

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### OVERVIEW

For the year ended December 31, 2005 ("Year 2005"), profit before taxation of the Group was approximately RMB594.8 million, representing an increase of approximately 19.0% over that in the year ended December 31, 2004 ("Year 2004"). Earnings before interests, tax, depreciation and amortization (EBITDA) reached approximately RMB723.8 million, representing an increase of approximately 15.1% over that in Year 2004. Profit attributable to equity holders of the Company was approximately RMB529.6 million, an increase of approximately 17.9% over the previous year. The increase in the profitability of the Group was mainly due to the increase in revenue from the Company's AIT service, and saving of part of the operation cost as a result of adoption of integrated measures of marketing, technology and management.

The basic and diluted earnings per share of the Group in Year 2005 was RMB0.60.

### TOTAL REVENUE

The total revenue of the Group amounted to approximately RMB1,496.8 million, representing an increase of approximately RMB213.9 million, or 16.7%, from approximately RMB1,282.9 million in Year 2004. Such increase was mainly due to rapid growth in bookings of domestic and international commercial airlines handled by the Group's system. The increase in total revenue is reflected as follows:

- AIT service revenue represented 82.7% of the total revenue of the Group in Year 2005 as compared to 80% in Year 2004. AIT service revenue increased by approximately 20.7% to approximately RMB1,238.0 million in Year 2005 from approximately RMB1,025.7 million in Year 2004. The increase of revenue resulted primarily from the increase in ETD business.
- Data network and other revenue represented 17.3% of the Group's total revenue in Year 2005 as compared to 20%. In Year 2004, data network and other revenue increased by approximately 0.6% to approximately RMB258.8 million in Year 2005 from approximately RMB257.1 million in Year 2004.

## NET REVENUE

Net revenue increased by 16.6% to approximately RMB1,447.0 million in Year 2005 from approximately RMB1,240.6 million in Year 2004.

## OPERATING EXPENSES

Operating expenses for Year 2005 amounted to RMB903.2 million, representing an increase of RMB115.7 million, or 14.7%, from RMB787.4 million in Year 2004. The increase in operating expenses reflected the following:

- Depreciation and amortization increased by 9.2% from RMB166.7 million in 2004 to RMB182.0 million in 2005, mainly due to provision for depreciation and amortization of capital expenditure commenced in 2005;
- Along with the maintaining of rapid growth in business volume came a 15.1% reduction in network usage charge, which decreased from RMB70.7 million in 2004 to RMB60.0 million in 2005, mainly because the Group has adopted measures such as marketing, technology and management and transferred the SITA network to the Company's network for work through telex transfer as well as reduced usage on the SITA system;
- Personnel expenses increased by 17.9%, primarily attributable to the increased number of staff to support the business development of the Group;
- Operating leases expenses increased by 25.2%, mainly due to the expanded office area as a result of business development and increase in number of staff of the Company;
- Technical support and maintenance fee increased by 68.4% due to the continuous expansion of new products and research and development of new technologies of the Company in Year 2005.
- Other operating expense of the Group increased by of 32.1% mainly because the Company and district distribution centres made greater effort in market development and enhanced localized support for customers; while there has been an increase in revenue, the corresponding expense has also been increased.

As a result of the above changes in net revenue and operating expenses, the operating profit of the Group increased by RMB90.8 million, or 20.0%, to RMB543.9 million in Year 2005 from RMB453.1 million in Year 2004.

## PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

As a result of the above factors, the profit attributable to equity holders of the Company increased by approximately 17.9% to approximately RMB529.6 million in Year 2005 from approximately RMB449.2 million in Year 2004.

## RESERVES AVAILABLE FOR DISTRIBUTION

After the appropriation of the statutory reserve fund, the statutory public welfare fund and the discretionary surplus reserve fund from the profit attributable to shareholders as reflected in the statutory financial statements prepared under IFRS, the reserves available for distribution as at December 31, 2005, as stated in Note 32 to the financial statements, amounted to RMB627.9 million.

## DISTRIBUTION OF DIVIDEND

The Board recommended a final dividend of RMB0.230 per share for Year 2005, amounting to RMB204.3 million. After the distribution of the above dividend declared, the reserve available for distribution as at December 31, 2005 would be approximately RMB423.6 million (2004: RMB299.9 million).

