

The Board of Directors (the "Board") of TravelSky Technology Limited (the "Company") hereby announces the unaudited interim report of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2005, prepared in accordance with International Financial Reporting Standards.

CONDENSED CONSOLIDATED BALANCE SHEET

(Amounts expressed in thousands of Renminbi)

	Note	As at	
		June 30, 2005 unaudited	December 31, 2004 audited
ASSETS			
Non-current assets			
Property, plant and equipment, net	8	462,002	475,118
Intangible assets, net		14,842	15,177
Investments in associated companies		48,297	42,424
Other long-term investment		100,000	100,000
Other long-term assets		15,835	16,142
		640,976	648,861
Current assets			
Inventories		5,617	4,098
Accounts receivable, net	9	49,787	38,170
Due from associated companies		6,661	—
Due from related parties, net		300,351	112,811
Prepayments and other current assets		67,123	82,979
Short-term investments		1,749	1,749
Short-term bank deposits		1,784,986	625,378
Cash and cash equivalents		1,067,729	2,236,843
		3,284,003	3,102,028
Total assets		3,924,979	3,750,889
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		888,158	888,158
Reserves	6	1,807,771	1,719,540
Retained earnings		—	177,631
— Proposed final dividend		—	451,298
— Others		617,736	—
		3,313,665	3,236,627
Minority interest		53,977	49,456
Total equity		3,367,642	3,286,083
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10	381,273	404,477
Due to related parties		143,882	27,048
Taxes payable		27,062	30,138
Deferred revenue		5,120	3,143
		557,337	464,806
Total equity and liabilities		3,924,979	3,750,889
Net current assets		2,726,666	2,637,222
Total assets less current liabilities		3,367,642	3,286,083

CONDENSED CONSOLIDATED INCOME STATEMENT

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

	Note	Unaudited Six months ended June 30	
		2005	2004
Revenues			
Aviation information technology services		545,956	508,563
Data network and others		126,723	127,057
Total revenues	2	672,679	635,620
Business taxes and other surcharges		(23,126)	(21,956)
Net revenues		649,553	613,664
Operating expenses			
Depreciation and amortisation		(80,341)	(83,401)
Network usage		(32,676)	(36,950)
Personnel		(79,228)	(77,109)
Operating lease rentals		(29,360)	(22,010)
Technical support and maintenance fees		(28,182)	(26,220)
Commission and promotion expenses		(60,988)	(68,679)
Other operating expenses		(84,375)	(69,196)
Total operating expenses		(395,150)	(383,565)
Operating profit		254,403	230,099
Financial income, net		26,164	13,544
Share of results of associated companies		3,078	6,724
Other income/(expenses), net		1,717	(80)
Profit before taxation	3	285,362	250,287
Taxation	4	(22,777)	(18,306)
Profit after taxation		262,585	<u>231,981</u>
Attributable to:			
Shareholders of the Company		254,669	227,757
Minority interest		7,916	4,224
		262,585	<u>231,981</u>
Earnings per share for profit attributable to the shareholders of the Company, basic and diluted (RMB)			
	5	0.29	<u>0.26</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts expressed in thousands of Renminbi)

	Unaudited				
	Attributable to shareholders of the Company			Minority Interest	Total
	Share capital	Reserves	Retained earnings		
Balance at 1 January 2004, as previously reported as equity	888,158	1,584,817	405,063	—	2,878,038
Balance at 1 January 2004, as previously separately reported as minority interest	—	—	—	40,305	40,305
Balance at 1 January 2004, as restated	888,158	1,584,817	405,063	40,305	2,918,343
Profit for the period	—	—	227,757	4,224	231,981
Dividend relating to 2003	—	—	(90,592)	—	(90,592)
Dividends paid to minority shareholders of subsidiaries	—	—	—	(587)	(587)
Appropriation to reserves	—	45,462	(45,462)	—	—
Balance at 30 June 2004	<u>888,158</u>	<u>1,630,279</u>	<u>496,766</u>	<u>43,942</u>	<u>3,059,145</u>

	Unaudited				
	Attributable to shareholders of the Company			Minority Interest	Total
	Share capital	Reserves	Retained earnings		
Balance at 1 January 2005, as previously reported as equity	888,158	1,719,540	628,929	—	3,236,627
Balance at 1 January 2005, as previously separately reported as minority interest	—	—	—	49,456	49,456
Balance at 1 January 2005, as restated	888,158	1,719,540	628,929	49,456	3,286,083
Profit for the period	—	—	254,669	7,916	262,585
Dividend relating to 2004	—	—	(177,631)	—	(177,631)
Dividends paid to minority shareholders of subsidiaries	—	—	—	(3,395)	(3,395)
Appropriation to reserves	—	88,231	(88,231)	—	—
Balance at 30 June 2005	<u>888,158</u>	<u>1,807,771</u>	<u>617,736</u>	<u>53,977</u>	<u>3,367,642</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts expressed in thousands of Renminbi)

	Note	Unaudited Six months ended June 30	
		2005	2004
Cash flows from operating activities			
Cash generated from operating activities	11	115,277	330,426
Enterprise income tax paid		(20,402)	(10,341)
Net cash provided by operating activities		94,875	320,085
Cash flows from investing activities			
Purchases of property, plant, equipment and intangible assets		(78,526)	(62,806)
Increase in short-term bank deposit		(1,159,608)	(273,443)
Interest income		40,683	—
Investment to associated company		(3,000)	—
Proceeds from disposal of property, plant and equipment		223	274
Dividends received from associated companies		205	230
Decrease in other long-term assets		—	1,222
Net cash used in by investing activities		(1,200,023)	(334,523)
Cash flows from financing activities			
Dividend paid to group shareholders		(63,966)	(83,543)
Net cash used in financing activities		(63,966)	(83,543)
Net decrease in cash and cash equivalents		(1,169,114)	(97,981)
Cash and cash equivalents, beginning of period		2,236,843	2,034,952
Cash and cash equivalents, end of period		1,067,729	1,936,971

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. PRINCIPAL 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, 2004.

