(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 aviation information technology service and related services in the PRC.

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

As at December 31, 2004, 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.

Name	Date of incorporation	Percentage of equity interest held Direct	Percentage of equity interest held Indirect	Issued and fully paid capital RMB	Principal activities
Subsidiaries					
Hainan Civil Aviation Cares Co., Ltd. ("Hainan Cares")	March 2, 1994	64.78%	—	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

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

Name	Date of incorporation	Percentage of equity interest held		Issued and fully paid capital RMB	Principal activities
		Direct	Indirect		
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	51%	—	2,000,000	Computer hardware and software development and data network services
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

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

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

Name	Date of incorporation	Percentage of equity interest held		Issued and fully paid capital RMB	Principal activities
		Direct	Indirect		
Civil Aviation Cares of Xiamen Ltd. ("Xiamen Cares")	September 14, 2001	51%	—	4,000,000	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
Civil Aviation Cares of Xi'an 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

During the year, Xiamen Cares had capitalized RMB 2,000,000 of its retained earnings to share capital. As a result, its share capital has increased from RMB 2,000,000 to RMB 4,000,000.

The Company and its subsidiaries are hereinafter collectively referred to as the "Group".

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
Associated Companies					
Shanghai Civil Aviation East China Cares System Integration Co., Ltd. ("Huadong Cares")	May 21, 1999	41%	—	10,000,000	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 28, 1999	44%	—	2,000,000	Computer hardware and software development and data network services
Yunnan TravelSky Airport Technology Limited	April 1, 2003	40%	—	6,000,000	Computer hardware and software development and technical consulting service
Heilongjiang TravelSky Airport Technology Limited	April 30, 2003	50%	—	6,000,000	Computer hardware and software development and technical consulting service
Shanghai Dongmei Aviation Tourism Online Co., Ltd	September 30, 2003	50%	—	1,500,000	Sales of computers and related parts and provision of network, technical services and economic consulting service

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.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

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 of 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Basis of consolidation *(continued)*

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.

(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.

(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 Note (d) below.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Foreign currencies *(continued)*

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.

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 increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

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.

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 purchased 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;

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Research and development costs *(continued)*

- 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, 2004, no development costs were capitalised as they did not meet all the conditions listed above (2003: 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.

(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 quantified and 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

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.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Investments *(continued)*

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.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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 and cash equivalents are carried in the balance sheet at cost.

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.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Taxation *(continued)*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax base of an asset or liability and its carrying amount in the balance sheet. Currently enacted tax rate are used in the determination of deferred taxation. 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.

(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 aviation information technology service is recognised when the services are rendered;

- Revenue for data network services is recognised as revenue when the services are rendered;

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) Revenue recognition *(continued)*

- Sale of equipment is recognised when the significant risks and rewards of ownership of the goods have been transferred 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.

4. REVENUES

Revenue primarily comprises the fees earned by the Group for the use of the Group's aviation information technology service and related services.

These fees are primarily effected on terms determined by Civil Aviation Administration of China ("CAAC") and other relevant PRC authorities. A substantial portion of these fees was generated from shareholders of the Company.

(1) Aviation information technology services comprise electronic travel distribution services, airport passenger processing services and other extended information technology services related to such businesses as provided by the Group.

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.

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.

(2) The Group charges airlines, airports and travel agencies for the use of the Group's data network.

(3) 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:

	2004	2003
	RMB'000	*RMB'000*
After charging:		
Depreciation	**156,633**	141,904
Amortisation	**8,212**	7,262
Leasehold amortisation	**1,896**	—
Loss on disposal of property, plant and equipment	**5,516**	1,651
Operating lease rentals	**49,406**	42,870
Provision (write back) for doubtful debts	**(1,299)**	2,377
Cost of equipment sold	**12,727**	13,561
Contributions to defined contribution pension scheme	**5,758**	3,320
Auditors' remuneration	**1,785**	1,444
Contribution to housing fund	**4,478**	3,123
Research and development expenses	**135,658**	78,427
After crediting:		
Interest income	**(37,710)**	(33,213)
Exchange gain	**152**	(1,839)

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

	2004	2003
	RMB'000	*RMB'000*
Fees for executive directors	**—**	—
Fees for non-executive directors	**270**	—
Fees for supervisors	**—**	—
Other emoluments for executive directors:		
— basic salaries and allowances	**272**	231
— bonus	**714**	1,647
— retirement benefits	**40**	28
Other emoluments for non-executive directors	**—**	—
Other emoluments for supervisors	**507**	963
Total	**1,803**	2,869

No director had waived or agreed to waive any emoluments during the years.

