year ended December 31, 2002.

After the appropriations mentioned above, the reserve available for distribution as at December 31, 2001 was approximately RMB235,436,000 (2000: RMB124,051,000), which is the lesser of the amounts determined in accordance with PRC GAAP and IFRS.

17. 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 system, 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 data network.

(4) The Group provides air cargo system 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.

18. PROFIT BEFORE TAXATION

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

	2001	**2000**
	RMB'000	*RMB'000*
After charging:		
Interest expense on bank loans repayable within five years	-	47
Less: amounts capitalised in assets under construction	-	-
Net interest expense	-	47
Depreciation	106,300	104,857
Amortisation	3,358	-
Loss (gain) on disposal of property, plant and equipment	4,650	(20)
Operating lease rentals	35,278	31,516
(Write-back of) provision for decline in net realisable value of inventories	(969)	433
(Write-back of) write-off and provision for doubtful debts	(574)	891
Cost of inventories	21,445	20,273
Contributions to defined contribution pension scheme	891	857
Auditors' remuneration	1,981	1,143

Exchange loss	417	43
Contribution to housing fund	1,299	826
Research and development expenses	64,867	43,163
After crediting:		
Interest income	42,382	5,043

19. TAXATION

Income Tax

	2001	**2000**
	RMB'000	*RMB'000*
PRC enterprise income tax-current	3,114	94,166
Hong Kong profits tax-current	75	-
Deferred taxation	-	-
	3,189	94,166

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 (Document (2000) Haiguoshuiersuo No.19) to enjoy an exemption from EIT from October 1, 2000 to December 31, 2002. The Haidian State Tax Bureau had also verbally confirmed to the Company that the above EIT preference was available to the Company for the year ended December 31, 2001.

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, Shenzhen Cares and Xiamen 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 operations. The taxation of the Group for the year ended December 31, 2001 represents the income tax provisions made by these subsidiaries.

The reconciliation of EIT at the statutory rate of 33% applied to income before taxation for the years ended December 31, 2001 and 2000, to the effective rate actually recorded in the consolidated statements of income, is as follows:

	2001	2000
	RMB'000	*RMB'000*
Statutory tax rate	33.0%	33.0%
Effect of tax holidays available to the Company	(31.5)%	(5.9)%
Effect of preferential tax rates applicable to certain subsidiaries	(0.7)%	
	(0.4)%	
Effective income tax rate	0.8%	26.7%

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

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

	2001	2000
Aggregate amount (RMB'000)	132,630	22,342
Per share effect (RMB)	0.1550	0.0387

However, the preferential tax treatments the entities comprising the Group obtained, including the EIT exemption enjoyed by the Company from October 1, 2000 to December 31, 2002 as mentioned above, may be subject to review by higher authorities. Should the preferential tax treatments not be available to the Group, additional EIT expenses may arise.

Business Taxes

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

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

Value-Added Tax ("VAT")

Before the incorporation of the Company on October, 2000, the Group is 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 can not be used to offset VAT payable.

Since the incorporation of the Company, the Group was certified by the tax authorities as an ordinary VAT payer, and required to pay VAT at the rate of 17% levied on certain of its revenue items, including equipment sales, maintenance and design services. 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.

20. 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.

(1) RELATED PARTIES

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

Name	Relationship with the Company	Shareholding Percentage
CACI	Shareholder of the Company	22.34%
Southern Airlines (Group) Co. (i)	Shareholder of the Company	9.36%
Eastern Air Group Co. (i)	Shareholder of the Company	7.74%
Air China (i)	Shareholder of the Company	6.55%
China Southwest Airlines Co. (i)	Shareholder of the Company	2.86%
China Northern Airlines Co. (i)	Shareholder of the Company	2.78%
China Northwest Airlines Co. (i)	Shareholder of the Company	2.61%
Yunnan Airlines Co. (i)	Shareholder of the Company	1.97%
Xinjiang Airlines Co. (i)	Shareholder of the Company	0.97%
China National Aviation Corp. (i)	Shareholder of the Company	0.66%
Air Greatwall Co. (i)	Shareholder of the Company	0.30%
Xiamen Airlines Limited Company (ii)	Shareholder of the Company	2.47%
Hainan Airlines Company Limited (ii)	Shareholder of the Company	1.25%
China Xinhua Airlines Co. (ii)	Shareholder of the Company	0.85%