2. REVENUES

Revenues primarily comprise the fees earned by the Group for the provision of the Group's aviation information technology services and related services.

A substantial portion of these fees was generated from the 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 the aforementioned 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. The Group also sells equipment related to the use of the Group's systems to airlines, airports and travel agencies.

3. PROFIT BEFORE TAXATION

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

	Six months ended June 30	
	2005	2004
	RMB'000	RMB'000
After charging:		
Depreciation	76,042	79,790
Amortisation	4,299	3,611
Loss/(gain) on disposal of property, plant and equipment	(22)	291
Operating lease rentals	29,360	22,010
Provision for doubtful debts	38	610
Cost of equipment sold	2,266	5,679
Contributions to defined contribution pension scheme	6,312	2,080
Auditor's remuneration	905	707
Exchange loss	776	1,970
Contribution to housing fund	3,678	1,286
Research and development expenses	68,871	48,657
After crediting:		
Interest income	<u>(26,164)</u>	<u>(15,822)</u>

4. 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% for the period from January 1, 2003 to December 31, 2005 and at 15% thereafter.

The Company's subsidiaries are subject to different enterprise income tax rates, ranging from 7.5% to 33%. In addition, these subsidiaries are entitled to certain reductions in tax rates in their initial years of operation.

No deferred income taxes had been provided at each of the balance sheet dates as no significant temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statement.



5. EARNINGS PER SHARE

Earnings per share for the six months ended June 30, 2004 and 2005 have been computed by dividing the profit attributable to the shareholders of the Company of RMB227,757,000 and RMB254,669,000 by the number of 888,157,500 ordinary shares issued and outstanding for the periods respectively.

There were no potential dilutive ordinary shares outstanding for the six months ended June 30, 2004 and 2005.

6. RESERVES

RMB88,231,000, representing 20% of the after tax profit of year 2004, as reflected in the Company's statutory financial statements prepared in accordance with the People's Republic of China ("PRC") accounting standards, was transferred to the discretionary surplus reserves.

7. DIVIDEND DISTRIBUTION

The shareholders in the annual general meeting held on May 10, 2005 approved the final dividend in respect of 2004 of RMB0.200 per share amounting to a total of RMB177,631,500. The amount was accounted for in shareholders' equity as an appropriation of retained earnings for the six months ended June 30, 2005.

8. PROPERTY, PLANT AND EQUIPMENT

For the six months ended June 30, 2005, the Group acquired property, plant and equipment amounting to approximately RMB63,148,000.

9. ACCOUNTS RECEIVABLE

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

The aging analysis of accounts receivable is as follows:

	June 30, 2005 <i>RMB'000</i>	December 31, 2004 <i>RMB'000</i>
Within 6 months	34,942	30,456
Over 6 months but within 1 year	9,605	7,883
Over 1 year but within 2 years	6,253	846
Over 2 years but within 3 years	166	126
Over 3 years	996	996
Total accounts receivable	51,962	40,307
Provision for doubtful debts	(2,175)	(2,137)
Accounts receivable, net	<u>49,787</u>	<u>38,170</u>

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The aging analysis of accounts payable is as follows:

	June 30, 2005 <i>RMB'000</i>	December 31, 2004 <i>RMB'000</i>
Within 6 months	40,667	24,623
Over 6 months but within 1 year	2,987	3,542
Over 1 year but within 2 years	9,197	29,120
Over 2 years but within 3 years	32	1,358
Over 3 years but within 4 years	27,994	33,787
Total accounts payable	80,877	92,430
Accrued liabilities	300,396	312,047
Total accounts payable and accrued liabilities	<u>381,273</u>	<u>404,477</u>

11. CASH GENERATED FROM OPERATING ACTIVITIES

	Six months ended June 30	
	2005	2004
	RMB'000	RMB'000
Profit before taxation	285,362	250,287
Adjustments for:		
Depreciation and amortisation	80,341	83,401
Loss/(gain) on disposal of property, plant and equipment	(22)	291
Interest income	(26,164)	—
Provision for doubtful debts	38	610
Share of results of associated companies	(3,078)	(6,724)
Operating profit before working capital changes	336,477	327,865
Decrease / (increase) in current assets:		
Accounts receivable	(11,655)	(13,251)
Inventories	(1,519)	(2,247)
Prepayments and other current assets	1,337	(16,817)
Due from related parties and associated companies	(194,201)	(37,982)
Increase / (decrease) in current liabilities:		
Accounts payable and accrued liabilities	(11,462)	71,864
Deferred revenue	1,977	5,054
Due to related parties	(226)	(708)
Taxes payable	(5,451)	(3,352)
Cash generated from operating activities	115,277	330,426

12. COMMITMENTS

(a) Capital commitments

As at June 30, 2005, the Group had the following capital commitments:

	<i>RMB'000</i>
Authorised and contracted for	305,405
Authorised but not contracted for	<u>42,447</u>
Total	<u><u>347,852</u></u>

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

Capital commitments outstanding as at June 30, 2005 denominated in U.S. dollars was approximately USD34,211,000.

