

The Board of Directors (the "Board") of TravelSky Technology Limited (the "Company") hereby announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2004 prepared in accordance with International Financial Reporting Standards.

## CONDENSED CONSOLIDATED BALANCE SHEET

AS AT JUNE 30, 2004

(Amounts expressed in thousands of Renminbi)

	Note	June 30, 2004 (unaudited)	December 31, 2003 (audited)
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment, net	7	510,657	545,354
Intangible assets, net		10,550	11,093
Investments in associated companies		36,714	36,327
Other long-term investment		100,000	100,000
Other long-term assets		3,679	4,901
		<u>661,600</u>	<u>697,675</u>
<b>Current assets</b>			
Inventories		4,882	2,635
Accounts receivable, net	8	30,993	18,352
Due from associated companies		7,751	65
Due from related parties, net		118,524	83,619
Prepayments and other current assets		50,322	32,005
Short-term investments		1,920	1,920
Short-term bank deposits		778,443	505,000
Cash and cash equivalents		1,936,971	2,034,952
		<u>2,929,806</u>	<u>2,678,548</u>
<b>Total assets</b>		<u><b>3,591,406</b></u>	<u><b>3,376,223</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Paid in capital		888,158	888,158
Reserves	5	1,630,279	1,584,817
Retained earnings		496,766	405,063
		<u>3,015,203</u>	<u>2,878,038</u>
<b>Minority interests</b>		<u>43,942</u>	<u>40,305</u>
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9	424,432	366,061
Due to related parties		71,265	64,922
Taxes payable		29,459	24,846
Deferred revenue		7,105	2,051
		<u>532,261</u>	<u>457,880</u>
<b>Total equity and liabilities</b>		<u><b>3,591,406</b></u>	<u><b>3,376,223</b></u>
<b>Net current assets</b>		<u><b>2,397,545</b></u>	<u><b>2,220,668</b></u>
<b>Total assets less current liabilities</b>		<u><b>3,059,145</b></u>	<u><b>2,918,343</b></u>

## CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2004

(Amounts expressed in thousands of Renminbi, except per share data)

	Note	Six months ended June 30 2004	2003
<b>Revenues:</b>			
Electronic travel distribution		330,994	205,004
Airport passenger processing		177,569	103,475
Data network		95,611	78,525
Others		31,446	24,826
Total revenues		635,620	411,830
Business taxes and other surcharges		(21,956)	(14,379)
Net revenues		613,664	397,451
<b>Operating expenses:</b>			
Depreciation and amortisation		(83,401)	(61,475)
Network usage		(36,950)	(31,752)
Personnel		(77,109)	(60,490)
Operating lease rentals		(22,010)	(19,965)
Technical support and maintenance fees		(26,220)	(19,602)
Commission and promotion expenses		(68,629)	(35,084)
Other operating expenses		(69,196)	(39,739)
Total operating expenses		(383,565)	(268,107)
Operating profit		230,099	129,344
Financial income, net		13,544	15,043
Share of results of associated companies		6,724	5,573
Other expense, net		(80)	(640)
Profit before taxation and minority interests	2	250,287	149,320
Taxation	3	(18,306)	(11,593)
Income before minority interests		231,981	137,727
Minority interests		(4,224)	(2,139)
Net profit		227,757	135,588
Earnings per share, basic and diluted (RMB)	4	0.26	0.15
Weighted average number of shares outstanding (thousand)	4	888,158	888,158

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2004

(Amounts expressed in thousands of Renminbi)

	For the six months ended June 30, 2004			
	Paid in capital	Reserves	Retained earnings	Total
Balance as at January 1, 2004	888,158	1,584,817	405,063	2,878,038
Profit for the period	—	—	227,757	227,757
Dividend for 2003	—	—	(90,592)	(90,592)
Transfer to reserves	—	45,462	(45,462)	—
Balance as at June 30, 2004	<u>888,158</u>	<u>1,630,279</u>	<u>496,766</u>	<u>3,015,203</u>

