NOTES TO THE CONSOLIDATED 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. CACI has changed its name to China TravelSky Holding Company ("CTHC") in October 2002, and CAAC will no longer exercise its supervisory function over the state-owned assets of CTHC.

The company was listed on The Stock Exchange of Hong Kong Limited on February 7, 2001.

As at December 31, 2002, 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.

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

1. COMPANY ORGANISATION AND PRINCIPAL ACTIVITIES *(continued)*

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	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

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

1. COMPANY ORGANISATION AND PRINCIPAL ACTIVITIES *(continued)*

Name	Date of Incorporation	Percentage of equity interest held Direct	Indirect	Issued and fully paid capital RMB	Principal activities
Subsidiaries					
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%	—	3,162,067	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
Civil Aviation Cares of Qingdao Ltd. ("Qingdao Cares")	January 11, 2002	51%	—	2,000,000	Computer hardware and software development and data network services
Xi'an Kaiya Civil Aviation Science Co., Ltd. ("Xi'an Cares")	July 9, 2002	51%	—	2,000,000	Computer hardware and software development and data network services
Civil Aviation Cares Technology of Xinjiang Ltd. ("Xinjiang Cares")	August 16, 2002	51%	—	3,000,000	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 out of the total 5 board members.

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

1. COMPANY ORGANISATION AND PRINCIPAL ACTIVITIES *(continued)*

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 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention.

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 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 income statement, 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 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 .

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 associated companies are eliminated to the extent of the Group's interest in the associated companies, against the investment in the associated companies. 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.

A listing of the Group's subsidiaries is shown in Note 1.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Associated companies

Associated companies are entities in which the Group holds between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control and are accounted for using the equity method. Such equity interests are carried in the balance sheet at amounts that reflect its share of the net assets of the associated companies and include goodwill on acquisition. Equity accounting involves recognising in the consolidated income statement the Group's share of the profit or loss for the year of the associated companies.

Investments in associated companies are accounted for using the equity method in the Company's balance sheet.

A listing of the Group's associated companies is shown in Note 1.

(c) 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 below Note (d).

(d) 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.

The Group did not enter into any hedge contracts during any of the periods presented.

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 income statement during the year.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Foreign currencies *(continued)*

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.

(e) Property, plant and equipment

Property, plant and equipment 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment *(continued)*

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.

(f) Intangible assets

Intangible assets mainly represent software.

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 2-3 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.

(g) 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, 2002, no development costs were capitalised as they did not meet all the conditions listed above (2001: 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) 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. 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. 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Investments

The Group classified its investments 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, which is the date that the Group commits to purchase or sell the asset.

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.

(j) 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) 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.

(l) 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.

(m) Accounts Receivable and provision for bad debts

Accounts receivable are initially recorded at actual amounts. Provisions for bad debts are made based on the assessment of their collectibility and are provided for using the "allowance method". Based on the actual circumstances and experiences, specific provisions are set against balances that have been assessed to be uncollectible. A general provision is then set against the remaining balance based on the aging using the respective percentages as tabulated below:

Aging	**Provision for bad debts as a percentage of accounts receivable**
Between 7 months and 1 year	25%
Between 1 and 2 years	50%
Over 2 years	100%

(n) 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) 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.

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.

(p) Retirement scheme

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

(q) 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 recognised as interest expense.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) 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 is 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.

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

4. REVENUES

Revenue primarily comprises the fees earned by the Group for the use of the Group's electronic travel distribution, airport passenger processing, data network 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.

5. PROFIT BEFORE TAXATION

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

	2002	2001
	RMB'000	*RMB'000*
After charging:		
Depreciation	**130,298**	106,300
Amortisation	**7,075**	3,358
Loss on disposal of property, plant and equipment	**5,133**	4,650
Operating lease rentals	**37,109**	35,278
Write-back of provision for decline in net realisable value of inventories	**—**	(969)
Provision for (Write-back of) doubtful debts	**2,981**	(574)
Cost of inventories sold	**9,551**	21,445
Contributions to defined contribution pension scheme	**1,113**	891
Auditors' remuneration	**1,467**	1,981
Exchange loss (Gain)	**(252)**	417
Contribution to housing fund	**1,968**	1,299
Research and development expenses	**68,314**	64,867
After crediting:		
Interest income	**42,081**	42,382