Shenzhen Airlines Ltd. (ii)	Shareholder of the Company	0.70%
Shanghai Airlines Co., Ltd. (ii)	Shareholder of the Company	0.64%
Shandong Airlines Co., Ltd. (ii)	Shareholder of the Company	0.49%
Sichuan Airlines Co. (ii)	Shareholder of the Company	0.20%
Wuhan Airlines Co. (ii)	Shareholder of the Company	0.15%
Changan Airlines Limited (ii)	Shareholder of the Company	0.09%
Shanxi Airlines Co. (ii)	Shareholder of the Company	0.02%
Macau Airlines Limited	Subsidiary of China National Aviation Corp.	-
Zhejiang Airlines	Subsidiary of China National Aviation Corp.	-
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 Information, Networking and Computing B. V. ("SITA INC B. V.")	Shareholder of the Company and parent Company of Societe Internationale de Telecommunications Aeronautiques Greater China Holdings Limited ("SITA Subsidiary"), a joint venture partner in InfoSky, a joint venture enterprise established between CACI and SITA Subsidiary	
Societe Internationale de Telecommunications Aeronautiques S. C. ("SITA")	Affiliate of SITA INC B. V.	
Cathay Pacific Airways Limited ("CX")	Shareholder of the Company	
Amadeus Global Travel Distribution, S.A. ("AMADEUS")	Shareholder of the Company	
Sabre Inc. ("SABRE")	Shareholder of the Company	
Accounting Center of China Aviation	An entity having the same general manager as that of the Company	

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.

(i) Revenue for electronic travel distribution, airport passenger processing, data network and air cargo system 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	**2001** *RMB'000*	**2000** *RMB'000* *(Note 31)*
Southern Airlines (Group) Co.	111,026	90,646
Eastern Air Group Co.	59,897	56,790
Air China	73,989	68,205
China Southwest Airlines Co.	39,245	43,218
China Northern Airlines Co.	35,415	39,334
China Northwest Airlines Co.	25,542	31,739
Yunnan Airlines Co.	30,208	27,594
Xinjiang Airlines Co.	15,609	14,263
China National Aviation Corp.	68	2,328
Air Greatwall Co.	1,527	2,501
Xiamen Airlines Limited Company	45,278	35,956
Hainan Airlines Company Limited	37,758	33,988
China Xinhua Airlines Co.	12,894	13,224
Shenzhen Airlines Ltd.	15,565	11,490
Shanghai Airlines Co., Ltd.	32,802	25,106
Shandong Airlines Co., Ltd.	15,328	12,232
Sichuan Airlines Co.	14,124	12,462
Wuhan Airlines Co.	13,988	9,203
Changan Airlines Limited	2,129	1,099
Shanxi Airlines Co.	769	453
SITA	787	-
CX	3,813	-
AMADEUS	16,562	-
SABRE and its associate	25,198	-
Macau Airlines Limited	9,918	10,216
Zhejiang Airlines	10,137	7,517
Guizhou Airlines Company Limited	-	167

Nanjing Airlines Co.	5,332	3,242
China Northern Airlines Sanya Ltd.	3,631	3,909
China Northern Swan Airlines Co.	4,552	4,547
Huadong Cares	8,716	12,070
Dongbei Cares	2,655	3,327
Xinan Cares	3,771	3,580
Total	678,233	580,406

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 from CACI

For the year ended December 31, 2001, operating lease rentals for lease of office buildings from CACI amounted to RMB32,114,000 (2000: RMB20,620,000). The pricing of operating lease rentals for buildings is based on agreed rates with CACI with reference to market rentals.

(iii) Network usage fees paid to SITA

For the year ended December 31, 2001, network usage fees paid to SITA amounted to approximately RMB36,361,000 (2000: RMB37,481,000). The network usage fees were determined based on the rates agreed between SITA and the Company.

(iv) Purchase of software from SITA

For the year ended December 31, 2001, cargo management software purchased from SITA by InfoSky amounted to RMB2,508,000.