	For the six months ended June 30, 2003			
	Paid in capital	Reserves	Retained earnings	Total
Balance as at January 1, 2003	888,158	1,453,674	464,191	2,806,023
Profit for the period	—	—	135,588	135,588
Dividend for 2002	—	—	(170,527)	(170,527)
Transfer to reserves	—	84,982	(84,982)	—
Balance as at June 30, 2003	<u>888,158</u>	<u>1,538,656</u>	<u>344,270</u>	<u>2,771,084</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2004  
(Amounts expressed in thousands of Renminbi)

	Note	Six months ended June 30 2004	2003
<b>Cash flows from operating activities</b>			
<b>Cash generated from operating activities</b>	10	<b>330,426</b>	212,879
Enterprise income tax paid		<b>(10,341)</b>	(11,593)
<b>Net cash provided by operating activities</b>		<b>320,085</b>	201,286
<b>Cash flows from investing activities</b>			
Purchases of property, plant, equipment and intangible assets		<b>(62,806)</b>	(247,508)
(Increase)/decrease in short-term bank deposit		<b>(273,443)</b>	349,257
Decrease in short-term investments		—	195
Proceeds from disposal of property plant and equipment		<b>274</b>	—
Dividends received from associated companies		<b>230</b>	19
Decrease in other non-current assets		<b>1,222</b>	—
<b>Net cash (used in)/provided by investing activities</b>		<b>(334,523)</b>	101,963
<b>Cash flows from financing activities</b>			
Investment from minority shareholders of subsidiaries		—	6,600
Dividend paid to group shareholders		<b>(83,543)</b>	(79,070)
<b>Net cash used in financing activities</b>		<b>(83,543)</b>	(72,470)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(97,981)</b>	230,779
<b>Cash and cash equivalents, beginning of period</b>		<b>2,034,952</b>	1,893,422
<b>Cash and cash equivalents, end of period</b>		<b>1,936,971</b>	2,124,201

## 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, 2003.

### 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	
	2004	2003
	RMB'000	RMB'000
After charging:		
Depreciation	79,790	57,943
Amortisation	3,611	3,532
Loss on disposal of property, plant and equipment	291	6,725
Operating lease rentals	22,010	19,965
Provision for doubtful debts	610	109
Cost of inventories	5,679	734
Contributions to defined contribution pension scheme	2,080	738
Auditor's remuneration	707	699
Exchange loss	1,970	28
Contribution to housing fund	1,286	1,072
Research and development expenses	48,657	21,801
After crediting:		
Interest income	15,822	14,987

### **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.

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

### **4. EARNINGS PER SHARE**

Earnings per share for the six months ended June 30, 2004 and 2003 have been computed by dividing the net profit of RMB227,757,000 and RMB135,588,000 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, 2004 and 2003.

### **5. RESERVES**

RMB45,431,779, representing 20 per cent. of the after tax profit of year 2003, 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 28, 2004 approved the final dividend in respect of 2003 of RMB0.102 per share amounting to a total of RMB90,592,065. The amount was accounted for in shareholders' equity as an appropriation of retained earnings for the six months ended June 30, 2004.

### **7. PROPERTY, PLANT AND EQUIPMENT**

For the six months ended June 30, 2004, the Group acquired property, plant and equipment amounting to approximately RMB44,691,000.

## 8. ACCOUNTS RECEIVABLE

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

The aging analysis of accounts receivable is as follows:

	<b>June 30, 2004</b> <i>RMB'000</i>	December 31, 2003 <i>RMB'000</i>
Within 6 months	<b>22,118</b>	14,809
Over 6 months but within 1 year	<b>6,769</b>	1,907
Over 1 year but within 2 years	<b>3,242</b>	2,896
Over 2 years but within 3 years	<b>913</b>	325
Over 3 years	<b>2,029</b>	1,883
Total accounts receivable	<b>35,071</b>	21,820
Provision for doubtful debts	<b>(4,078)</b>	(3,468)
Accounts receivable, net	<b>30,993</b>	18,352

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The aging analysis of accounts payable is as follows:

	<b>June 30, 2004</b> <i>RMB'000</i>	December 31, 2003 <i>RMB'000</i>
Within 6 months	<b>20,175</b>	69,762
Over 6 months but within 1 year	<b>42,206</b>	3,737
Over 1 year but within 2 years	<b>2,392</b>	13,505
Over 2 years but within 3 years	<b>9,449</b>	25,013
Over 3 years but within 4 years	<b>25,013</b>	—
Total accounts payable	<b>99,235</b>	112,017
Accrued liabilities	<b>325,197</b>	254,044
Total accounts payable and accrued liabilities	<b>424,432</b>	366,061

