

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial information of the Group contained the financial statements (together with the notes thereto) reproduced in this annual report. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The selected historical results as discussed herein do not represent a prediction of the future business operations of the Group.

OVERVIEW

For the year ended December 31, 2004 ("Year 2004"), profit before taxation of the Group was RMB499.6 million, representing an increase of 83.4 per cent. over that in the year ended December 31, 2003 ("Year 2003"). Earnings before interests, tax, depreciation and amortization (EBITDA) reached RMB628.8 million, representing an increase of 62.5 per cent. over that in Year 2003. Net profit was RMB449.2 million, an increase of 85.2 per cent. over the previous year. The increase in the profitability of the Group was mainly due to the increase in revenue from the Company's AIT service.

The basic and diluted earnings per share of the Group in Year 2004 was RMB0.51.

TOTAL REVENUE

The total revenue of the Group amounted to RMB1,282.9 million, representing an increase of RMB389.3 million, or 43.6 per cent., from RMB893.6 million in Year 2003. Such increase was mainly due to the rapid growth in AIT service business in Year 2004 following the considerable fall in the Company's business as a result of the spread of SARS in Year 2003. The increase in total revenue is reflected as follows:

- AIT service revenue represented 80.0 per cent. of the total revenue of the Group in Year 2004 as compared to 74 per cent. in Year 2003. AIT service revenue increased by 54.5 per cent. to RMB1,025.7 million in Year 2004 from RMB663.9 million in Year 2003, which resulted primarily from the increase in ETD business.
- Data network and other revenue represented 20.0 per cent. of the Group's total revenue in Year 2004 as compared to 26 per cent. in Year 2003. Data network and other revenue increased by 11.9 per cent. to RMB257.1 million in Year 2004 from RMB229.7 million in Year 2003. The increase in data network and other revenue resulted from the increase in data network revenue, travel product distribution revenue and IT integrated service revenue in response to active business expansion of local distribution centers.

NET REVENUE

Net revenue increased by 44.0 per cent. to RMB1,240.6 million in Year 2004 from RMB861.6 million in Year 2003.

OPERATING EXPENSES

Operating expenses for Year 2004 amounted to RMB787.4 million, representing an increase of RMB150.1 million, or 23.6 per cent., from RMB637.3 million in Year 2003. The increase is mainly attributable to the continuous improvement in the Group's research and marketing strategies which thereby expanded its efforts in the research and development of new products and new technology, and partly because of the Group's continuous efforts in expanding its market as well as in strengthening its support for localization of customers. The increase in operating expenses also reflected the following:

- network usage fees increased by 20.2 per cent., mainly derived from the expanded business volume;
- personal expenses decreased by 9.4 per cent., primarily attributable to the Company's effective initiatives to control personal expenses;
- commission and promoting expenses increased by 108.9 per cent., mainly due to the increased commission expense for APP supported by the Company as a result of its fast-growing APP business volume;
- though there were increases in revenue, other operating cost of the Group increased by 42.8 per cent., mainly attributable to the increase in related cost arising from the continuous efforts of the Company and its local distribution centers to expand their market as well as in strengthening support for customers localization.

As a result of the above changes in net revenue and operating expenses, the operating profit of the Group increased by RMB228.8 million, or 102.0 per cent., to RMB453.1 million in Year 2004 from RMB224.3 million in Year 2003.

MINORITY INTEREST

Minority interest increased by 52.4 per cent. to RMB10.2 million in Year 2004 from RMB6.7 million in Year 2003. Such an increase was mainly attributable to the improved profitability of subsidiary companies.

NET PROFIT

As a result of the above factors, the net profit of the Group increased by RMB206.7 million or 85.2 per cent. to RMB449.2 million in Year 2004 from RMB242.5 million in Year 2003.

RESERVES AVAILABLE FOR DISTRIBUTION

After the appropriation of the statutory reserve fund, the statutory public welfare fund and the discretionary surplus reserve fund from the net profit as reflected in the statutory financial statements prepared under PRC GAAP, the reserve available for distribution as at December 31, 2004, as stated in Note 27 to the financial statements, amounted to RMB477.5 million, which is the lesser of the amounts as determined according to PRC GAAP and IFRS.