(b) Operating lease commitments

As at June 30, 2005, the Group had the following commitments under operating leases:

	<i>RMB'000</i>
Within one year	51,924
Later than one year but not later than five years	67,036
Later than five years	<u>1,966</u>
Total	<u><u>120,926</u></u>

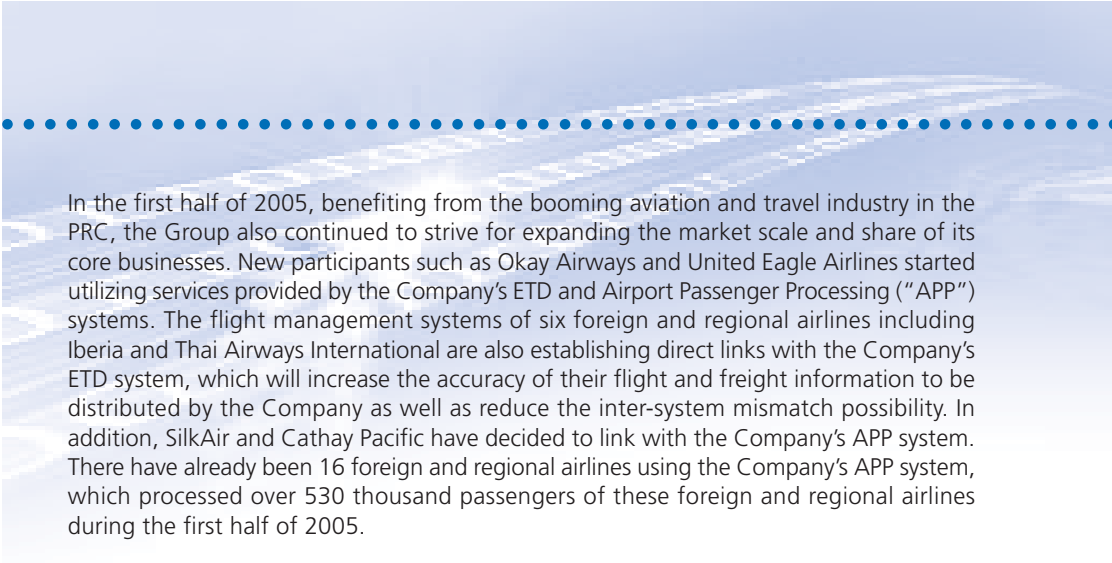

13. SEGMENT REPORTING

The Group conducts its business within one business segment - the business of providing aviation information technology services and related services in the PRC. The Group's chief decision maker for operation is considered to be the Group's General Manager. The information reviewed by the General Manager is identical to the information presented in the consolidated income statement. No segment income statement has been prepared by the Group for six months ended June 30, 2004 and 2005. 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 in these financial statements.

BUSINESS REVIEW FOR THE FIRST HALF OF THE YEAR

The first half of 2005 extended a wide range of challenges to the Company. To begin with, information technology solutions in the industry witnessed increasing demands from in-depth customization and emerging business modes. Meanwhile, the rapid progress and expanding application of new technologies, including open platform and internet technologies, gave an impact on the traditional distribution business mode of Global Distribution System ("GDS"). The industrial environment began to embrace more deregulation and competitions, while the PRC commercial airlines are benefiting from stronger bargaining power as a result of their ongoing in-depth reorganization and integration. Furthermore, foreign GDS suppliers are circumventing the PRC regulatory barriers and heading for overall penetration into the PRC's intensifying Computer Reservation System ("CRS") market. Surrounded by such challenges, the Group continued to address market demands with enhanced information safety and improved customer services in light of its development strategy, to promote development by sustaining reform, and advancing win-win cooperation while grasping the overall situation, so as to achieve and overall progress in various businesses.

Thanks to the continuous rapid growth of the PRC economy, the expanding foreign trade and the vibrant international investment, the increasingly frequent domestic and foreign business trips and leisure travel activities continued to boost the steady growth in the PRC aviation and transportation industry. As the dominant provider of information technology services in the PRC aviation and travel industry, the Company's Electronic Travel Distribution ("ETD") system processed approximately 70.5 million bookings on domestic and foreign and regional commercial airlines in the first half of 2005, representing an increase of approximately 12.7% over the same period in 2004, of which bookings on domestic commercial airlines increased by approximately 12.4% while that on foreign and regional commercial airlines increased by approximately 20.5%.



In the first half of 2005, benefiting from the booming aviation and travel industry in the PRC, the Group also continued to strive for expanding the market scale and share of its core businesses. New participants such as Okay Airways and United Eagle Airlines started utilizing services provided by the Company's ETD and Airport Passenger Processing ("APP") systems. The flight management systems of six foreign and regional airlines including Iberia and Thai Airways International are also establishing direct links with the Company's ETD system, which will increase the accuracy of their flight and freight information to be distributed by the Company as well as reduce the inter-system mismatch possibility. In addition, SilkAir and Cathay Pacific have decided to link with the Company's APP system. There have already been 16 foreign and regional airlines using the Company's APP system, which processed over 530 thousand passengers of these foreign and regional airlines during the first half of 2005.

During the first half of 2005, in addition to improving its existing ETD and APP products, the Company also enhanced its market promotion activities. Domestic airlines including Air China, Hainan Airlines, Shanghai Airlines have adopted three electronic ticket technologies developed by the Company, namely Billing and Settlement Plan ("BSP") electronic tickets technology, airline direct-sale electronic tickets technology and airline online electronic tickets technology. Foreign and regional airlines including Singapore Airlines also decided to apply the Company's BSP electronic tickets technology in flight ticket sales. The electronic tickets sold in the first half of 2005 amounted to approximately 2.8 million, accounting for approximately 4.2% of sales of domestic flight tickets. China Eastern Airline and China Southern Airline have adopted the funnel flight technology developed by the Company. To satisfy passengers' increasing demand for through check-in services, Air China and China Southern Airline began to provide through check-in services based on the Company's through check-in technologies. Meanwhile, through the strategic cooperation agreement for a term of 3 years with American Express Company, one of the largest business travel management companies in the world, the Group gained a thorough understanding of the business and workflow of leading international business travel management companies, in order to develop information technology solutions more suitable for travel agencies and travel services distributors to meet market demands. Furthermore, the Company and IATA, having arrived at a consensus on "Simplifying the Business", are jointly promoting the simplification of global civil aviation business in fields such as electronic tickets, Common Use Self Service (CUSS), Bar Coded Boarding Passes (BCBP), Radio Frequency Identification (RFID) technologies, so as to promote the wide application of new technologies and reduce industry cost.