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

(continued)

Details of emoluments paid to the five highest-paid employees (mainly senior executives) are as follows:

	2004 *RMB'000*	2003 *RMB'000*
Basic salaries and allowances	**447**	324
Bonus	**1,210**	1,678
Retirement benefits	**66**	40
	1,723	2,042
Number of directors	**3**	3
Number of employees	**2**	2
	5	5

The annual emoluments paid during the year ended December 31, 2004 to each of the directors (including the five highest paid employees) fell within the band from RMB nil to RMB 1 million (2003: from RMB nil to RMB 1 million).

During the year ended December 31, 2004, 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 (2003: 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 20% of the employees' basic salaries for the year ended December 31, 2004 (2003: 19%). The contributions to the pension scheme made by the Group for the year ended December 31, 2004 amounted to RMB5,758,000 (2003: RMB 3,320,000). 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, 2004 amounted to approximately RMB4,478,000 (2003: RMB 3,123,000).

The average number of employees in 2004 was 1,825 (2003: 1,416).

9. TAXATION

Income Tax

	2004	2003
	RMB'000	*RMB'000*
PRC enterprise income tax - current	**40,141**	23,552
Hong Kong profits tax - current	**47**	(460)
	40,188	23,092

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. The Company is 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 EIT preferential rate of 7.5% from January 1, 2003 to December 31, 2005.

The Company's subsidiaries are entitled to different preferential tax rates, ranging from 0 to 33%. These subsidiaries are located in special economic zones (Hainan Cares and Shenzhen Cares) for which the applicable tax rate is 15%, or designated as "New Technology Enterprise" (Chongqing Cares) for which the applicable tax rate is 15% or located in Western part of China (Xinjiang Cares) enjoying preferential tax rate of 0%. In addition, these subsidiaries are entitled to certain reductions in tax rates in their initial years of operations.

9. TAXATION *(continued)*

Income Tax *(continued)*

The reconciliation of EIT at the statutory rate of 33% applied to income before taxation for the years ended December 31, 2004 and 2003, to the effective rate actually recorded in the consolidated income statement, is as follows:

	2004	2003
Statutory tax rate	**33%**	33%
Effect of preferential tax rates applicable to the Company	**(24)%**	(23)%
Effect of preferential tax rates applicable to certain subsidiaries	**(1)%**	(2)%
Effective income tax rate	**8%**	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 the preferential tax rate applicable to the Company and certain subsidiaries is as follows:

	2004	2003
Aggregate amount (RMB'000)	**132,339**	70,902
Per share effect (RMB)	**0.15**	0.08

Business Taxes

The Group is subject to business taxes on its service revenues:

Aviation information technology service and data network	3%
Training, technical support service, rental and others	5%

9. TAXATION *(continued)*

Value-Added Tax (“VAT”)

The Group’s sales of equipment are subject to Value Added Tax (VAT). The Company and one of its subsidiaries (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.

10. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2004 and December 31, 2003 have been computed by dividing the net profit of RMB449,181,000, and RMB 242,541,000, by the weighted average number of 888,157,500 and 888,157,500 ordinary shares issued and outstanding for the years ended December 31, 2004 and 2003, respectively.

There were no potential dilutive ordinary shares outstanding during the years ended December 31, 2004 and 2003.

11. DIVIDENDS

The shareholders in the Annual General Meeting on April 28, 2004 approved the final dividend in respect of 2003 of RMB 0.102 per share amounting to a total of RMB90,592,000. The amount was accounted for in shareholders’ equity as an appropriation of retained earnings in the year ended December 31, 2004.