DISTRIBUTION OF DIVIDEND

The Board of Directors ("the Board") recommends the payment of a final dividend of RMB0.2 per share for Year 2004, totaling RMB177.6 million. After the appropriation of the dividend, the reserves available for distribution became RMB299.9 million.

NET CASH FLOWS AND LIQUIDITY

The following table summarizes the cash flows of the Group for the years presented:

	Year ended December 31	
	2004	2003
	(RMB in million)	(RMB in million)
Net cash inflows from operating activities	575.5	551.6
Net cash used in investing activities	(244.7)	(272.4)
Net cash provided by financing activities	(128.9)	(137.6)
Net increase in cash and cash equivalents	201.9	141.5

The Group's working capital for Year 2004 mainly came from operating activities. Net cash inflow for operating activities amounted to RMB575.5 million.

In Year 2004, the Group had no short-term or long-term bank loans, and the Group did not use any financial instruments for hedging purposes.

As at December 31, 2004, cash and cash equivalents of the Group amounted to RMB2,236.8 million, of which 88.1 per cent., 10.7 per cent. and 1.1 per cent. were denominated in Renminbi, US dollars and Hong Kong dollars, respectively.

LONG-TERM INVESTMENT

As at December 31, 2004, the Group held RMB100 million treasury bonds with an interest rate of 3% per annum. The maturity date of the treasury bonds is in December 2008.

CHARGE ON ASSETS

As at December 31, 2004, the Group had no charges on its assets.

CAPITAL EXPENDITURE

The capital expenditure of the Group amounted to RMB105.2 million in Year 2004, representing a reduction of RMB305.7 million as compared to that of RMB410.9 million in Year 2003.

The capital expenditure of the Group in Year 2004 consisted principally of purchase of hardware, software and software for equipment in accordance with the Group's business strategies.

The Board estimates that the Group's planned capital expenditure for year 2005 will amount to approximately RMB411.0 million, which is mainly for development and gradual implementation of the new-generation traveler service system and other new businesses.

The sources of funding for the capital expenditure commitments will include net proceeds from the initial public offering of the Group and internal cash flow generated from operations.

The Board estimates that the sources of funding of the Group in year 2005 will be sufficient for its capital expenditure commitments, daily operations and other purposes.

EXCHANGE RISKS

The Group is exposed to foreign exchange risks related to its capital expenditure as a substantial portion of its capital expenditure involves payments for the purchase of imported equipment which are denominated 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 are denominated in foreign currency.

GEARING RATIO

As at December 31, 2004, the gearing ratio of the Group was 13.7 per cent. (2003: 14.8 per cent.), which was computed by dividing the total amount of liabilities and minority interests by the total assets of the Group as at December 31, 2004.

CONTINGENT LIABILITIES

As at December 31, 2004, the Group had no material contingent liabilities.

EMPLOYEES

As at December 31, 2004, the total number of employees of the Group was 1,825. Personnel expenses amounted to RMB133.8 million for the year ended December 31, 2004, representing 17.0 per cent. of the total operating cost of the Group for Year 2004.

The remuneration of the employees of the Group includes salaries, bonuses and other fringe benefits. The Group has different rates of remuneration for different employees to be determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

In Year 2004, the Group continued to provide its employees with opportunities to acquire skills in relation to the air travel industry, computer technologies and business administration and provide training on the latest development in areas such as computer technologies, personal development, laws, regulations and economics.

BASIC MEDICAL INSURANCE REGULATION

On February 20, 2001, the People's Government of the Municipality of Beijing in the PRC promulgated the "Basic Medical Insurance Regulation for the Municipality of Beijing" (the "Regulation"). Given the fact that relevant regulations concerning employees' medical insurance must be applied according to the policies applicable to the place in which a company is located, the head office of the Company in Beijing implemented the Regulation from September 1, 2002 onwards. For Year 2004, the Company incurred a total amount of RMB3,075,469 (a total amount of RMB1,177,300 was incurred in Year 2003) pursuant to the Regulation. The Board believes that by implementing the Regulation, the financial position of the Company has not been materially affected.