## 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	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before taxation and minority interests	<b>250,287</b>	149,320
Adjustments for:		
Depreciation and amortisation	<b>83,401</b>	61,475
Loss on disposal of property, plant and equipment	<b>291</b>	6,725
Provision for doubtful debts	<b>610</b>	109
Share of results of associated companies	<b>(6,724)</b>	(5,573)
Operating profit before working capital changes	<b>327,865</b>	212,056
Decrease / (increase) in current assets:		
Accounts receivable	<b>(13,251)</b>	(4,330)
Inventories	<b>(2,247)</b>	(4,141)
Prepayments and other current assets	<b>(16,817)</b>	1,130
Due from related parties and associated companies	<b>(37,982)</b>	(26,885)
Increase / (decrease) in current liabilities:		
Accounts payable and accrued liabilities	<b>71,864</b>	52,388
Deferred revenue	<b>5,054</b>	873
Due to related parties	<b>(708)</b>	(8,800)
Taxes payable	<b>(3,352)</b>	(9,412)
Cash generated from operating activities	<b>330,426</b>	212,879



## 11. COMMITMENTS

### (a) Capital commitments

As at June 30, 2004, the Group had the following capital commitments:

	<i>RMB'000</i>
Authorised and contracted for	3,900
Authorised but not contracted for	273,409
Total	<u>277,309</u>

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

No capital commitments outstanding as at June 30, 2004 was denominated in U.S. dollars.

### (b) Operating lease commitments

As at June 30, 2004, the Group had the following commitments under operating leases:

	<i>RMB'000</i>
Within one year	35,379
Later than one year but not later than five years	126,000
Later than five years	34,353
Total	<u>195,732</u>

## 12. SEGMENT REPORTING

The Group conducts its business within one business segment - the business of providing electronic travel distribution, airport passenger processing, data network services, etc. 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, 2004 and 2003. 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.

### BUSINESS REVIEW FOR THE FIRST HALF OF THE YEAR

Benefiting from the continuous growth of China's economy and the rapid recovery of air travel and tourism industries from the Severe Acute Respiratory Syndrome ("SARS") in 2003, the Company believes that the domestic demand for air transportation in China has completely resumed the fast growing momentum, which is also attributable to the enhanced initiative and vigour of Chinese commercial airlines, as well as the industry policies featuring gradual relaxation of regulations, stimulus for competition and further opening-up following the system reform in the PRC civil aviation industries. During the six months ended June 30, 2004 ("the first half of 2004"), the Electronic Travel Distribution ("ETD") system of the Company processed approximately 62.6 million bookings on Chinese and foreign commercial airlines, representing an increase of approximately 70.8 per cent. compared to the six months ended June 30, 2003 ("the first half of 2003"). Bookings on Chinese commercial airlines increased by approximately 71.7 per cent., while bookings on private foreign and regional airlines increased by approximately 49.6 per cent.

In the first half of 2004, the Company continued to improve the functions of ETD products while speeding up marketing activities for its ETD products. The Company developed the Seamless ENV solution, which enable sales agents to more accurately sell flight seats for private foreign and regional airlines. Through direct links with flight management systems of Virgin Atlantic Airways and Asiana Airlines respectively, the Company's ETD system helped the airlines to explore the air transportation market in China. Apart from Air China, China Eastern Air Holding Company and Hainan Airlines Company Limited, the net fare display systems developed by the Company also began to render services to Swiss International Air Lines and Austrian Airlines. In the first half of 2004, a significant progress was made in sales of electronic air-travel personal injury insurance policies, with more than 8.9 million electronic policies processed by the Company's sales management system, representing an increase of approximately 180 per cent. compared to the first half of 2003.