The Board of Directors proposed a final dividend of RMB0.200 per share for the year ended December 31, 2004, totaling approximately RMB177,631,500. The proposed dividend distribution is subject to shareholders’ approval in their next general meeting and will be recorded in the Group’s financial statements for the year ending December 31, 2005. After the appropriation of the dividend, the reserve available for distribution as at December 31, 2004 was approximately RMB299,882,000 (2003: RMB202,137,000).

	2004	2003
Dividend proposed after year end		
Proposed final dividend (RMB’000)	**177,632**	90,592
Dividend per share (RMB)	**0.200**	0.102

12. PROPERTY, PLANT AND EQUIPMENT, NET

At December 31, property, plant and equipment comprised:

The Group:

	Buildings RMB'000	Computer systems and software RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Assets under construction RMB'000	Total RMB'000
Cost						
As at January 1, 2003	15,091	863,954	20,449	14,221	8,923	922,638
Purchases	4,011	306,821	4,874	5,646	26,895	348,247
Transfer upon completion	29,903	—	—	—	(29,903)	—
Disposals	—	(44,056)	(858)	(229)	—	(45,143)
As at December 31,2003	49,005	1,126,719	24,465	19,638	5,915	1,225,742
Purchases	2,249	77,038	5,053	7,166	1,379	92,885
Transfer upon completion	4,094	—	—	—	(4,094)	—
Disposals	—	(25,853)	(362)	(651)	(3,200)	(30,066)
As at December 31,2004	55,348	1,177,904	29,156	26,153	—	1,288,561
Accumulated depreciation						
As at January 1, 2003	(2,477)	(565,452)	(9,638)	(4,439)	—	(582,006)
Charge for the year	(1,333)	(133,491)	(2,904)	(4,176)	—	(141,904)
Write-back on disposals	—	42,657	731	134	—	43,522
As at December 31, 2003	(3,810)	(656,286)	(11,811)	(8,481)	—	(680,388)
Charge for the year	(3,028)	(145,514)	(2,817)	(5,274)	—	(156,633)
Write-back on disposals	—	22,691	312	575	—	23,578
As at December 31, 2004	(6,838)	(779,109)	(14,316)	(13,180)	—	(813,443)
Net book value						
As at December 31, 2003	45,195	470,433	12,654	11,157	5,915	545,354
As at December 31, 2004	48,510	398,795	14,840	12,973	—	475,118

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

The Company:

	Buildings *RMB'000*	Computer systems and software *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and other equipment *RMB'000*	Assets under construction *RMB'000*	Total *RMB'000*
Cost						
As at January 1, 2003	2,284	841,793	12,196	10,636	1,440	868,349
Purchases	3,136	306,336	3,089	3,866	26,118	342,545
Transfer upon completion	24,678	—	—	—	(24,678)	—
Disposals	—	(42,180)	(804)	(146)	—	(43,130)
As at December 31, 2003	30,098	1,105,949	14,481	14,356	2,880	1,167,764
Purchases	—	74,947	3,796	4,802	320	83,865
Disposals	—	(16,170)	(361)	(274)	(3,200)	(20,005)
As at December 31, 2004	30,098	1,164,726	17,916	18,884	—	1,231,624
Accumulated depreciation						
As at January 1, 2003	(118)	(551,159)	(6,410)	(3,187)	—	(560,874)
Charge for the year	(384)	(131,330)	(1,745)	(2,445)	—	(135,904)
Write-back on disposals	—	40,851	679	121	—	41,651
As at December 31, 2003	(502)	(641,638)	(7,476)	(5,511)	—	(655,127)
Charge for the year	(1,908)	(143,507)	(1,979)	(3,690)	—	(151,084)
Write-back on disposals	—	15,306	312	244	—	15,862
As at December 31, 2004	(2,410)	(769,839)	(9,143)	(8,957)	—	(790,349)
Net book value						
As at December 31, 2003	29,596	464,311	7,005	8,845	2,880	512,637
As at December 31, 2004	(27,688)	394,887	8,773	9,927	—	441,275