## LIQUIDITY AND CAPITAL STRUCTURE

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

	For the year ended December 31	
	2005	2004
	(RMB in million)	(RMB in million)
Net cash inflows from operating activities	<b>402.5</b>	575.5
Net cash used in investing activities	<b>(1,656.7)</b>	(244.7)
Net cash used in financing activities	<b>(111.3)</b>	(128.9)
Impact of change of exchange rates		
on cash and cash equivalent	<b>(14.6)</b>	—
Net increase in cash and cash equivalents	<b>(1,380.0)</b>	201.9

The Group's working capital for Year 2005 mainly came from operating activities. Net cash inflow for operating activities amounted to RMB402.5 million.

In Year 2005, the Group had no short-term or long-term bank loans, and the Group did not use any financial instruments for hedging purposes.

As at December 31, 2005, cash and cash equivalents of the Group amounted to RMB856.8 million, of which 88.7%, 9.1% and 2.1% were denominated in Renminbi, U.S. dollars and Hong Kong dollars, respectively.

## **LONG-TERM INVESTMENT**

As at December 31, 2005, the Group held RMB100 million treasury bonds of China with an interest rate of 3% per annum. The maturity date of the treasury bonds is on December 18, 2008.

## **CHARGE ON ASSETS**

As at December 31, 2005, the Group had no charge on its assets.

## **CAPITAL EXPENDITURE**

The capital expenditure of the Group amounted to approximately RMB435.0 million in Year 2005, representing an increase of approximately RMB329.8 million as compared to that of approximately RMB105.2 million in Year 2004.

The capital expenditure of the Group in Year 2005 consisted principally of purchase of hardware, software and infrastructure in accordance with the Group's business strategies.

The Board estimates that the Group's planned capital expenditure for year 2006 will amount to approximately RMB370.0 million, which is mainly for development and gradual implementation of the new-generation traveler service system and other new businesses.

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

The Board estimates that the sources of funding of the Group in year 2006 will be sufficient for its capital expenditure commitments, daily operations and other purposes.

## **EXCHANGE RISKS**

The Group is exposed to foreign exchange risks related to its capital expenditure as a substantial portion of its capital expenditure in relation to the purchase of imported equipment are denominated in U.S. dollars. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

## **GEARING RATIO**

As at December 31, 2005, the gearing ratio of the Group was approximately 11.2% (2004: 12.4%), which was computed by dividing the total amount of liabilities by the total assets of the Group as at December 31, 2005.

## **CONTINGENT LIABILITIES**

As at December 31, 2005, the Group had no material contingent liabilities.

## **EMPLOYEES**

As at December 31, 2005, the total number of employees of the Group was 2,089. Personnel expenses amounted to approximately RMB157.7 million for Year 2005, representing approximately 17.5% of the total operating cost of the Group for Year 2005.

The remuneration of the employees of the Group (including Executive Directors and Staff Representative Supervisors), includes salaries, bonuses and other fringe benefits. The Group has different rates of remuneration for different employees (including Executive Directors and Staff Representative Supervisors), according to their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

Currently, none of the Non-executive Directors receive any remuneration. Nevertheless, any reasonable expenses incurred by the Non-executive Directors during their service period will be borne by the Company. Independent Non-executive Directors do receive remuneration from the Company, which is determined by reference to the prevailing market price, and that any reasonable expenses incurred by Independent Non-executive Directors during their service period will be borne by the Company.

In Year 2005, the Group continued to provide its employees with opportunities to acquire skills in relation to the aviation and travel industry, computer technologies and business administration and provide training on the latest development in areas such as computer technologies, personal development, laws, regulations and economics.

## **BASIC MEDICAL INSURANCE REGULATION**

On February 20, 2001, the People's Government of the Municipality of Beijing in the PRC promulgated the "Basic Medical Insurance Regulation for the Municipality of Beijing" (the "Regulation"). Given the fact that relevant regulations concerning employees' medical insurance must be applied according to the policies applicable to the place in which a company is located, the head office of the Company in Beijing implemented the Regulation from September 1, 2002 onwards. For Year 2005, the Company incurred a total amount of RMB5,504,730 (a total amount of RMB3,075,469 was incurred in Year 2004) pursuant to the Regulation. The Board believes that by implementing the Regulation, the financial position of the Company has not been materially affected.