With the achievement in its travel product distribution business in the first half of 2005, the Company sold over 10.2 thousand hotel room-nights and developed a hotel room distribution system based on its open platform, laying a foundation for further development of hotel room reservation business. E-policies sold through the Company's sales management system of air-travel personal injury insurance exceeded 4.4 million.

In the first half of 2005, the Company continued to improve performance and reliability of its basic infrastructure by technological renovations to ensure safe operation. With applications of technologies such as mainframe AV move-out and Web AV, system resource was significantly saved and the pressure on system resources was relieved to certain extent. Through a series of technological renovations including correcting operating system's BUG, installing new version of OLTP products with better stability and optimizing disk I/O performance, the system operating safety was further enhanced. Moreover, the Company successfully accomplished the transfer and expansion of NCR data warehouse and thereby improved the storage space and resources of data warehouse. With the accomplishment of the network backbone project to certain extent, the pressure on network resources was alleviated. At the same time, the Company completed the expansion and advancement project of core network, relieving greatly the network traffic with a 24.7% drop in malfunctions compared with the same period of 2004. In the first half of 2005, the utilization rates of Inventory Control System ("ICS"), Computer Reservation System ("CRS") and APP mainframe systems of the Company amounted to approximately 99.9%, 99.9% and 99.9% respectively. In addition, to satisfy the demand for information technology systems with greater handling capability arising from the growing scale of the PRC aviation industry, the Company entered into an agreement in respect of acquisition of new mainframe Dorado 280 in the first half of 2005, so as to facilitate the continuous improvements in operating reliability and processing capabilities of its infrastructure.

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


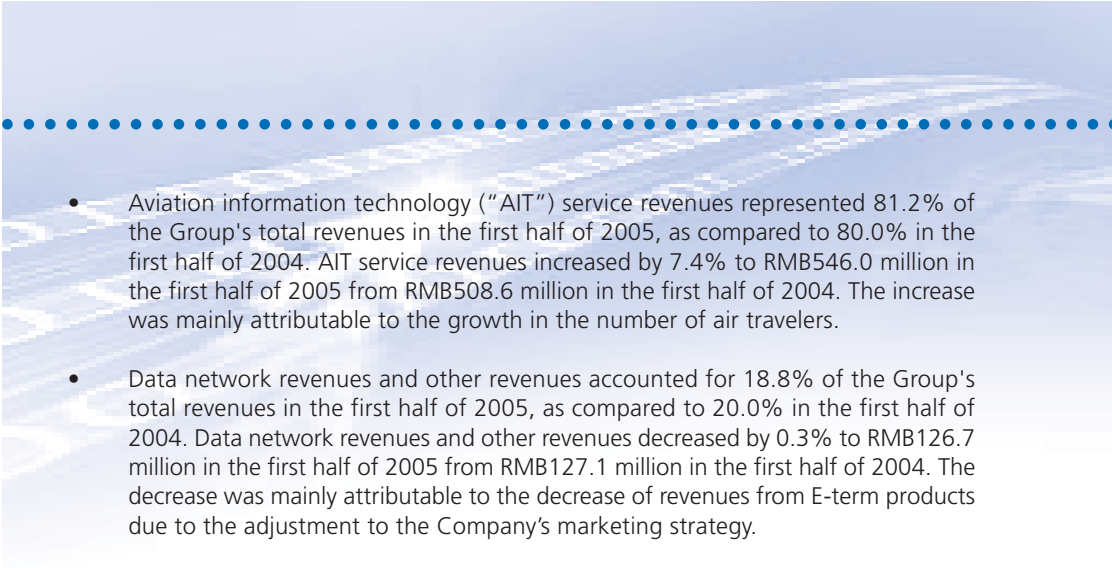
Summary

For the first half of 2005, the Group achieved a profit before tax of RMB285.4 million, representing an increase of 14.0%, compared to the first half of 2004. Earnings before interest and tax, depreciation and amortization (EBITDA) amounted to RMB339.5 million, representing an increase of 6.1%, compared to the first half of 2004. Net profit attributable to shareholders of the Company was RMB254.7 million, representing an increase of 11.8%, compared to the first half of 2004. The increase in profit of the Group was mainly attributable to the fast growing domestic aviation and travel industry in the first half of 2005.

The turnover and results of the Group were mainly derived from its operations in the PRC. The earnings per share of the Group was RMB0.29 for the first half of 2005.

Total revenues

The total revenues of the Group in the first half of 2005 were RMB672.7 million, representing an increase of RMB37.1 million or 5.8%, compared to the total revenues of RMB635.6 million in the first half of 2004. The increase in total revenues was mainly attributable to the increase in the Group's business volume. The increase in total revenues is reflected as follows:

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- Aviation information technology ("AIT") service revenues represented 81.2% of the Group's total revenues in the first half of 2005, as compared to 80.0% in the first half of 2004. AIT service revenues increased by 7.4% to RMB546.0 million in the first half of 2005 from RMB508.6 million in the first half of 2004. The increase was mainly attributable to the growth in the number of air travelers.
 - Data network revenues and other revenues accounted for 18.8% of the Group's total revenues in the first half of 2005, as compared to 20.0% in the first half of 2004. Data network revenues and other revenues decreased by 0.3% to RMB126.7 million in the first half of 2005 from RMB127.1 million in the first half of 2004. The decrease was mainly attributable to the decrease of revenues from E-term products due to the adjustment to the Company's marketing strategy.