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

	2002 *RMB'000*	2001 *RMB'000*
Fees for executive directors	—	—
Fees for non-executive directors	—	—
Fees for supervisors	—	—
Other emoluments for executive directors:		
— basic salaries and allowances	**337**	302
— bonus	**1,202**	930
— retirement benefits	**40**	44
Other emoluments for non-executive directors	—	—
Other emoluments for supervisors	**725**	621
Total	**2,304**	1,897

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:

	2002 *RMB'000*	2001 *RMB'000*
Basic salaries and allowances	**341**	295
Bonus	**1,202**	943
Retirement benefits	**40**	43
	1,583	1,281
Number of directors	**4**	3
Number of employees	**1**	2
	5	5

The annual emoluments paid during the year ended December 31, 2002 to each of the directors (including the five highest paid employees) fell within the band from RMB nil to RMB 1 million (2001: from RMB nil to RMB 1 million).

During the year ended December 31, 2002, 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 (2001: nil).

7. 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, 2002 (2001: 16%). The contributions to the pension scheme made by the Group for the year ended December 31, 2002 amounted to RMB 1,113,000 (2001: RMB 891,000). Under this scheme, the Group has no obligation for post-retirement benefits beyond the annual contributions made.

8. 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, 2002 amounted to approximately RMB 1,968,000 (2001: RMB 1,299,000).

The average number of employees in 2002 was 1,170 (2001: 912).

9. TAXATION

Income Tax

	2002	2001
	RMB'000	*RMB'000*
PRC enterprise income tax-current	**2,690**	3,114
Hong Kong profits tax-current	**459**	75
Deferred taxation	**—**	—
	3,149	3,189

Under PRC income tax law, the Company is subject to enterprise income tax ("EIT") 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 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, 2002 represents the income tax provisions made by these subsidiaries.

9. TAXATION *(continued)*

The reconciliation of EIT at the statutory rate of 33% applied to income before taxation for the years ended December 31, 2002 and 2001, to the effective rate actually recorded in the consolidated income statement, is as follows:

	2002	2001
Statutory tax rate	**33.0%**	33.0%
Effect of tax holidays available to the Company	**(31.8)%**	(31.5)%
Effect of preferential tax rates applicable to certain subsidiaries	**(0.5)%**	(0.7)%
Effective income tax rate	**0.7%**	0.8%

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:

	2002	2001
Aggregate amount (RMB'000)	**148,604**	132,630
Per share effect (RMB)	**0.17**	0.16

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")

The Group's sales of equipment are subject to Value Added Tax (VAT). The Company and one of its subsidiary (InfoSky) are certified by the tax authorities as general tax payers, and other subsidiaries of the Company are small-scale VAT tax payers. The applicable tax rate is 17% for general tax payers, and 4%-6% for small-scale VAT tax payers.

For general tax payers, input VAT from purchase of equipment for sale can be netted off against output VAT from sales.

VAT payable or receivable is the net difference between periodic output and deductible input VAT.

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

10. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2002 and December 31, 2001 have been computed by dividing the net profit of RMB 453,227,000 and RMB 407,901,000, by the weighted average number of 888,157,500 and 855,314,000 ordinary shares issued and outstanding for the years ended December 31, 2002 and December 31, 2001, respectively.

There were no potential dilutive ordinary shares outstanding during the years ended December 31, 2002 and 2001.

11. DIVIDENDS

The shareholders in the Annual General Meeting on May 10, 2002 approved the final dividend in respect of 2001 of RMB 0.184 per share amounting to a total of RMB 163,421,000. The amount was accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2002.

The Board of Directors proposed a final dividend of RMB0.192 per share for the year ended December 31, 2002, totaling approximately RMB170,526,000. 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, 2003. After the appropriation of the dividend, the reserve available for distribution as at December 31, 2002 was approximately RMB156,434,000 (2001: RMB 72,015,000).

