

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in Renminbi (“RMB”) unless otherwise stated)

1. ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention and in accordance with International Accounting Standards (“IAS”), and have been reviewed by the Audit Committee of the Company. The accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended December 31, 2001.

2. PROFIT BEFORE TAXATION

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

	Six months ended June 30	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
After charging:		
Depreciation	63,950	44,851
Amortisation	4,315	560
Loss on disposal of property, plant and equipment	225	1,829
Operating lease rentals	18,522	20,317
Provision for decline in net realisable value of inventories	—	245
Provision for bad debts	14,403	—
Cost of inventories	3,052	6,630
Contributions to defined contribution pension scheme	661	308
Exchange loss	—	55
Provision for housing fund	897	385
After crediting:		
Interest income	25,532	18,010
Exchange gain	30	—
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3. TAXATION

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 to enjoy an exemption from enterprise income tax for the period from October 1, 2000 to December 31, 2002.

The Company's subsidiaries are entitled to different preferential tax rates ranging from 7.5 per cent. to 33 per cent.. In addition, these subsidiaries are entitled to certain reductions in tax rates in their initial years of operation. The taxation of the Group for the six months ended June 30, 2002 represents the income tax provisions made by these subsidiaries.

4. EARNINGS PER SHARE

Earnings per share for the six months ended June 30, 2002 and June 30, 2001 have been computed by dividing the corresponding net profits of RMB237,532,000 and RMB208,893,000, by the weighted average number of ordinary shares issued and outstanding for the periods.

The weighted average number of ordinary shares for the six months ended June 30, 2001 used as the basis for calculating the earnings per share has been adjusted for the effect of the offering of H shares of the Company in February 2001.

No diluted earnings per share are presented for the six months ended June 30, 2002 and June 30, 2001 as there were no potential dilutive ordinary shares outstanding during the periods.

5. SURPLUS RESERVES

RMB72,883,000, representing 20 per cent. of the after tax profit of year 2001, as reflected in the Company's statutory financial statements prepared under the applicable accounting principles in the People's Republic of China ("PRC"), was transferred to the discretionary surplus reserves.

6. DIVIDEND DISTRIBUTION

The shareholders in the Annual General Meeting on May 10, 2002 approved the final dividend in respect of 2001 of RMB0.184 per share amounting to a total of RMB163,420,000. The amount was accounted for in shareholders' equity as an appropriation of retained earnings for the six months ended June 30, 2002.

7. PROPERTY, PLANT AND EQUIPMENT

For the six months ended June 30, 2002, the Group acquired property, plant and equipment amounting to approximately RMB12,578,000.

8. ACCOUNTS RECEIVABLE

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

The aging analysis of accounts receivable is as follows:

	June 30, 2002	December 31, 2001
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	31,951	13,596
Over 6 months but within 1 year	4,272	835
Over 1 year but within 2 years	1,314	730
Over 2 years but within 3 years	2,654	1,291
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Total accounts receivable	40,191	16,452
Provision for bad debts	(3,753)	(1,615)
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Accounts receivable, net	<u>36,438</u>	<u>14,837</u>

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The aging analysis of accounts payable is as follows:

	June 30, 2002	December 31, 2001
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	4,451	57,136
Over 6 months but within 1 year	41,700	1,736
Over 1 year but within 2 years	710	—
Over 2 years but within 3 years	8,361	905
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Total accounts payable	55,222	59,777
Accrued liabilities	134,622	107,315
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Total Accounts payable and accrued liabilities	<u>189,844</u>	<u>167,092</u>

10. NOTE TO CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before taxation to cash generated from operating activities:

	Six months ended June 30	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation and minority interests	235,536	212,455
Adjustments for:		
Depreciation and amortisation	68,265	45,411
Interest income	(25,532)	(18,010)
Loss on disposal of property, plant and equipment	225	1,829
Provision for decline in net realisable value of inventories	—	245
Share of results of associated companies	(3,998)	(2,251)
Other investment income	(1,500)	—
Operating profit before working capital changes	272,996	239,679
Decrease (Increase) in current assets:		
Accounts receivable	(21,601)	8,393
Inventories	1,004	2,173
Prepayments and other current assets	(985)	11,852
Due from associated companies and related parties	(38,403)	(77,867)
Increase (Decrease) in current liabilities:		
Accounts payable and accrued liabilities	22,752	46,497
Deferred revenue	647	(2,845)
Due to related parties	(13,934)	29,232
Taxes payable	4,523	(1,948)
Cash generated from operating activities	226,999	255,166

11. COMMITMENTS

(a) Capital commitments

As at June 30, 2002, the Group had the following significant capital commitments:

	RMB'000
Authorised and contracted for	26,380
Authorised but not contracted for	—
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Total	26,380
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The above capital commitments primarily relate to the acquisition and installation of the new generation electronic travel distribution system.

Approximately RMB17,299,000 of the capital commitments outstanding as at June 30, 2002 were denominated in U.S. dollars (approximately US\$2,090,000).

(b) Operating lease commitments

As at June 30, 2002, the Group had the following commitments to make future minimum lease payments under non-cancellable operating leases:

Payable	RMB'000
Within one year	30,661
Later than one year but within five years	120,536
Later than five years	99,387
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Total	250,584
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(c) Commitment for technical support fees

As at June 30, 2002, the Group had total technical support fees commitments of approximately RMB4,006,000.

12. Segment Reporting

The Group conducts its business within one business segment - the business of providing electronic travel distribution, airport passenger processing, data network, air cargo system and internet-based travel platform services in the PRC. The Group's general manager is effectively the Group's chief decision maker for operations. The general manager has reviewed the information which is presented in the consolidated income statement. No segment income statement has been prepared by the Group for the six months ended June 30, 2001 and 2002. The Group also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are primarily located in the PRC. Accordingly, no geographical segment data is presented.