In the first half of 2004, the Company had completed all the installation work of Airport Passenger Processing ("APP") system in the domestic airports. More than 130 domestic and foreign airports are currently using the Company's APP system. Following the favourable responses from the market in 2003, the new-generation APP front-ended system developed by the Company was also introduced to five airports including Chengdu Airport and Fuzhou Airport. Eight private foreign airlines, including Air France and Lufthansa German Airlines, also decided to join the Company's APP system. In the first half of 2004, the APP system processed approximately 48.6 million passenger departures, equivalent to approximately 80.5 per cent. of the total passenger departures from the domestic airports, representing an increase of approximately 86.2 per cent. compared to the first half of 2003.

With further investment in the first half of 2004, the Company continued to launch products catering for the domestic market. Such products provided industry participants such as airlines, airports and travel distribution agencies with different options for expanding and diversifying their core and related businesses, and satisfied their increasingly sophisticated demand for personalised services. In addition to further consummating the electronic ticket function of Air China, the Company also assisted in its promotion, where the monthly electronic tickets sold have accounted for more than 10% of the total tickets sold every month. Apart from having full operation in Air China, the Airport Ground Operating Management Systems (AGOMS) developed by the Company were also put into full operation in the base airports of Hainan Airlines Company Limited, Shanghai Airlines Company Limited and Shenzhen Air Holding Company. With an elementary technology solution for comprehensive business information of sales agencies, the Company has preliminarily completed the setting up of business systems including those for reservation, customer management, payment collection, settlement and fare management and a call centre. The Company helped Shanghai Dongmei Aviation Tourism Company Limited develop its travel products distribution business such as distribution of flight tickets hotel reservation etc.

In the first half of 2004, the Company continued to leverage technologies to optimise system performance and enhance processing capabilities, so as to ensure the system processing capabilities are in line with the needs of business development. The Company also proactively implemented technological and managerial measures to secure operational reliability of each business unit. The utilisation ratios of the Group's Inventory Control System ("ICS"), Computer Reservation System ("CRS") and APP mainframe systems were approximately 99.99 per cent., 99.99 per cent. and 99.99 per cent. respectively. Meanwhile, the Group strengthened supply management and took various means to minimise operating costs. For instance, the Group is actively advancing the task of system message address transmission, which will not only increase the transmission quality of system messages but will also save network utilisation expenses.

In order to fully take advantage the close-to-customer and fast-response advantages of local distribution centres all over the country, the Company has been strengthening the integration of local market collaboration and marketing services systems during the first half of 2004, and continuing to improve personalised services for airlines, airports and travel distribution agencies. The Board established a Strategy Committee and a Remuneration and Assessment Committee to achieve a more effective corporate governance and gradual improvement in the structure of legal person governance. The Board also laid down the relevant rules of procedures and regulations.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Summary**

For the first half of 2004, the Group achieved a profit before tax of RMB250.3 million, representing an increase of 67.6 per cent. compared to the first half of 2003. Earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to RMB320.1 million, representing an increase of 63.5 per cent. compared to the first half of 2003. Net profit was RMB227.8 million, which represents an increase of 68.0 per cent. compared to the first half of 2003. The significant increase in profit was mainly attributable to both the outbreak of SARS in the first half of 2003 and the fast growing domestic air travel and tourism industry in the first half of 2004.

The turnover and results of the Group were mainly derived from its operations in China. The earnings per share of the Group was RMB0.26 for the first half of 2004.

### **Total Revenues**

The total revenues of the Group in the first half of 2004 increased by RMB223.8 million, or 54.3 per cent., from RMB411.8 million to RMB635.6 million in the first half of 2003. The increase in total revenues was mainly attributable to the resilient increase in the Group's business volume which recovered after the impact of SARS. The reasons for the increase in total revenues are as follows:

- ETD revenues represented 52.1 per cent. of the Group's total revenues in the first half of 2004 as compared to 49.8 per cent. in the first half of 2003. ETD revenues increased by 61.5 per cent. to RMB331.0 million in the first half of 2004 from RMB205.0 million in the first half of 2003. The increase was principally attributable to the post-SARS quick recovery of the number of air travellers.