	2002	2001
Dividend proposed after year end		
Proposed final dividend (RMB'000)	**170,526**	163,421
Dividend per share (RMB)	**0.192**	0.184

12. 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						
As at January 1, 2001	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
Purchases	2,611	55,134	5,579	1,280	7,967	72,571
Disposals	(15)	(118,815)	—	(405)	(25)	(119,260)
As at December 31,2002	15,091	863,954	20,449	14,221	8,923	922,638
Accumulated depreciation						
As at January 1, 2001	(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)
Charge for the year	(773)	(126,493)	(2,203)	(829)	—	(130,298)
Write-back on disposals	—	113,301	—	321	—	113,622
As at December 31, 2002	(2,477)	(565,452)	(9,638)	(4,439)	—	(582,006)
Net book value						
As at December 31, 2001	10,791	375,375	7,435	9,415	981	403,997
As at December 31, 2002	12,614	298,502	10,811	9,782	8,923	340,632

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

12. PROPERTY, PLANT AND EQUIPMENT, NET *(continued)*

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						
As at January 1, 2001	—	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
Purchases	752	49,629	1,927	982	720	54,010
Disposals	—	(113,792)	—	(261)	—	(114,053)
As at December 31, 2002	2,284	841,793	12,196	10,636	1,440	868,349
Accumulated depreciation						
As at January 1, 2001	—	(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)
Charge for the year	(97)	(122,718)	(1,447)	(850)	—	(125,112)
Write-back on disposals	—	109,083	—	312	—	109,395
As at December 31, 2002	(118)	(551,159)	(6,410)	(3,187)		(560,874)
Net book value						
As at December 31, 2001	1,511	368,432	5,306	7,266	720	383,235
As at December 31, 2002	2,166	290,634	5,786	7,449	1,440	307,475

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

13. INTANGIBLE ASSETS, NET

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
As at January 1	**17,596**	—	**15,053**	—
Additions	**1,935**	17,596	**1,648**	15,053
As at December 31	**19,531**	17,596	**16,701**	15,053
Accumulated amortisation				
As at January 1	**(3,358)**	—	**(2,855)**	—
Amortisation for the year	**(7,075)**	(3,358)	**(6,553)**	(2,855)
As at December 31	**(10,433)**	(3,358)	**(9,408)**	(2,855)
Net book value				
as at December 31	**9,098**	14,238	**7,293**	12,198

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

14. INVESTMENTS IN SUBSIDIARIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**—**	—	**55,771**	43,127

A listing of the Group's subsidiaries is shown in Note 1.

15. INVESTMENTS IN ASSOCIATED COMPANIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**23,646**	12,391	**23,646**	12,391

A listing of the Group's associated companies is shown in Note 1.

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

16. OTHER LONG-TERM INVESTMENT

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

	Interest rate and maturity	2002	2001
		RMB'000	*RMB'000*
Treasury bonds	3% per annum with maturity in December 2008	**100,000**	100,000

17. OTHER LONG-TERM ASSETS

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

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayment for purchase of buildings	**—**	3,833	**—**	—
Rental deposits and other long term assets	**5,746**	4,632	**1,795**	1,411
Total	**5,746**	8,465	**1,795**	1,411

18. INVENTORIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Equipment for sale	**1,637**	1,953	**505**	385
Spare parts	**347**	781	**80**	774
Other	**34**	33	**26**	30
Total	**2,018**	2,767	**611**	1,189
Less: Provision for decline in net realisable value	**—**	—	**—**	—
	2,018	2,767	**611**	1,189

Inventories with a total carrying value of approximately RMB nil as at December 31, 2002 and 2001 are stated at net realisable value.

No inventories have been pledged as security for borrowings.

19. ACCOUNTS RECEIVABLE, NET

As at December 31, accounts receivable comprised:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts receivable	**9,043**	16,452	**10,654**	15,901
Provision for doubtful debts	**(4,596)**	(1,615)	**(3,944)**	(1,356)
Accounts receivable, net	**4,447**	14,837	**6,710**	14,545

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	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**3,811**	11,450	**5,422**	10,899
Over 6 months but within 1 year	**651**	835	**651**	835
Over 1 year but within 2 years	**1,599**	2,008	**1,599**	2,008
Over 2 years but within 3 years	**1,078**	397	**1,078**	397
Over 3 years	**1,904**	1,762	**1,904**	1,762
	9,043	16,452	**10,654**	15,901

20. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**5,165**	2,694	**4,088**	1,439
Other current assets	**25,661**	12,662	**22,260**	11,563
Total	**30,826**	15,356	**26,348**	13,002

21. SHORT-TERM BANK DEPOSITS

The weighted average annual interest rate on short-term bank deposits was 2.39% (2001: 2.52%) and these deposits have an average maturity of 404 days (2001: 267 days).