13. INTANGIBLE ASSETS, NET

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
As at January 1	**28,788**	19,531	**24,882**	16,701
Additions	**12,296**	9,257	**12,156**	8,181
As at December 31	**41,084**	28,788	**37,038**	24,882
Accumulated amortisation				
As at January 1	**(17,695)**	(10,433)	**(16,066)**	(9,408)
Amortisation for the year	**(8,212)**	(7,262)	**(7,402)**	(6,658)
As at December 31	**(25,907)**	(17,695)	**(23,468)**	(16,066)
Net book value as at December 31	**15,177**	11,093	**13,570**	8,816

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

14. INVESTMENTS IN SUBSIDIARIES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**—**	—	**86,151**	64,264

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

15. INVESTMENTS IN ASSOCIATED COMPANIES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**42,424**	36,327	**42,424**	36,327

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

16. OTHER LONG-TERM INVESTMENT

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

	Interest rate and maturity	2004 RMB'000	2003 RMB'000
Treasury bonds	3% per annum with maturity in December 2008	**100,000**	100,000

17. OTHER LONG-TERM ASSETS

At December 31, other long-term assets of the Company and the Group represented mainly long-term rental deposits.

18. INVENTORIES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Equipment for sale	**3,951**	2,587	**221**	405
Spare parts	**1**	83	**—**	80
Other	**146**	59	**—**	26
	4,098	2,729	**—**	511
Less: Provision	**—**	(94)	**—**	—
Total	**4,098**	2,635	**221**	511

The provision at December 31, 2003 was made against the equipment for sales.

No inventories have been pledged as security for borrowings.

19. ACCOUNTS RECEIVABLE, NET

At December 31, accounts receivable comprised:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts receivable	**40,307**	21,820	**19,409**	15,163
Provision for doubtful debts	**(2,137)**	(3,468)	**(9,368)**	(10,845)
Accounts receivable	**38,170**	18,352	**10,041**	4,318

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	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**30,456**	14,809	**17,253**	11,027
Over 6 months but within 1 year	**7,883**	1,907	**327**	550
Over 1 year but within 2 years	**846**	2,896	**707**	2,228
Over 2 years but within 3 years	**126**	325	**126**	325
Over 3 years	**996**	1,883	**996**	1,033
	40,307	21,820	**19,409**	15,163

20. PREPAYMENTS AND OTHER CURRENT ASSETS

At December 31, prepayments and other current assets comprised:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments	**27,059**	4,774	**26,048**	3,504
Interest Receivable	**33,910**	14,046	**33,910**	14,046
Other current assets	**22,010**	13,185	**16,297**	10,068
Total	**82,979**	32,005	**76,255**	27,618

21. SHORT-TERM BANK DEPOSITS

The annual interest rate on short-term bank deposits range from 0.80% to 2.70% (2003:1.14% to 1.89%) and these deposits have a maturity period ranging from 6 to 36 months (2003: 6 to 24 months).

22. CASH AND CASH EQUIVALENTS

At December 31, cash and cash equivalents consisted of:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash				
RMB	**409**	216	**39**	106
HKD denominated	**53**	30	**—**	—
USD denominated	**69**	68	**—**	—
GBP denominated	**14**	13	**—**	—
EUR denominated	**21**	20	**—**	—
	566	347	**39**	106
Demand deposits				
RMB	**1,971,284**	1,557,464	**1,936,570**	1,499,081
USD denominated	**239,303**	426,702	**183,075**	369,685
HKD denominated	**25,269**	49,666	**14,041**	36,705
JPY denominated	**421**	773	**—**	—
	2,236,277	2,034,605	**2,133,686**	1,905,471
Total cash and cash equivalents	**2,236,843**	2,034,952	**2,133,725**	1,905,577

23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts payable	**92,430**	112,017	**82,408**	99,926
Accrued departure technology support fee	**105,877**	103,668	**122,195**	110,672
Accrued technical bonus to employees	**47,443**	54,264	**45,562**	52,394
Accrued technical support fee	**21,411**	14,117	**17,192**	13,685
Accrued network usage fees	**64,038**	55,562	**64,038**	50,677
Other accruals	**73,278**	26,433	**62,595**	24,628
	404,477	366,061	**393,990**	351,982

At December 31, 2004, approximately RMB104,625,000 of the above balances were denominated in US dollars (2003: RMB 128,490,000).