(v) Software license fee and technical support fee paid to a SABRE associate

For the year ended December 31, 2001, software license fee and technical support fee paid to a SABRE associate amounted to RMB4,715,000 and RMB2,344,000, respectively. The software license fee was capitalised as intangible assets.

(3) BALANCES WITH RELATED PARTIES

Balances with related parties mainly comprised:

(i) Due from related parties

Name	The Group 2001 RMB'000	The Group 2000 RMB'000	The Company 2001 RMB'000	The Company 2000 RMB'000
Southern Airlines (Group) Co.	19,712	-	18,552	-
Eastern Air Group Co.	9,460	28,085	9,185	28,085
Air China	20,660	24,092	20,660	24,092
China Southwest Airlines Co.	20,618	30,181	20,618	30,181
China Northern Airlines Co.	7,419	22,582	7,419	22,582
China Northwest Airlines Co.	16,760	26,878	15,886	26,878
Yunnan Airlines Co.	3,318	4,229	2,953	4,229
Xinjiang Airlines Co.	1,208	1,867	1,208	1,867
China National Aviation Corp.	2,491	1,930	2,491	1,930
Air Greatwall Co.	1,586	580	1,586	580
Xiamen Airlines Limited Company	11,605	12,673	11,185	12,673
Hainan Airlines Company Limited	16,821	19,196	16,821	19,196
China Xinhua Airlines Co.	1,709	7,237	1,709	7,237
Shenzhen Airlines Ltd.	2,313	5,263	2,313	5,263
Shanghai Airlines Co., Ltd.	3,469	11,768	2,676	11,768
Shandong Airlines Co., Ltd.	1,439	4,650	1,439	4,650
Sichuan Airlines Co.	1,100	3,188	1,100	3,188
Wuhan Airlines Co.	988	6,101	988	6,101
Changan Airlines Limited	-	934	-	934
Shanxi Airlines Co.	103	57	103	57
CX	798	-	798	-
SITA	787	-	-	-
Macau Airlines Limited	11,064	9,918	9,918	9,918
Zhejiang Airlines	4,701	2,634	4,701	2,634
Guizhou Airlines Company Limited	-	2	-	2
Nanjing Airlines Co.	297	1,897	297	1,897
China Northern Airlines Sanya Ltd.	238	266	238	266
China North Swan Airlines Co.	142	3,637	142	3,637
CACI	129	-	129	-
Accounting Center of China Aviation	7,601	-	7,601	-
Total	168,536	229,845	162,716	229,845

(ii) Due from subsidiaries

Name	The Group 2001	The Group 2000	The Company 2001	The Company 2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Note 31)
Shenzhen Cares	-	-	2,481	2,364
Hubei Cares	-	-	500	516
Chongqing Cares	-	-	-	169
Hainan Cares	-	-	-	392
Yunnan Cares	-	-	249	455
TravelSky Technology (Hong Kong) Limited	-	-	13,288	-
InfoSky	-	-	13,411	-
	-	-	29,929	3,896

(iii) Due from associated companies

Name	The Group 2001	The Group 2000	The Company 2001	The Company 2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Note 31)		*(Note 31)*
Huadong Cares	598	9,265	598	9,265
Xinan Cares	-	865	-	865
Dongbei Cares	-	1,286	-	1,286
	598	11,416	598	11,416

(iv) Due to related parties

Name	The Group 2001	The Group 2000	The Company 2001	The Company 2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accounting Center of China Aviation	12,870	-	-	-

SITA	10,958	3,407	10,958	3,407
CACI	10,761	-	-	-
Air Greatwall Co.	2,840	2,840	2,840	2,840
Hainan Airlines Company Limited	463	-	-	-
Eastern Air Group Co.	256	256	256	256
China Northern Airlines Co.	179	179	179	179
Southern Airlines (Group) Co.	120	-	-	-
Total	38,447	6,682	14,233	6,682

(v) Due to subsidiaries

	The Group		**The Company**	
Name	**2001**	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
				(Note 31)
Shenzhen Cares	-	-	-	4,926
Chongqing Cares	-	-	-	1,565
Hainan Cares	-	-	354	-
	-	-	354	6,491

The balances 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.