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

22. CASH AND CASH EQUIVALENTS

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

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash				
RMB	**223**	173	**139**	52
HKD denominated	**55**	84	**—**	—
USD denominated	**88**	—	**—**	—
GBP denominated	**11**	—	**—**	—
EUR denominated	**17**	—	**—**	—
	394	257	**139**	52
Demand deposits				
RMB	**1,319,654**	848,525	**1,283,045**	816,209
USD denominated	**181,426**	240,715	**112,635**	211,659
HKD denominated	**391,126**	547,185	**383,010**	542,361
JPY denominated	**822**	136	**—**	—
	1,893,028	1,636,561	**1,778,690**	1,570,229
Total cash and cash equivalents	**1,893,422**	1,636,818	**1,778,829**	1,570,281

23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts payable	**49,924**	59,777	**48,229**	57,781
Accrued departure technology support fee	**68,052**	45,728	**74,560**	45,728
Accrued technical bonus to employees	**41,647**	27,091	**41,647**	27,091
Accrued rentals	**208**	5,485	**—**	5,485
Accrued technical support fee	**8,093**	3,212	**8,093**	3,212
Accrued network usage fees	**7,112**	1,060	**5,243**	1,060
Pension contributions	**—**	340	**—**	340
Other accruals	**18,008**	24,399	**9,797**	15,621
	193,044	167,092	**187,569**	156,318

As of December 31, 2002, approximately RMB 43,860,287 of the above balances were denominated in US dollars (2001: RMB 53,315,000).

23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES *(continued)*

The aging analysis of accounts payable is as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**15,609**	57,136	**14,428**	55,238
Over 6 months but within 1 year	**328**	1,736	**13**	1,639
Over 1 year but within 2 years	**33,987**	—	**33,788**	—
Over 2 years but within 3 years	**—**	324	**—**	323
Over 3 years but within 4 years	**—**	581	**—**	581
Total accounts payable	**49,924**	59,777	**48,229**	57,781
Accrued liabilities	**143,120**	107,315	**139,340**	98,537
	193,044	167,092	**187,569**	156,318

24. TAXES PAYABLE

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Enterprise income tax payable (note26)	**1,425**	1,714	**—**	—
Business tax payable	**10,169**	12,575	**9,478**	12,190
VAT payable	**62**	(204)	**50**	(182)
Other	**1,484**	290	**1,229**	158
	13,140	14,375	**10,757**	12,166

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

25. PAID-IN CAPITAL

The paid-in capital as at December 31, 2002 represented 577,303,500 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.

	2002 Number of shares *RMB'000*	2002 Amount *RMB'000*
Authorised:		
Domestic Shares of RMB1 each:	577,304	577,304
H Shares of RMB1 each:	310,854	310,854
Total shares of RMB1 each:	888,158	888,158
Issued and fully paid:		
Domestic Shares of RMB1 each:	577,304	577,304
H Shares of RMB1 each:	310,854	310,854
Total shares of RMB1 each:	888,158	888,158

26. RESERVES

	Capital Surplus *RMB'000*	Statutory Surplus Reserve Fund *RMB'000*	Statutory Public Welfare Fund *RMB'000*	Discretionary Surplus Reserve Fund *RMB'000*	Total *RMB'000*
Group					
Balance as at January 1, 2001	167,506	16,801	8,401	—	192,708
Prior year adjustment (note)	80,148	—	—	—	80,148
Restated balance as at January 1, 2001	247,654	16,801	8,401	—	272,856
Net proceeds from public offering	947,302	—	—	—	947,302
Transfer from retained earnings	—	38,415	36,441	—	74,856
Balance as at December 31, 2001	1,194,956	55,216	44,842	—	1,295,014
Transfer from retained earnings	—	42,889	42,888	72,883	158,660
Balance as at December 31, 2002	1,194,956	98,105	87,730	72,883	1,453,674
Company					
Balance as at January 1, 2001	167,506	16,801	8,401	—	192,708
Prior year adjustment (note)	80,148	—	—	—	80,148
Restated balance as at January 1, 2001	247,654	16,801	8,401	—	272,856
Net proceeds from public offering	947,302	—	—	—	947,302
Transfer from retained earnings	—	38,415	36,441	—	74,856
Balance as at December 31, 2001	1,194,956	55,216	44,842	—	1,295,014
Transfer from retained earnings	—	42,491	42,491	72,883	157,865
Balance as at December 31, 2002	1,194,956	97,707	87,333	72,883	1,452,879