The aging analysis of accounts payable is as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**24,623**	69,653	**16,691**	60,366
Over 6 months but within 1 year	**3,542**	3,084	**2,201**	284
Over 1 year but within 2 years	**29,120**	5,493	**28,708**	5,489
Over 2 years but within 3 years	**1,358**	33,558	**1,021**	33,558
Over 3 years	**33,787**	229	**33,787**	299
Total accounts payable	**92,430**	112,017	**82,408**	99,926
Accrued liabilities	**312,047**	254,044	**311,582**	252,056
	404,477	366,061	**393,990**	351,982

24. TAXES PAYABLE

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Enterprise income tax payable	**12,794**	5,343	**11,466**	3,371
Business tax payable	**14,011**	14,604	**13,185**	12,681
VAT payable	**(239)**	(190)	**(20)**	(191)
Other	**3,572**	5,089	**3,200**	4,687
	30,138	24,846	**27,831**	20,548

25. PAID-IN CAPITAL

The paid-in capital as at December 31, 2004 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.

	2004	**2004**
	Number of shares	**Amount**
	'000	*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*
The Group					
Balance as at January 1, 2003	1,194,956	98,105	87,730	72,883	1,453,674
Transfer from retained earnings	—	23,080	23,081	84,982	131,143
Balance as at December 31, 2003	1,194,956	121,185	110,811	157,865	1,584,817
Transfer from retained earnings	—	44,681	44,524	45,518	134,723
Balance as at December 31, 2004	1,194,956	165,866	155,335	203,383	1,719,540
The Company					
Balance as at January 1, 2003	1,194,956	97,707	87,333	72,883	1,452,879
Transfer from retained earnings	—	22,716	22,716	84,982	130,414
Balance as at December 31, 2003	1,194,956	120,423	110,049	157,865	1,583,293
Transfer from retained earnings	—	44,115	44,115	45,432	133,662
Balance as at December 31, 2004	1,194,956	164,538	154,164	203,297	1,716,955

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 April 28, 2004 approved the appropriation of RMB45,432,000 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, 2004.

For the year ended December 31, 2004, the Board of Directors proposed appropriations of 10%, 10% and 20% of the net profit (2003: 10%, 10% and 20% respectively) as reflected in the Company's statutory financial statements prepared under PRC GAAP, or RMB44,115,000, RMB44,115,000 and RMB88,231,000 (2003: RMB22,716,000, RMB22,716,000 and RMB45,432,000), to the statutory surplus reserve fund , the statutory public welfare fund and the discretionary surplus reserve fund, respectively.

The proposed appropriation of RMB88,231,000 (20% of net profit after tax) to the discretionary surplus reserve fund for the year ended December 31, 2004 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, 2004 will be recorded in the Group's financial statements for year ended December 31, 2005.

After the appropriations mentioned above, the retain earning available for distribution as at December 31, 2004 was approximately RMB477,514,000 (2003: RMB292,729,000), which is the lesser of the amounts determined in accordance with PRC GAAP and IFRS.

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB442,371,000 (2003: RMB236,678,000) for the year ended December 31, 2004.

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

	2004	2003
	RMB'000	*RMB'000*
Profit before taxation and minority interests	**499,598**	272,345
Adjustments for:		
Depreciation and amortisation	**166,741**	149,166
Loss on disposal of property, plant and equipment	**5,516**	1,651
Impairment of investment	**171**	—
Interest income	**(37,710)**	—
Provision (write back) for doubtful debts	**(1,299)**	2,377
Share of results from associated companies	**(10,934)**	(11,445)
Operating profit before working capital changes	**622,083**	414,094
Decrease (increase) in current assets:		
Accounts receivable	**(18,519)**	(16,282)
Inventories	**(1,463)**	(617)
Prepayments and other current assets	**(8,825)**	(824)
Due from related parties/associated companies	**(29,128)**	52,065
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	**58,683**	119,248
Deferred revenue	**1,092**	1,837
Due to related parties	**(641)**	(10,314)
Taxes payable	**(2,159)**	11,705
Cash generated from operations	**621,123**	570,912

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 approximated their fair values as at December 31, 2004 because of the short maturities of these instruments.