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

	2001	**2000**
	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	302	227
- bonus	930	379

- retirement benefits	44	33
Other emoluments for non-executive directors	-	277
Other emoluments for supervisors	621	338
Total	1,897	1,254

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) are as follows:

	2001	**2000**
	RMB'000	*RMB'000*
Basic salaries and allowances	295	253
Bonus	943	449
Retirement benefits	43	37
	1,281	739
Number of directors	3	4
Number of employees	2	1
	5	5

The annual emoluments paid during the year ended December 31, 2001 to each of the directors (including the five highest paid employees) fell within the band from RMB nil to RMB1 million (2000: from RMB nil to RMB1 million).

During the year ended December 31, 2001, 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 (2000: nil).

22. 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 rate of 16% of the employees' basic salaries for the year ended December 31, 2001 (2000: 14.5%). The contributions to the pension scheme made by Group for the year ended December 31, 2001 amounted to RMB891,000 (2000: RMB857,000). Under this scheme, the Group has no obligation for post-retirement benefits beyond the annual contributions made.

23. 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 contributions by the Group to the housing fund for the year ended December 31, 2001 amounted to approximately RMB1,299,000 (2000: RMB826,000).

All of the employees of the Group who were previously employees of CACI are 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 staffs are 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 RMB13.8 million for the year ended December 31, 2001 (2000: RMB32.4 million). 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.

24. EARNINGS PER SHARE AND DIVIDENDS

Earnings per share for the year ended December 31, 2001 has been computed by dividing the net profit of RMB407,901,000, by the weighted average number of 855,314,000 ordinary shares in issue during the year ended December 31, 2001 (2000: Net profit of RMB256,592,000 divided by 577,304,000 shares outstanding immediately prior to the public offering of the Company's H shares).

The weighted average number of ordinary shares for the year ended December 31, 2001 to be used as the basis for calculating the earnings per share has been adjusted for the effect of the offering of the Company's H shares in February 2001.

No diluted earnings per share was presented as there were no potential dilutive ordinary shares outstanding during the years ended December 31, 2001 and 2000.

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. The special dividend had not been paid as at December 31, 2001.

The Board of Directors proposed a final dividend of RMB0.184 per share for the year ended December 31, 2001, totaling approximately RMB163,421,000. The proposed dividend distribution is subject to shareholders' approval in their next general meeting. Because of the adoption of the revised IAS 10, "Events After the Balance Sheet Date", the dividend approved after the balance sheet date will be recorded in the Group's financial statements for the year ending December 31, 2002. After the appropriation of the dividend, the reserve available for distribution as at December 31, 2001 was approximately RMB72,015,000 (2000: the reserve available for distribution was RMB nil after the appropriation of the special dividend).

	2001	**2000**
Dividend proposed after year end (Note 30)		
Proposed final dividend (RMB'000)	163,421	-
Dividend per share (RMB)	0.184	-

25. COMMITMENTS

(A) CAPITAL COMMITMENTS

As at December 31, 2001, the Group had the following capital commitments:

RMB'000

Authorised and contracted for	-
Authorised but not contracted for	6,711
Total	6,711

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

Approximately RMB1.4 million of the capital commitments outstanding as at December 31, 2001 was denominated in U.S. dollars (approximately US$0.2 million).

(B) OPERATING LEASE COMMITMENTS

As at December 31, 2001, the Group had the following commitments under operating leases:

	RMB'000
Within one year	30,406
Later than one year but not later than five years	120,469
Later than five years	120,328
Total	271,203

(C) EQUIPMENT MAINTENANCE FEE

As at December 31, 2001, the Group had total equipment maintenance fee commitments of approximately RMB2.2 million.