26. RESERVES *(continued)*

Note:

Enterprise income tax payable (note 24) in prior periods included an amount of approximately RMB80million relating to a revaluation made in earlier years of certain fixed assets taken over by the Company as part of the transfer of undertakings from CTHC (formerly known as CACI), its predecessor company, upon the Company's establishment on October 18, 2000. It was not the intention of CTHC that this liability, if any, be transferred to the Company.

Accordingly, an adjustment has been made in these accounts to reduce the liabilities and to increase the Group's capital surplus by RMB80million as at October 18, 2000.

27. APPROPRIATIONS AND DISTRIBUTION OF PROFIT

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 funds 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 funds 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 statutory public welfare funds 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.

The shareholders in the Annual General Meeting on May 10, 2002 approved the appropriation of RMB72,883,000 to the discretionary surplus reserve. The amount was accounted for in shareholder's equity as an appropriation of retained earnings in the year ended December 31, 2002.

For the year ended December 31, 2002, the Board of Directors proposed appropriations of 10%, 10% and 20% of the net profit (2001: 10%, 10% and 20% respectively) as reflected in the Company's statutory financial statements prepared under PRC GAAP, or RMB42,491,000, RMB42,491,000 and RMB84,982,000 (2001: RMB36,442,000, RMB36,441,000 and RMB72,883,000), to the statutory surplus reserve fund , the statutory public welfare fund and the discretionary surplus reserve fund, respectively.

The proposed appropriation of RMB84,982,000 (20% of net profit after tax) to the discretionary surplus reserve fund for the year ended December 31, 2002 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, 2002 will be recorded in the Group's financial statements for year ended December 31, 2003.

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

27. APPROPRIATIONS AND DISTRIBUTION OF PROFIT *(continued)*

After the appropriations mentioned above, the reserve available for distribution as at December 31, 2002 was approximately RMB326,960,000 (2001: RMB235,436,000), which is the lesser of the amounts determined in accordance with PRC GAAP and IFRS.

28. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2002	2001
	RMB'000	*RMB'000*
Profit before taxation and minority interests	**459,860**	411,573
Adjustments for:		
Depreciation and amortisation	**137,373**	109,658
Interest income	**—**	(42,382)
Loss on disposal of property, plant and equipment	**5,133**	4,650
Provision for (Write-back of) doubtful debts	**2,981**	(574)
Write-back of provision for decline in net realisable value of inventories	**—**	(969)
Share of results from associated companies	**(14,255)**	(7,289)
Operating profit before working capital changes	**591,092**	474,667
Decrease (increase) in current assets:		
Accounts receivable	**7,409**	30,605
Inventories	**749**	7,882
Prepayments and other current assets	**(12,323)**	20,436
Due from related parties/associated companies	**32,215**	72,127
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	**26,437**	101,934
Deferred revenue	**(3,180)**	(4,986)
Due to related parties	**(15,541)**	31,765
Taxes payable	**(1,235)**	2,426
Cash generated from operating activities	**625,623**	736,856

29. 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, 2002 because of the short maturities of these instruments.

The fair value of the treasury bonds as at December 31, 2002 was approximately RMB101,100,000. 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 RMB 2,678 million as at December 31, 2002 (2001: RMB 2,440 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.

30. 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 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 income statement. No segment income statement has been prepared by the Group for the year ended December 31, 2002 and 2001. 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.

