

The Board of Directors (the "Board") of the Company is pleased to present its report together with the audited financial statements of the Group for Year 2005.

GROUP ACTIVITIES

The Group is the dominant provider of information technology solutions for China's aviation and travel industries. The core businesses of the Group include aviation information technology service, distribution of information technology service, etc..

The analysis of the Group's financial performance is set out under the section "Financial Review".

No analysis of the Group's revenues and contribution to operating profit by geographical areas is presented, as revenues and results of the Group during Year 2005 were principally derived from the operations of the Group in the PRC.

SHARE CAPITAL STRUCTURE

The issued share capital of the Company as at December 31, 2005 amounted to 888,157,500 shares, with a par value of RMB1.00 each. As at December 31, 2005, the share capital structure of the Company was as follows:

Shares	Number of shares as at December 31, 2005	Percentage to the total number of shares in issue as at December 31, 2005 (%)
Domestic Shares	577,303,500	65.00
H Shares	310,854,000	35.00

SUBSTANTIAL SHAREHOLDERS

As at December 31 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	Class and no. of Securities (Note)	Percentage of respective class of share capital	Percentage of total share capital
Shanghai Industrial Investment (Holdings) Company Limited	40,848,000 H shares of RMB 1 each (L)	13.14%	4.60%
Templeton Asset Management Limited	40,567,000 H shares of RMB 1 each (L)	13.05%	4.57%
J.P.Morgan Chase & Co.	34,195,600 H shares of RMB1 each (L)	11.00%	3.85%
	6,958,600 H shares of RMB1 each (P)	2.24%	0.78%
Matthews International Capital Management, LLC	28,239,000 H shares of RMB 1 each (L)	9.08%	3.18%
J.P.Morgan Fleming Asset Management (Asia) Inc.	22,199,000 H shares of RMB 1 each (L)	7.14%	2.50%
J.P.Morgan Fleming Asset Management Holdings Inc.	22,199,000 H shares of RMB 1 each (L)	7.14%	2.50%
JF Asset Management Limited	22,199,000 H shares of RMB 1 each (L)	7.14%	2.50%
OppenheimerFunds, Inc	19,000,000 shares of RMB 1 each (L)	6.11%	2.14%

Name of shareholder	Class and no. of Securities (Note)	Percentage of respective class of share capital	Percentage of total share capital
Platinum Asset Management Limited as trustee for the Platinum Asset Management Trust	18,837,000 H shares of RMB 1 each (L)	6.06%	2.12%
JPMorgan Chase & Co.	18,565,000 H shares of RMB1 each (L)	5.97%	2.09%
	237,000 H shares of RMB1 each (P)	0.08%	0.03%
China TravelSky Holding Company	198,496,500 Domestic shares of RMB 1 each (L)	34.38%	22.35%
China Southern Air Holding Company	116,460,500 Domestic shares of RMB 1 each (L)	20.17%	13.11%
China Eastern Air Holding Company	109,414,500 Domestic shares of RMB 1 each (L)	18.95%	12.32%
China National Aviation Holding Company	89,433,500 Domestic shares of RMB 1 each (L)	15.49%	10.07%

Note: (L) - Long Position, (P) - Lending Pool

Save as disclosed above, as at 31 December, 2005, no other persons or companies held an interest or short positions of 5% or more of the issued share capital or in the respective class of shares of the Company pursuant to the register required to be maintained under Section 336 of the Ordinance.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

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

As at December 31, 2005, none of the Directors, Supervisors or chief executive 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 Issues ("Model Code") as set out in Appendix 10 to the Listing Rules. None of the Directors, Supervisors or chief executive 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 Year 2005.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each existing member of the Board and Supervisory Committee of the Company has entered into a service agreement with the Company. All existing Directors and Supervisors will serve a term up to December 5, 2006. Directors and Supervisors may serve consecutive terms of three years each if re-elected at general meetings. As at December 31 2005, no Directors or Supervisors, proposed to enter into a service agreement which would not expire or determinable by the Company within one year without payment of compensation (other than statutory compensation).