- APP revenues accounted for 27.9 per cent. of the Group's total revenues in the first half of 2004 as compared to 25.1 per cent. in the first half of 2003. APP revenues increased by 71.6 per cent. to RMB177.6 million in the first half of 2004 from RMB103.5 million in the first half of 2003. The increase was also attributable to the steady increase in the number of air travellers, as well as the successful promotion of APP front-ended systems.
- Data network revenues accounted for 15.0 per cent. of the Group's total revenues in the first half of 2004 as compared to 19.1 per cent. in the first half of 2003. Data network revenues increased by 21.8 per cent. to RMB95.6 million in the first half of 2004 from RMB78.5 million in the first half of 2003. The increase was mainly attributable to the suspension by some travel agencies of the use of the Company's system services during the first half of 2003.
- Other revenues increased by 26.7 per cent. from RMB24.8 million in the first half of 2003 to RMB31.4 million in the first half of 2004. The increase was mainly attributable to the rise in revenue from the Company's distribution of travel products.

## Net Revenues

Net revenues increased by 54.4 per cent. to RMB613.7 million in the first half of 2004 from RMB397.5 million in the first half of 2003.

## Operating Expenses

Total operating expenses increased by RMB115.5 million, or 43.1 per cent., to RMB383.6 million in the first half of 2004 from RMB268.1 million in the first half of 2003. The reasons for the increase in operating expenses are as follows:

- depreciation and amortisation increased by 35.7 per cent. primarily due to the acquisition of a new large mainframe computer in 2003 to meet requirements of the Group's business development;
- personnel expenses increased by 27.5 per cent., primarily due to an increase in the number of employees in order to support the development of the Group's businesses;
- technological support and maintenance costs increased by 33.8 per cent. after the Company stepped up the research and development of new products and new technology in the first half of 2004;
- commission and promotion expenses increased by 95.8 per cent. due to the growth in new APP customers and the success of the Group's APP promotional programmes; and

- Other operating expenses increased by 74.1 per cent. due to the impact of SARS in the first half of 2003, which led to a decline in operating activities.

As a result of the above changes in net revenues and operating expenses, the operating profit of the Group increased by RMB100.8 million, or 77.9 per cent., to RMB230.1 million in the first half of 2004 from RMB129.3 million in the first half of 2003.

## **Net Profit**

As a result of the above factors, the Group's net profit increased by RMB92.2 million, or 68.0 per cent., from RMB135.6 million in the first half of 2003 to RMB227.8 million in the first half of 2004.

## **Liquidity and Capital Structure**

For details of the cash flows of the group for the first half of 2004, please refer to the unaudited condensed consolidated statement of cash flows and the explanatory notes relating thereto.

In the first half of 2004, the Group derived its working capital mainly from operating activities. Net cash inflow from operating activities amounted to RMB320.1 million.

During the first half of 2004, the Group had no short-term or long-term bank loans.

As at June 30, 2004, the cash and cash equivalents of the Group amounted to RMB1,937.0 million, of which 90.5 per cent. was denominated in Renminbi, 8.5 per cent. was denominated in US dollars and 1 per cent. was denominated in Hong Kong dollars.

## **Long-term Investment**

As at June 30, 2004, the Group held RMB100 million China treasury bonds with an interest rate of 3 per cent. per annum. The maturity date of the treasury bonds is December, 2008.

## **Charge on assets**

As at June 30, 2004, the Group had no charges on its assets.

## Capital Expenditures

The total capital expenditures of the Group decreased by RMB202.8 million from RMB247.5 million in the first half of 2003 to RMB44.7 million in the first half of 2004.

The capital expenditures of the Group in the first half of 2004 consisted principally of the purchase of hardware, software and equipment to implement the Group's ETD business strategy.

The Board estimates that the Group's planned capital expenditure for the year 2004 will amount to approximately RMB322.0 million, which is mainly for the development and promotion of the new-generation ETD, APP and other new businesses.

The sources of funding for the capital expenditure commitments will include the remaining balance of proceeds from the Company's initial public offering and internal cash flow from operating activities.

The Board estimates that the sources of funding of the Group in 2004 will be sufficient to fully cover the amount required for its capital expenditure programmes and daily operations.