Net revenues

Net revenues increased by 5.8% to RMB649.6 million in the first half of 2005 from RMB613.7 million in the first half of 2004.

Operating expenses

Total operating expenses increased by RMB11.6 million, or 3.0% to RMB395.2 million in the first half of 2005 from RMB383.6 million in the first half of 2004. The increase in operating expenses is reflected as follows:

- personnel expenses increased by 2.7%, primarily due to an increase in the number of employees in order to support the development of the Group's businesses;
- operational leasing expenses (the rent) increased by 33.4%, primarily due to the enlarged office area as a result of business development and the increase of staff of the Company;
- technical support and maintenance costs increased by 7.5% after the Company step up the research and development of new products and new technology in the first half of 2005;

As a result of the above changes in net revenues and operating expenses, the operating profit of the Group increased by RMB24.3 million, or 10.6%, to RMB254.4 million in the first half of 2005 from RMB230.1 million in the first half of 2004.

Financial income

The Group recorded a net financial income of RMB26.2 million for the first half of 2005, an increase of 93.2%, over the first half of 2004. This is mainly attributable to the significant increase in the Group's interest income as a result of the upward adjustment of interest rate for Renminbi-denominated deposit by the People's Bank of China at the end of 2004.

Net profit attributable to the shareholders of the Company

As a result of the above factors, the Group's net profit attributable to the shareholders of the Company increased by RMB26.9 million, or 11.8%, to RMB254.7 million in the first half of 2005 from 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 2005, please refer to the unaudited condensed consolidated statement of cash flows and the explanatory notes relating thereto.

In the first half of 2005, the Group derived its working capital mainly from operating activities. Net cash inflow from operating activities amounted to RMB94.9 million.

During the first half of 2005, the Group had no short-term or long-term bank loan.

As at June 30, 2005, the cash and cash equivalents of the Group amounted to RMB1,067.7 million, of which 78.2%, 18.2% and 3.6% was denominated in Renminbi, US dollars and Hong Kong dollars respectively.

Long-term investment

As at June 30, 2005, the Group held RMB100 million of China treasury bonds with an interest rate of 3% per annum. The maturity date of the treasury bonds is December, 2008.

Charge on assets

As at June 30, 2005, the Group had no charges on its assets.

Capital expenditures

The total capital expenditures of the Group increased by RMB22.4 million from RMB44.7 million in the first half of 2004 to RMB67.1 million in the first half of 2005.

The capital expenditures of the Group in the first half of 2005 consisted principally of the purchase of hardware, software and equipment to implement the Group's business strategy.

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

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

The Board estimates that the sources of funding of the Group in 2005 will be sufficient to fully cover the amount required for its capital expenditure programs and daily operations.

Use of proceeds from issuance of the H shares

The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (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, 2005, 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 RMB807.0 million (equivalent to approximately HK\$757.8 million) was used to finance a portion of fund required for the AIT service;
- approximately RMB6.2 million (equivalent to approximately HK\$5.8 million) was used to finance the development of other new businesses of the Company;
- approximately RMB125.4 million (equivalent to approximately HK\$117.8 million) was used for daily operating activities of the Company; 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 foreign currency risks, except for cash and cash equivalents that are denominated in foreign currency.

Gearing ratio

As at June 30, 2005, the gearing ratio of the Group was 14.2%. (December 31, 2004: 12.4%), which was computed by dividing the total liabilities by the total assets of the Group as at June 30, 2005.

Contingent liabilities

As at June 30, 2005, the Group had no material contingent liabilities.

Employees

As at June 30, 2005, the total number of employees of the Group was 1,855. Personnel expenses amounted to RMB79.2 million for the first half of 2005, representing 20.0% of the total operating expenses of the Group in the first half of 2005. The remuneration package of the Group's employees includes salary, bonus and other welfare benefits. In compliance with the relevant laws and regulations in the PRC, 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 2005, the Group continued to provide its employees with learning opportunities in the areas of aviation and travel, computer information 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 2005

In the second half of 2005, China's aviation and travel industry is expected to maintain a considerable upward momentum. However, the Group is also facing a lot of crucial opportunities and challenges. As such, abiding by its vision of "Give priority to security, secure customers with good service, and let information create value and develop itself through competitions in an open environment", the Company will take initiatives to refine its business system, diversify product portfolio, and improve system performance and customer services, so as to satisfy the demands of the fast-growing industry to secure and expand the market share of its existing core businesses. Meanwhile, the Company will proactively develop travel product distribution and information technology integration as well as online distribution businesses, laying a foundation for new growth bases. In addition, the Group will improve its corporate legal person governance, strengthen strategic and internal management to hone its core competitiveness.

- To accelerate the establishment of the passenger-oriented new-generation aviation and travel system as well as continuously improve product lines of information technology business, GDS distribution and E-commerce business;
- To reinforce the customized services for PRC commercial airlines, airports and travel agencies, speed up the construction of service systems in the domestic and overseas markets, and carry out more flexible market strategy focusing on customers and passengers, advance the vertically integrated and closer cooperation relations in PRC aviation and travel market;
- To expand the mainframe and network system resources and optimize resource allocation and set up a sound safety and risk-prevention system to further improve system performance and reliability;
- To advance the establishment of strategic alliances with leading international enterprises, aiming at securing the Group's market position of core businesses and an overall enhancement in technologies, functions, products and services;
- To further strengthen the Company's internal reforms, promote the rational management, to improve the corporate legal person governance structure and operating mechanism; to reinforce its strategic management and enhance the Company's strategy implementation capability as a whole.