The treasury bonds that are held to maturity are carried at cost. At December 31, 2004, the market value of the treasury bonds as at December 31, 2004 was approximately RMB95,881,000 (2003: RMB 99,520,000).

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, short term investment, 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 RMB3,202 million as at December 31, 2004 (2003: RMB 2,776 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 aviation information technology service and related services in the PRC. The Group's chief decision maker for operation is considered to be the Group's 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 the year ended December 31, 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.

31. COMMITMENTS

(a) Capital commitments

At December 31, the Group had the following capital commitments:

	2004	2003
	RMB'000	*RMB'000*
Authorised and contracted for		
— Computer System	**36,883**	1,208
Authorised but not contracted for		
— Computer System	**411,000**	322,000
Total	**447,883**	323,208

The above capital commitments primarily relate to the acquisition and installation of the next generation traveler service system.

At December 31, 2004, approximately RMB2,408,200 of the above balance were dominated in US dollars (2003: Nil).

31. COMMITMENTS *(continued)*

(b) Operating lease commitments

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

	2004	2003
	RMB'000	*RMB'000*
Within one year	**57,192**	36,483
Later than one year but not later than five years	**87,787**	126,001
Later than five years	**7,865**	50,509
Total	**152,844**	212,993

(c) Equipment maintenance fee commitments

As at December 31, 2004, the Group had total equipment maintenance fee commitments of approximately RMB6.8 million (2003: RMB8.3 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.

32. RELATED PARTY TRANSACTIONS *(continued)*

(1) Related parties

The major related parties of the Company and the Group are as follows:

Name	Relationship with the Company
China TravelSky Holding 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 Northern Airlines Co.	Shareholder of the Company
China Eastern Air - Northwest Airlines Co.	Shareholder of the Company
China Eastern Air - 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 Company

(2) Related party transactions

The Group had the following material related party transactions.

(i) Revenue for aviation information technology service and data network service, the pricing of which was based on negotiated prices with these related parties with reference to the pricing standards prescribed by CAAC where applicable.

Name	**2004** ***RMB'000***	2003 *RMB'000*
China Southern Air Holding Co. (a)	**186,548**	127,952
China Eastern Air Holding Co. (b)	**177,772**	118,342
China National Aviation Holding Co. (c)	**170,321**	114,893
Hainan Airlines Company Limited	**117,287**	59,986
Xiamen Airlines Limited Company	**69,967**	54,167

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

32. RELATED PARTY TRANSACTIONS *(continued)*

(2) Related party transactions *(continued)*

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

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

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 China TravelSky Holding Company ("CTHC")

For the year ended December 31, 2004, operating lease rentals for lease of properties from CTHC amounted to RMB34,570,760 (2003: RMB 30,807,105). The pricing of operating lease rentals for buildings is based on agreed rates with CTHC with reference to market rentals.

(3) Balances with related parties

Balances with related parties mainly comprised:

Due from related parties

Name	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
China Southern Air Holding Co. (a)	**42,891**	7,294	**41,066**	4,575
China Eastern Air Holding Co. (b)	**1,706**	22,136	**—**	20,301
China National Aviation Holding Co. (c)	**37,871**	24,053	**37,871**	21,615
Shenzhen Air Holding Co.	**559**	9,314	**519**	8,131
Xiamen Airlines Limited Company	**8,301**	—	**7,460**	—

(a) It represented the balances due from the wholly owned subsidiaries of China Southern Air Holding Co., namely China Southern Air Co. Ltd., China Northern Airlines Co. and Xinjiang Airlines Co. and other subsidiaries.

(b) It represented the balances due from the wholly owned subsidiaries of China Eastern Air Holding Co., namely China Eastern Air Co. Ltd. and China Northwest Airlines Co. and Yunnan Airlines Co. and other subsidiaries.

32. RELATED PARTY TRANSACTIONS *(continued)*

(3) Balances with related parties *(continued)*

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

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. RECLASSIFICATIONS AND COMPARATIVE FIGURES

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with current year's financial statements.

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on March 19, 2005.