## Use of Proceeds from Issuance of the H Shares

The H shares of the Company were listed on the Stock Exchange on February 7, 2001, and the net proceeds from the issuance of H shares amounted to approximately HK\$1,186.0 million. As at June 30, 2004, such amount has been used in the same manner as set out in the prospectus of the Company dated January 29, 2001. In particular:

- approximately RMB671.4 million (HK\$633.0 million) was used to finance a portion of the funding requirements of the ETD plan;
- approximately RMB40.8 million (HK\$38.5 million) was used to finance a portion of the expansion and upgrading of the APP system;
- approximately RMB6.1 million (HK\$5.8 million) was used to finance the expansion of other new businesses of the Company;
- approximately RMB103.4 million (HK\$97.5 million) was used for daily operating activities; and
- the balance of the net proceeds is currently deposited with banks.

The Board believes that the Company currently has sufficient capital for its operations, including future expansion of its businesses in the PRC and potential strategic acquisitions or investments which the Company may decide to pursue in the future.

## **Foreign Exchange Risk**

The Group is exposed to foreign exchange risks related to its capital expenditures since a substantial portion of its capital expenditures involves payments for the purchase of imported equipment which are denominated in US dollars. Under the current foreign exchange system in the PRC, the Group is not able to hedge effectively against currency risks, except for cash and cash equivalents that are denominated in foreign currency.

## **Gearing ratio**

As at June 30, 2004, the gearing ratio of the Group was 16.0 per cent. (June 30, 2003: 12.8 per cent.), which was computed by dividing the total amount of liabilities and minority interests, by the total assets of the Group as at June 30, 2004.

## **Contingent liabilities**

As at June 30, 2004, the Group had no material contingent liabilities.

## **Employees**

As at June 30, 2004, the total number of employees of the Group was 1,550. Personnel expenses amounted to RMB77.1 million for the first half of 2004, representing 20.1 per cent. of the total operating expenses of the Group in the first half of 2004.

The remuneration package of the Group's employees includes salary, bonus and other benefits. Where the relevant laws and regulations in the PRC permit the Group to do so, the Group offers salaries of different levels to different employees based on factors which include their performance, qualifications and duties.

In the first half of 2004, the Group continued to provide its employees with learning opportunities in the areas of air travel and tourism, computer technology and business management, as well as training in the latest developments in computer information technology, law and economics.



## Looking Ahead for the Second Half of 2004

In the second half of 2004, China's aviation demand is expected to maintain a considerable upward momentum as driven by the continuous rapid growth of China's economy and the bustling domestic and overseas travels. However, the open market of China's civil aviation keeps constantly enlarging, the Group is also facing increasingly intense competition. Therefore the Group will strengthen its strategic adjustments and keep sharpening its core competitive edge while making full use of the opportunities for core business development. The Group will actively compete in the open market and develop through competition.

- To speed up improving the Group's business and core technological capabilities to advance the integrated systematic construction of market, products, security and customer services. The Group will regulate its business relations with airlines, airports and sales agencies to secure and maintain its leadership in China's air travel and tourism market;
- To accelerate the research and development of the new-generation traveler service system, and to focus on e-business related products mainly on electronic tickets, and products for airlines' major resources management, as well as the multi-host access platform for APP for foreign airlines;
- To adopt an effective combined strategy for business, technology and capital, and actively develop online distribution and travel product distribution businesses in order to capitalise on the opportunities in China's air travel and tourism industry;
- To take initiative to explore ways to capitalise on the Group's competitive advantages in the international market as it increasingly opens up, and to establish strategic alliances with leading international enterprises to create favorable conditions for the Group's further development;
- To further strengthen the Group's corporate governance, and to improve its corporate legal person governance structure. The group will maintain corporate management mechanism and procedures. It will also reinforce its strategic management and improve executive forces to enhance the Group's operating efficiency.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the first half of 2004.

## SUBSTANTIAL SHAREHOLDERS

As at June 30, 2004, pursuant to the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "Ordinance"), the following substantial shareholders held an interest of 5 per cent. or more in their respective class of share capital of the Company:

Name of shareholder	Class	Number of shares held	Percentage in respective class of share capital (per cent.)	Percentage in total issued share capital (per cent.)
Templeton Asset Management Limited (1)	H shares	31,277,000	10.1%	3.5%
Matthews International Capital Management, LLC(2)	H shares	25,327,000	8.2%	2.9%
J.P. Morgan Chase & Co. (3)	H shares	21,379,600	6.9%	2.4%
China TravelSky Holding Company	Domestic	198,496,500	34.4%	22.3%
China Southern Air Holding Company (4)	Domestic	116,460,500	20.2%	13.2%
China Eastern Air Holding Company (5)	Domestic	109,414,500	19.0%	12.3%
China National Aviation Holding Company (6)	Domestic	89,433,500	15.5%	10.1%

Save as disclosed herein, as at June 30, 2004, no other persons or companies held an interest or short positions of 5 per cent. or more in the issued share capital of the Company pursuant to the register required to be maintained under Section 336 of the Ordinance.