INTERIM DIVIDEND

The Board recommends not to pay an interim dividend for the first half of 2005.

SUBSTANTIAL SHAREHOLDERS

As at June 30, 2005, 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% or more in their respective class of share capital of the Company:

Name of shareholder	Capacity	Class and no. of Securities	Percentage of respective class of share capital (Note)	Percentage of total share capital
Templeton Asset Management Limited	Investment Manager	37,663,000 H shares of RMB 1 each (L)	12.12%	4.24%
Matthews International Capital Management, LLC	Investment Manager	25,327,000 H shares of RMB 1 each (L)	8.15%	2.85%
J.P.Morgan Chase & Co.	Beneficial owner	154,000 H shares of RMB1 each (L)	0.05%	0.02%
	Investment Manager	27,083,000 H shares of RMB1 each (L)	8.71%	3.05%
	Other	6,958,600 H shares of RMB 1 each (L)	2.24%	0.78%
	(Note 2)	6,958,600 H shares of RMB 1 each (lending pool)	2.24%	0.78%
Platinum Asset Management Limited	Investment Manager	7,202,000 H shares of RMB 1 each (L)	2.32%	0.81%
	Trustee	11,635,000 H shares of RMB 1 each (L)	3.74%	1.28%
JPMorgan Chase & Co.	Beneficial owner	478,000 H shares of RMB1 each (L)	0.15%	0.05%
	Investment Manager	16,829,000 H shares of RMB1 each (L)	5.41%	1.89%
	Custodian	4,158,000 H shares of RMB 1 each (L)	1.32%	0.47%

	(Note 3)	4,158,000 H shares of RMB 1 each (lending pool)	1.32%	0.47%
Shanghai Industrial Investment (Holdings) Company Limited	Controlled Corporation	28,475,249 H shares of RMB 1 each (L)	9.16%	3.21%
J.P.Morgan Fleming Asset Management (Asia) Inc.	Investment Manager	22,199,000 H shares of RMB 1 each (L)	7.14%	2.50%
J.P.Morgan Fleming Asset Management Holdings Inc.	Investment Manager	22,199,000 H shares of RMB 1 each (L)	7.14%	2.50%
JF Asset Management Limited	Investment Manager	22,199,000 H shares of RMB 1 each (L)	7.14%	2.50%
China TravelSky Holding Company	Beneficial owner	198,496,500 Domestic shares of RMB 1 each (L)	34.40%	22.35%
China Southern Air Holding Company	Beneficial owner	116,460,500 Domestic shares of RMB 1 each (L)	20.20%	13.11%
China Eastern Air Holding Company	Beneficial owner	109,414,500 Domestic shares of RMB 1 each (L)	19.00%	12.32%
China National Aviation Holding Company	Beneficial owner	89,433,500 Domestic shares of RMB 1 each (L)	15.50%	10.06%

- Note: 1. The Letter "L" represents the entity's interests in the securities.
2. The capacity in which the securities are held was not stated in the corporate substantial shareholders notice of J.P. Morgan Chase & Co..
3. The capacity in which the securities are held was not stated in the corporate substantial shareholders notice of JPMorgan Chase & Co..

Save as disclosed above, as at June 30, 2005, no other persons or companies held an interest or short positions of 5% or more in the shares and underlying shares of the Company pursuant to the register required to be maintained under Section 336 of the Ordinance.



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

As at June 30, 2005, 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 (as defined in Part XV of the Ordinance) that is required to be recorded in the register maintained in accordance with Section 352 of the Ordinance, or any interest required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). None of the Directors, Supervisors or chief executives of the Company or their respective associates had been granted or had exercised any rights to subscribe the securities of the Company or any of its associated corporation (as defined in Part XV of the Ordinance) for the six months ended June 30, 2005.

TRUST DEPOSITS AND OVERDUE TIME DEPOSITS

As at June 30, 2005, the Group did not have any trust deposits or irrecoverable overdue time deposits. Cash held by the Group is deposited with commercial banks and in accordance with the relevant laws and regulations.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

In the first half of 2005, the Group did not purchase, sell or redeem any of the listed securities of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company has discussed and reviewed with the Company's management the unaudited interim results of the Group for the six months ended June 30, 2005, and has also discussed among themselves matters including internal control and financial reporting.