26. NOTES TO STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS:

	2001	**2000**
	RMB'000	*RMB'000*
		(Note 31)
Profit before taxation and minority interests	411,573	353,054
Adjustments for:		

Depreciation and amortisation	109,658	104,857
Interest income	(42,382)	(5,043)
Interest expense	-	47
Loss (gain) on disposal of property, plant and equipment	4,650	(20)
Loss on revaluation of property, plant and equipment	-	2,700
(Write-back of) provision for doubtful debts	(574)	891
(Write-back of) provision for decline in net realisable value of inventories	(969)	433
Share of results from associated companies	(7,289)	(3,446)
Operating profit before working capital changes	474,667	453,473
Decrease (increase) in current assets:		
Accounts receivable	30,605	4,840
Inventories	7,882	5,037
Prepayments and other current assets	20,436	(12,621)
Due from related parties/associated companies	72,127	18,707
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	101,934	8,156
Deferred revenue	(4,986)	7,592
Due to related parties	31,765	(29,684)
Taxes payable	2,426	45,337
Cash generated from operating activities	736,856	500,837

(B) ANALYSIS OF CASH AND CASH EQUIVALENTS

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

	The Group		The Company	
	2001	**2000**	**2001**	**2000**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash				
RMB	173	133	52	1
HKD denominated	84	-	-	-
	257	133	52	1

Demand deposits				
RMB	848,525	583,845	816,209	550,770
USD denominated	240,715	-	211,659	-
HKD denominated	547,185	751	542,361	-
JPY denominated	136	-	-	-
	1,636,561	584,596	1,570,229	550,770
Total cash and cash equivalents	1,636,818	584,729	1,570,281	550,771

27. FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

The Group is exposed to market risks arising from changes in interest and foreign exchange rates. The Group does not use any derivative financial instruments to manage those risks.

FAIR VALUES

The Group's financial instruments mainly consist of cash and cash equivalents, short-term bank deposits, accounts receivable, advance to suppliers, due from associated companies and related parties, treasury bonds, other long-term assets, accounts payable and due to related parties.

The carrying amounts of the Group's financial instruments except for treasury bonds and other long-term assets approximated their fair values as at December 31, 2001 because of the short maturities of there instruments.

The fair value of the treasury bonds as at December 31, 2001 was approximately RMB101,120,000. The carrying amount of other long-term assets approximated their fair value based on their present value of the estimated cash flows. Fair value has been determined by discounting the relevant cash flows using current interest rates for similar instruments at the balance sheet date.

CREDIT RISKS

The extent of the Group's credit exposure is represented by aggregated balance of cash and cash equivalents, short-term bank deposits, accounts receivable, advance to suppliers, amounts due from associated companies and related parties and treasury bonds. The maximum credit risk exposure in the event that other parties fail to perform their obligations under these financial instruments was approximately RMB2,437 million as at December 31, 2001 (2000: RMB899 million).

Counterparties to financial instruments primarily 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.

FOREIGN CURRENCY RISK

The Group is exposed to foreign exchange risk related to its capital expenditures because a substantial portion of its capital expenditures represents imported equipment that is purchased in U.S. dollars. Under the current foreign exchange system in the PRC, the Group is not able to hedge effectively against currency risks except for the cash and cash equivalents that denominated in foreign currency. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

28. BUSINESS RISKS

The Group primarily 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.

29. SEGMENT REPORTING

The Group conducts its business within one business segment - the business of providing electronic travel distribution, airport passenger processing, data network service, air cargo system 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, 2001 and 2000. 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.

30. SUBSEQUENT EVENTS

On March 21, 2002, the Board of Directors proposed a final dividend of RMB0.184 per share for the year ended December 31, 2001, totaling approximately RMB163,421,000 and an appropriation to the discretionary surplus reserve fund of RMB72,883,000 (20% of net profit after tax under PRC GAAP). The proposed dividend distribution and the appropriation to the discretionary surplus reserve fund are subject to shareholders' approval in their next general meeting. Because of the adoption of the revised IAS 10, "Events After the Balance Sheet Date", the dividend and appropriation to the discretionary surplus reserve fund approved after the balance sheet date will be recorded in the Group's financial statements for the year ending December 31, 2002.

31. PRIOR YEAR COMARATIVE FIGURES

The balances with subsidiaries and associated companies as at December 31, 2000 have been reclassified and separately presented from accounts receivable, prepayment and other current assets, and accounts payable and accrued liabilities. In the opinion of the directors, such reclassification is made to better present the financial position of the Group and the Company as at December 31, 2000.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on March 21, 2002.