### Notes:

- (1) *Based on the Corporate Substantial Shareholder Notice from Templeton Asset Management Limited in accordance with Section 324 of the Ordinance, as at June 30, 2004, Templeton Asset Management Limited held approximately 10.1 per cent. of the H shares of the Company, representing approximately 3.5 per cent. of the total issued share capital of the Company.*

- (2) *Based on the Corporate Substantial Shareholder Notice from Matthews International Capital Management, LLC in accordance with Section 324 of the Ordinance, as at June 30, 2004, Matthews International Capital Management, LLC held approximately 8.2 per cent. of the H shares of the Company, representing approximately 2.9 per cent. of the total issued share capital of the Company.*
- (3) *Based on the Corporate Substantial Shareholder Notice from J. P. Morgan Chase & Co. in accordance with Section 324 of the Ordinance, as at June 30, 2004, J. P. Morgan Chase & Co. held approximately 6.9 per cent. of the H shares of the Company, representing approximately 2.4 per cent. of the total issued share capital of the Company.*
- (4) *As at June 30, 2004, China Southern Air Holding Company directly held approximately 9.4 per cent. of the total issued share capital of the Company and also owned, among other things: (i) 100 per cent. interest in China Northern Airlines Co.; and (ii) 100 per cent. interest in Xinjiang Airlines Co.. Since China Northern Airlines Co. and Xinjiang Airlines Co. held approximately 2.8 per cent. and 1.0 per cent. interest respectively in the Company, China Southern Air Holding Company effectively controlled approximately 13.2 per cent. interest in Company;*
- (5) *As at June 30, 2004, China Eastern Air Holding Company held approximately 7.7 per cent. of the total issued share capital of the Company and also owned, among other things: (i) 100 per cent. interest in China Northwest Airlines Co.; and (ii) 100 per cent. interest in Yunnan Airlines Co.. Since China Northwest Airlines Co. and Yunnan Airlines Co. held approximately 2.6 per cent. and 2.0 per cent. interest respectively in the Company, China Eastern Air Holding Company effectively controlled approximately 12.3 per cent. interest in Company; and*
- (6) *As at June 30, 2004, China National Aviation Holding Company owned, among other things: (i) 100 per cent. interest in Air China; and (ii) 100 per cent. interest in China National Aviation Corporation. Since Air China and China National Aviation Corporation held approximately 9.4 per cent. and 0.7 per cent. interest respectively in the Company, China National Aviation Holding Company effectively controlled approximately 10.1 per cent. interest in the Company.*

## **INTERESTS OF DIRECTORS AND SUPERVISORS IN THE SHARE CAPITAL OF THE COMPANY**

As at June 30, 2004, none of the Directors, Supervisors or chief executives had any interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations that is required to be recorded and kept in the register in accordance with Section 352 of the Ordinance, or any interest required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules. None of the Directors, Supervisors, chief executive of the Company or their associates had been granted or had exercised any such rights during the six months ended June 30, 2004.

## TRUST DEPOSITS AND OVERDUE TIME DEPOSITS

As at June 30, 2004, the Group did not have any trust deposits or irrecoverable overdue time deposits. Cash held by the Group is deposited in commercial banks and in accordance with with the relevant laws and regulations.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

For the first half of 2004, the Group did not purchase, sell or redeem any of the Company's securities.

## AUDIT COMMITTEE AND COMPLIANCE WITH CODE OF BEST PRACTICE

The Audit Committee of the Company has discussed and reviewed with the Company's management the financial information contained in the interim report, and has also discussed among themselves matters including internal control and financial reporting. None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended June 30, 2004, in compliance with the requirements of the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the six months ended June 30, 2004.

By order of the Board  
**Zhu Yong**  
*Chairman*

August 26, 2004