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

Certain existing members of the Board and Supervisory Committee are also members of management of various Chinese commercial airlines which are shareholders of the Company. The contracts or transactions entered into between the Company or any of its subsidiaries and such airline shareholders have been referred to in the section "Connected Transactions" of this Report of Directors. Save as disclosed in that section, none of the Directors or Supervisors of the Company had a material direct or indirect interest in any contract of significance to which the Company or any of its subsidiaries was a party during Year 2005.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of Directors and Supervisors are set out in *Note 7* to the financial statements.

INTEREST CAPITALIZED

No interest was capitalized for the Group for Year 2005.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during Year 2005 are summarised in *Note 13* to the financial statements.

RESERVES

Details of movements in reserves of the Group for Year 2005 are set out in the consolidated statement of changes in shareholders' equity.

DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.230 per share for Year 2005.

STATUTORY PUBLIC WELFARE FUND

Details in relation to the statutory public welfare fund, such as the nature and application of the fund, and the basis of its calculation, are set out in *Note 32* to the financial statements. Details of movements of the fund are set out in the consolidated statement of changes in shareholders' equity as part of the statutory reserves.

EMPLOYEES' RETIREMENT SCHEME

Details of the employees' retirement scheme of the Group are set out in *Note 8* to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

Société Internationale de Télécommunications Aeronautiques S.C. ("SITA S.C.") was the largest supplier to the Group for Year 2005 and the total network usage fees paid to SITA S.C. in Year 2005 accounted for 6.1% of the Group's total operating expenses (excluding depreciation and amortization expenses). During Year 2005, the total amount paid to the five largest suppliers of the Group accounted for 18.5% of the Group's total operating expenses (excluding depreciation and amortization expenses).

Sales to the largest customer of the Group, China Southern Air Holding Company, accounted for 17.7% of the Group's total revenues for Year 2005. During Year 2005, total sales to the Group's five largest customers accounted for 58.9% of the Group's total revenues. Three of these top five customers, China Southern Air Holding Company, China Eastern Air Holding Company, and China National Aviation Holding Company, are the principal shareholders of the Company, holding an aggregate of approximately 35.5% of the issued share capital of the Company as at December 31, 2005. The aggregate revenue derived from the above major customers is set out in *Note 37* to the financial statements.

Save as disclosed above and in *Note 37* to the financial statements, none of the Directors, Supervisors and their associates nor any shareholder (which to the knowledge of the Directors hold more than 5% of the Company's share capital) had any interest in any of the aforementioned suppliers and customers.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the Company's subsidiaries and associated companies as at December 31, 2005 are set out in *Note 1* to the financial statements.

USE OF PROCEEDS FROM ISSUANCE OF H SHARES

The H shares of the Company were listed on the Stock Exchange on February 7, 2001, and the net proceeds from the issuance of H shares amounted to approximately HK\$1,186.0 million. For the year ended December 31, 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 RMB1,087.0 million (HK\$1,044.9 million) was used to finance part of the funding requirements of the aviation information technology service;
- approximately RMB6.4 million (HK\$6.2 million) was used to finance the expansion of other new businesses of the Company; and
- approximately RMB140.3 million (HK\$134.9 million) was used for expenses of daily operating activities.

As mentioned above, as at 31 December 2005, the Company has used all of the proceeds from the issuance of H Shares in the same manner as set out in the prospectus.

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 acquisition or investments which the Company may decide to pursue in the future.

CONNECTED TRANSACTIONS

Ongoing Connected Transactions

During Year 2005, the Group continued to carry out the following transactions, which constitute connected transactions as defined in the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

(a) *Provision of Services and Technological Support by the Group to the Company's Promoters*

In Year 2005, the Group continued to provide certain promoters (other than CTHC) or as the case may be, their respective subsidiaries with services and technological support, including aviation information technology service and its related business services. The service fees payable by such promoters (or, as the case may be, their respective subsidiaries) to the Group was determined in accordance with the pricing schedule prescribed by the General Administration of Civil Aviation of China (中國民用航空總局). Such promoters, and, as the case may be, their respective subsidiaries, being associates of such promoters, are connected persons of the Company.