CORPORATE GOVERNANCE

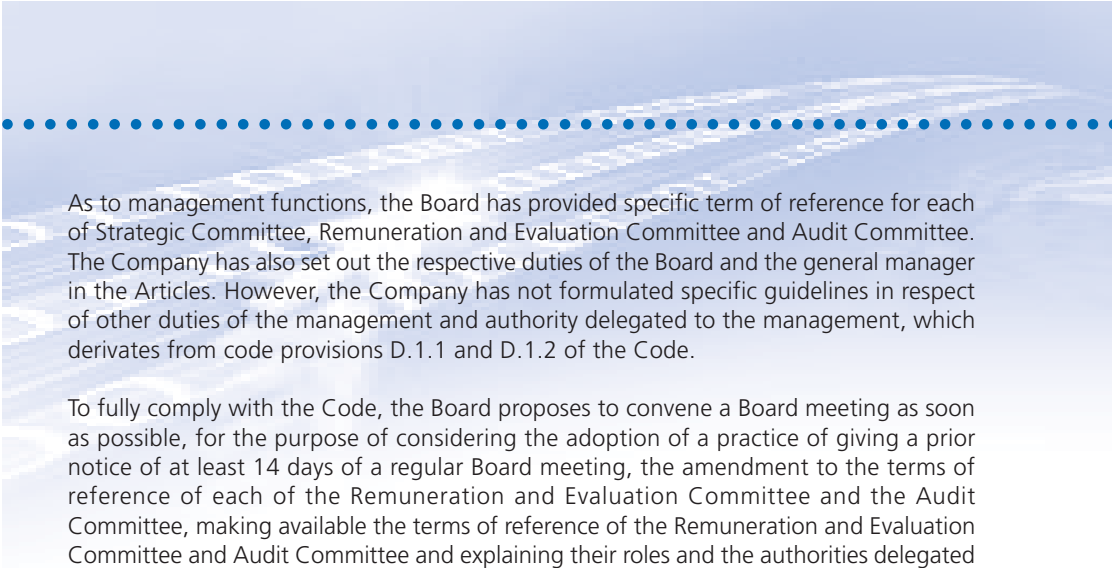

The Company is committed to establishing and maintaining high level of corporate governance. The Company has fully complied with the code provisions set out in Appendix 14 "Code on Corporate Governance Practices" (the "Code") to the Listing Rules (save for the relevant code provisions on internal control which are applicable to the accounting periods commencing on or after July 1, 2005), with certain deviations from the code provisions A.1.3, B.1.3, B.1.4, C.3.3, C.3.4, D.1.1 and D.1.2 of the Code. The deviations mainly concern about the notice to regular board meetings, the terms of reference and the disclosure of information of the Remuneration and Evaluation Committee and the Audit Committee, and the determination of authorities and duties delegated to the management by the Board.

In the first half of 2005, the Company convened two regular Board meetings (once for a quarter). To convene each of these Board meetings, a 10 days' prior notice was given in accordance with the articles of association of the Company (the "Articles"), while pursuant to code provision A.1.3 of the Code, a prior notice of at least 14 days should be given of a regular Board meeting.

In March 2004, the Company established the Remuneration and Evaluation Committee and adopted the Implementation Provisions for the Remuneration and Evaluation Committee (the "Implementation Provisions") pursuant to which, duties of the Remuneration and Evaluation Committee mainly include: (1) to study the standards for appraisal of the Directors and senior management and to carry out the appraisal according to the Company's actual operation conditions and make recommendation; (2) to study and review the remuneration policy and proposal for Directors and senior management and evaluate their performance; (3) to monitor the implementation of the Company's remuneration system; and (4) to deal with other matters under the authorisation of the Board. Although the duties of the Remuneration and Evaluation Committee include other duties as authorised by the Board (including all specific duties under code provision B.1.3 of the Code) pursuant to the Implementation Provisions, they do not set out explicitly the specific duties under code provisions B.1.3(b), (d), (e) and (f) of the Code.

The Company established the Audit Committee in December 2003 and adopted the Working Rules of Audit Committee (the "Working Rules") on March 11, 2004, pursuant to which the Audit Committee has the following terms of reference: (1) to have a clear understanding on the role and responsibility of each participant, including the senior management, the internal and external auditors and the relations between each participant, in the course of financial reporting and audit; to ensure that each participant has carried out effective procedures and protection measures and that they have implemented the work on coordinated and effective basis; (2) to review the Company's financial information and disclosure, to review the Company's internal control system and risk management procedures, to review the Company's connected transactions, and to discuss with the auditors the problems and doubtful matters in the course of their reading and auditing of the interim and annual accounts respectively, and other matters that the auditors wish to discuss; (3) to review the interim and annual financial statements prior to submission to the Board and pay attention to (a) any change in the accounting policy and practice; (b) the scope of discretion; (c) the material adjustment to be made upon completion of the audit; (d) the going-concern assumption; (e) the extent of compliance with the accounting standards; and (f) the extent of compliance with the Listing Rules and relevant applicable laws; (4) to review the statement, if any, set out in the annual report in respect of the Company's internal control system prior to submission to the Board; (5) to consider the appointment, remuneration and resignation or dismissal of the external auditors; to approve the remuneration and appointment terms for external auditors; and to handle and review the external auditors' letters to the Board and the reply made by the management; and (6) to deal with other matters under the authorisation of the Board. Although the terms of reference of the Audit Committee include other work authorised by the Board (including all duties specified in code provision C.3.3 of the Code) pursuant to the Working Rules, they do not set out explicitly the duties specified in code provisions C.3.3 (b), (c), (e), (g), (i), (j), (l) and (m) of the Code.

The Company has introduced the establishment and members of the Remuneration and Evaluation Committee and the Audit Committee in brief in its 2004 annual report and the work they performed in 2004. The Company have not made available their roles the terms of reference and the authorities delegated to them by the Board in accordance with code provisions B.1.4 and C.3.4 of the Code.



As to management functions, the Board has provided specific term of reference for each of Strategic Committee, Remuneration and Evaluation Committee and Audit Committee. The Company has also set out the respective duties of the Board and the general manager in the Articles. However, the Company has not formulated specific guidelines in respect of other duties of the management and authority delegated to the management, which derives from code provisions D.1.1 and D.1.2 of the Code.

To fully comply with the Code, the Board proposes to convene a Board meeting as soon as possible, for the purpose of considering the adoption of a practice of giving a prior notice of at least 14 days of a regular Board meeting, the amendment to the terms of reference of each of the Remuneration and Evaluation Committee and the Audit Committee, making available the terms of reference of the Remuneration and Evaluation Committee and Audit Committee and explaining their roles and the authorities delegated to them by the Board at the Company's website, and the formulation of specific guidelines in respect of other duties of the management and authority delegated to the management pursuant to the relevant code provisions of the Code.