31. COMMITMENTS

(a) Capital commitments

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

	2002	2001
	RMB'000	*RMB'000*
Authorised and contracted for		
— Computer Hardware	**15,151**	—
— Computer Software	**4,707**	—
Authorised but not contracted for		
— Computer Hardware	**—**	6,711
Total	**19,858**	6,711

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

Approximately RMB2.3 million of the capital commitments outstanding as at December 31, 2002 was denominated in U.S. dollars (2001: RMB1.4 million).

(b) Operating lease commitments

As at December 31, 2002, the Group had the following commitments under operating leases:

	2002	2001
	RMB'000	*RMB'000*
Within one year	**32,045**	30,406
Later than one year but not later than five years	**120,469**	120,469
Later than five years	**80,627**	120,328
Total	**233,141**	271,203

31. COMMITMENTS *(continued)*

(c) Equipment maintenance fee commitments

As at December 31, 2002, the Group had total equipment maintenance fee commitments of approximately RMB5.0 million (2001: RMB2.2 million).

32. 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 major related parties of the Company and the group are as follows:

Name	Relationship with the Company
CTHC	Shareholder of the Company
China Southern Air Holding Co.	Shareholder of the Company
China Eastern Air Holding Co.	Shareholder of the Company
Air China	Shareholder of the Company
China Southwest Airlines Co.	Shareholder of the Company
China Northern Airlines Co.	Shareholder of the Company
China Northwest Airlines Co.	Shareholder of the Company
Yunnan Airlines Co.	Shareholder of the Company
Xinjiang Airlines Co.	Shareholder of the Company
China National Aviation Corp.	Shareholder of the Company
Xiamen Airlines Limited Company	Shareholder of the Company
Hainan Airlines Company Limited	Shareholder of the Company
China National Aviation Holding Co.	Parent company of certain shareholders of the Comany

32. RELATED PARTY TRANSACTIONS *(continued)*

(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.

Company Name	**2002**	2001
	RMB'000	*RMB'000*
China Southern Air Holding Co. (a)	**171,936**	162,049
China Eastern Air Holding Co. (b)	**117,247**	115,646
China National Aviation Holding Co. (c)	**120,391**	113,303
Xiamen Airlines Limited Company	**42,267**	45,278
Hainan Airlines Company Limited	**54,046**	37,759

(a) It represented the transactions entered into between the Group and China Southern Air Holding Co. and its wholly owned subsidiaries, namely China Northern Airlines Co. and Xinjiang Airlines Co.

(b) It represented the transactions entered into between the Group and China Eastern Air Holding Co. and its wholly owned subsidiaries, namely China Northwest Airlines Co. and Yunnan Airlines Co.

(c) It represented the transactions entered into between the Group and China National Aviation Holding Co. and its wholly owned subsidiaries, namely Air China, China Southwest Airlines Co. and China National Aviation Corporation.

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 properties from CTHC

For the year ended December 31, 2002, operating lease rentals for lease of properties from CTHC amounted to RMB 30,117,000 (2001: RMB 32,114,000). The pricing of operating lease rentals for buildings is based on agreed rates with CTHC with reference to market rentals.

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

32. RELATED PARTY TRANSACTIONS *(continued)*

(3) Balances with related parties

Balances with related parties mainly comprised:

Due from related parties

	The Group		The Company	
Name	**2002**	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
China Southern Air Holding Co. (a)	**12,793**	28,339	**10,667**	27,179
China Eastern Air Holding Co. (b)	**41,739**	29,538	**37,070**	28,024
China National Aviation Holding Co. (c)	**41,502**	43,769	**41,502**	43,769

(a) It represented the balance due from China Southern Air Holding Co. and its wholly owned subsidiaries, namely China Northern Airlines Co. and Xinjiang Airlines Co.

(b) It represented the balance due from China Eastern Air Holding Co. and its wholly owned subsidiaries, namely China Northwest Airlines Co. and Yunnan Airlines Co.

(c) It represented the balance due from China National Aviation Holding Co. and its wholly owned subsidiaries, namely Air China, China Southwest Airlines Co. and China National Aviation Corporation.

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.

33. ULTIMATE HOLDING COMPANY

The directors regard China TravelSky Holding Company established in the PRC as being the ultimate holding company.

34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on March 14, 2003.