

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 Financial Reporting Standards, 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, 2002.

2. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

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

| | Six months ended June 30 | |
|---|---------------------------------|----------------|
| | 2003 | 2002 |
| | RMB’000 | RMB’000 |
| After charging: | | |
| Depreciation | 57,943 | 63,950 |
| Amortisation | 3,532 | 4,315 |
| Loss on disposal of property, plant and equipment | 6,725 | 225 |
| Operating lease rentals | 19,965 | 18,522 |
| Provision for doubtful debts | 109 | 14,403 |
| Cost of inventories | 734 | 3,052 |
| Contributions to defined contribution pension scheme | 738 | 661 |
| Auditor’s remuneration | 699 | 720 |
| Exchange loss (gain) | 28 | (30) |
| Contribution to housing fund | 1,072 | 897 |
| Research and development expenses | 21,801 | 23,754 |
| After crediting: | | |
| Interest income | <u>14,987</u> | <u>25,532</u> |

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 pay an enterprise income tax at a preferential tax rate of 7.5 per cent. for the period from January 1, 2003 to December 31, 2005 and at 15 per cent. thereafter.

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.

4. EARNINGS PER SHARE

Earnings per share for the six months ended June 30, 2003 and 2002 have been computed by dividing the net profit of RMB135,588,000 and RMB237,532,000 by the number of 888,157,500 ordinary shares issued and outstanding for the periods.

There were no potential dilutive ordinary shares outstanding for the six months ended June 30, 2003 and 2002.

5. RESERVES

RMB84,982,000, representing 20 per cent. of the after tax profit of year 2002, 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 held on April 29, 2003 approved the final dividend in respect of 2002 of RMB0.192 per share amounting to a total of RMB170,526,240. The amount was accounted for in shareholders' equity as an appropriation of retained earnings for the six months ended June 30, 2003.

7. PROPERTY, PLANT AND EQUIPMENT

For the six months ended June 30, 2003, the Group acquired property, plant and equipment amounting to approximately RMB18,800,000.

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, 2003 <i>RMB'000</i> | December 31, 2002 <i>RMB'000</i> |
|---------------------------------|---------------------------------|-------------------------------------|
| Within 6 months | 6,379 | 3,811 |
| Over 6 months but within 1 year | 1,847 | 651 |
| Over 1 year but within 2 years | 2,166 | 1,599 |
| Over 2 years but within 3 years | 325 | 1,078 |
| Over 3 years | 2,657 | 1,904 |
| Total accounts receivable | 13,374 | 9,043 |
| Provision for doubtful debts | (4,706) | (4,596) |
| Accounts receivable, net | <u>8,668</u> | <u>4,447</u> |

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The aging analysis of accounts payable is as follows:

| | June 30, 2003 <i>RMB'000</i> | December 31, 2002 <i>RMB'000</i> |
|--|---------------------------------|-------------------------------------|
| Within 6 months | 7,177 | 15,609 |
| Over 6 months but within 1 year | 18,929 | 328 |
| Over 1 year but within 2 years | 682 | 33,987 |
| Over 2 years but within 3 years | 26,998 | — |
| Total accounts payable | 53,786 | 49,924 |
| Accrued liabilities | 191,646 | 143,120 |
| Total accounts payable and accrued liabilities | <u>245,432</u> | <u>193,044</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 | |
|---|--------------------------|-----------------|
| | 2003 RMB'000 | 2002 RMB'000 |
| Profit before taxation and minority interests | 149,320 | 235,536 |
| Adjustments for: | | |
| Depreciation and amortisation | 61,475 | 68,265 |
| Loss on disposal of property, plant and equipment | 6,725 | 225 |
| Provision for doubtful debts | 109 | 14,403 |
| Share of results of associated companies | (5,573) | (3,998) |
| Operating profit before working capital changes | 212,056 | 314,431 |
| Decrease (Increase) in current assets: | | |
| Accounts receivable | (4,330) | (36,004) |
| Inventories | (4,141) | 1,004 |
| Prepayments and other current assets | 1,130 | (6,307) |
| Due from related parties and associated companies | (26,885) | (38,403) |
| Increase (Decrease) in current liabilities: | | |
| Accounts payable and accrued liabilities | 52,388 | 22,752 |
| Deferred revenue | 873 | 647 |
| Due to related parties | (8,800) | (13,934) |
| Taxes payable | (9,412) | 4,523 |
| Cash generated from operating activities | 212,879 | 248,709 |

11. COMMITMENTS

(a) Capital commitments

As at June 30, 2003, the Group had the following capital commitments:

| | <i>RMB'000</i> |
|-----------------------------------|----------------|
| Authorised and contracted for | 51,750 |
| Authorised but not contracted for | 132,742 |
| | <hr/> |
| Total | 184,492 |
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The above capital commitments primarily relate to the acquisition and installation of the next generation electronic travel distribution system.

Approximately RMB50,052,279 of the capital commitments outstanding as at June 30, 2003 were denominated in U.S. dollars (approximately US\$6,046,860).

(b) Operating lease commitments

As at June 30, 2003, the Group had the following commitments under operating leases:

| | <i>RMB'000</i> |
|---|----------------|
| Within one year | 35,644 |
| Later than one year but not later than five years | 154,063 |
| Later than five years | 35,451 |
| | <hr/> |
| Total | 225,158 |
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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 chief decision maker for operations is considered to be the Group's chief executive officer ("CEO"). The information reviewed by the CEO is identical to the information presented in the consolidated income statement. No segment income statement has been prepared by the Group for six months ended June 30, 2003 and 2002. 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.