For the six month ended June 30, 2005, the Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. After making specific enquiries to the directors, the Company confirms that all directors have acted in full compliance with the requirements regarding directors' securities transactions set out in the provisions of the Model Code during the six month ended 30 June 2005.

By order of the Board
Zhu Yong
Chairman

August 24, 2005

BOARDS OF DIRECTORS

Chairman	(appointed on August 26, 2004)
Zhu Yong	Executive Director (appointed on December 5, 2003)
Directors	
Zhu Xiaoxing	Executive Director (General Manager) (appointed on October 12, 2004)
Ding Weiping	Executive Director (Company Secretary) (appointed on December 5, 2003)
Song Jinxiang	Executive Director (appointed on December 5, 2003)
Wang Quanhua	Vice Chairman, Non-executive Director (appointed on December 5, 2003)
Cao Jianxiang	Vice Chairman, Non-executive Director (appointed on December 5, 2003)
Zhang Xueren	Vice Chairman, Non-executive Director (appointed on December 5, 2003 and resigned on August 23, 2005)
Gong Guokui	Vice Chairman (appointed on August 24, 2005), Non-executive Director (appointed on August 23, 2005)
Rong Gang	Non-executive Director (appointed on December 5, 2003)
Yang Yatie	Non-executive Director (appointed on December 5, 2003)
Li Xiaoguang	Non-executive Director (appointed on December 5, 2003)
Si Yupei	Non-executive Director (appointed on December 5, 2003)
Song Jian	Non-executive Director (appointed on December 5, 2003)
Wu Jiapei	Independent non-executive Director (appointed on December 5, 2003)
Chow Kwok Wah, James	Independent non-executive Director (appointed on December 5, 2003)
Lee Kwok Ming, Don	Independent non-executive Director (appointed on December 5, 2003 and resigned on August 23, 2005)
Yick Wing Fat, Simon	Independent non-executive Director (appointed on August 23, 2005)

AUDIT COMMITTEE

Wu Jiapei	Chief member (appointed on December 5, 2003)
Chow Kwok Wah, James	Member (appointed on December 5, 2003)
Lee Kwok Ming, Don	Member (appointed on December 5, 2003 and resigned on August 23, 2005)
Yick Wing Fat, Simon	Member (appointed on August 24, 2005)

STRATEGIC COMMITTEE

Cao Jianxiong	Chief member (appointed on March 11, 2004)
Zhu Yong	Member (appointed on March 11, 2004)
Wang Quanhua	Member (appointed on March 11, 2004)
Zhang Xueren	Member (appointed on March 11, 2004 and resigned on August 23, 2005)
Gong Guokui	Member (appointed on August 24, 2005)
Rong Gang	Member (appointed on March 11, 2004)
Ding Weiping	Member (appointed on March 11, 2004)

REMUNERATION AND EVALUATION COMMITTEE

Chow Kwok Wah, James	Chief member (appointed on March 11, 2004)
Wu Jiawei	Member (appointed on March 11, 2004)
Li Kwok Ming, Don	Member (appointed on March 11, 2004 and resigned on August 23, 2005)
Yick Wing Fat, Simon	Member (appointed on August 24, 2005)
Wang Quanhua	Member (appointed on March 11, 2004)
Yang Yatie	Member (appointed on March 11, 2004)

SUPERVISORY COMMITTEE

Chairman	(appointed on December 5, 2003)
Li Xiaojun	Supervisor (appointed on December 5, 2003)
Vice Chairman	(appointed on April 28, 2004)
Du Hongying	Supervisor (appointed on December 5, 2003)

SUPERVISORS

Zhang Yakun	Supervisor (appointed on December 5, 2003)
Wang Yongqiang	Supervisor (appointed on December 5, 2003)
Chen Lihong	Supervisor (appointed on December 5, 2003)
Tan Xiaoxu	Supervisor (appointed on December 5, 2003)
Zhang Xin	Supervisor (appointed on December 5, 2003)
Rao Geping	Independent Supervisor (appointed on December 5, 2003)

SENIOR MANAGEMENT

Zhu Xiaoxing	General Manager (Executive Director) (appointed on August 26, 2004)
Huang Yuanchang	Deputy General Manager (appointed on December 5, 2003)
Xiao Yinhong	Deputy General Manager (appointed on December 5, 2003)
Huang Peng	Deputy General Manager (appointed on August 26, 2004)

COMPANY SECRETARY

Ding Weiping	(Executive Director)
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COMPANY'S WEBSITE

www.travelsky.net

AUDITORS

International Auditors:

PricewaterhouseCoopers
Certified Public Accountants, Hong Kong
22/F, Prince's Building, Central, Hong Kong

PRC Auditors:

PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co.
11/F, PricewaterhouseCoopers Centre
202 Hu Bin Road
Shanghai 200021
PRC

LEGAL ADVISERS TO THE COMPANY

as to Hong Kong law:

Chiu and Partners
41/F, Jardine House
1 Connaught Place
Central, Hong Kong

as to PRC law:

Jingtian & Gongcheng
15/F, The Union Plaza
20 Chaoyangmenwai Dajie
Beijing 100020, PRC



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Telephone: (8610) 8286 1610
Facsimile: (8610) 8286 1612

PLACE OF BUSINESS IN HONG KONG

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Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 696

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

DEPOSITORY OF SPONSORED LEVEL I AMERICAN DEPOSITARY RECEIPT PROGRAMME

The Bank of New York
Shareholder
P. O. Box 11258
Church Street Station
New York, NY 10286-1258, U.S.A.

Shareholders can obtain a copy of this interim report through the website of the Company at (www.travelsky.net).