For Year 2005, total payments made by such promoters (or, as the case may be, their respective subsidiaries) to the Group amounted to approximately RMB1,058.7 million (2004: RMB887.0 million). Please refer to *Note 37* to the financial statements for further details and financial information relating to the provision of such services by the Group during Year 2005. Please also refer to the announcement and circular dated March 17, 2006 and April 7, 2006 respectively in relation to the continuing connected transaction for further details of these continuing connected transactions.

(b) *Lease of Properties by the Company from CTHC*

The Company continued to lease two properties from CTHC in Year 2005. Since CTHC is one of the promoters of the Company and a substantial shareholder of the Company, CTHC is regarded as a connected person of the Company. Details and financial information relating to such leases during Year 2005 are set out in *Note 37* to the financial statements.

For Year 2005, total payments made by the Company to CTHC amounted to approximately RMB38,609,000 (2004: RMB34,571,000).

(c) *Transaction between SITA INC. and InfoSky Technology Co., Ltd. (“InfoSky”)*

During Year 2005, SITA INC. provided InfoSky with air cargo information management services in return for payment based on usage at the agreed charges. As Société Internationale de Télécommunications Aeronautiques Greater China Holdings Limited (“SITAGCH”) is a substantial shareholder of InfoSky and SITA INC. is an indirect holding company of SITAGCH, SITA INC. is a connected person of the Company.

For Year 2005, total payments made by InfoSky to SITA INC. amounted to US\$714,241 (2004: US\$599,180).

(d) *Data Network Usage Fees Paid by the Company to SITA S.C.*

During Year 2005, the Company continued to engage SITA S.C. in providing data network services to the Company. The data network usage fees were determined based on the rates agreed between SITA S.C. and the Company.

Since both SITA INC. and SITA S.C. are owned and managed by almost the same group of shareholders, SITA S.C. is an associate of SITAGCH, and SITA S.C. is therefore considered as a connected person of the Company.

For Year 2005, the network usage fees payable by the Company to SITA S.C. amounted to RMB38,576,816 (2004: RMB45,480,450).

(e) *Transactions between the Company and the Service Companies*

The service companies (the “Service Companies”) are the companies established between the Company and certain promoters for distributing the products of the Company and providing better service to customers in different regions. Since such promoters are entitled to exercise, or control the exercise of 10% or more of the voting power at any general meeting of the Service Companies, the Service Companies are regarded as connected persons of the Company. The Service Companies pay fees to the Company for using mainframe resources, link with the Company’s data network, terminal equipment and connection and installation of and printers at the rates prescribed by the General Administration of Civil Aviation of China (中國民用航空總局).

The Service Companies also provide front end technical supports for airport passenger processing system (APP system), and are entitled to sharing the profit generated from APP system with the Company.

For Year 2005, the Company’s fees received from and paid to the Service Companies aggregated to RMB35,096,947 (2004: RMB26,009,427).

In the opinion of the independent non-executive directors of the Company, the said connected transactions:

- (i) were entered into by the Group in the ordinary and usual course of its business;
- (ii) were conducted either
 - (a) on normal commercial terms; or
 - (b) (where there is no available comparison) on terms no less favourable than terms available to or from independent third parties and terms that are fair and reasonable so far as independent shareholders of the Company are concerned;
- (iii) were entered into either
 - (a) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; or
 - (b) (where there are no such agreements) on terms no less favourable than those available to or from independent third parties;
- (iv) if they fall within any of the following categories, did not exceed the upper limits set out below for the financial year ended December 31, 2005:

Categories of transactions	Cap Amount
Leasing and using properties	RMB40.00 million
Transaction between InfoSky and SITA INC.	US\$5.00 million
Transaction between the Company and the Service Companies	RMB84.00 million
Transaction between the Company and SITA S.C.	RMB72.00 million

In relation to such connected transactions, the Company has received a letter from the auditors stating that such connected transactions:

- (a) have received the approval of the Board;
- (b) were entered into in accordance with the pricing policies as stated in the notes to the financial statements of the Company;
- (c) were entered into in accordance with the terms of the respective agreements and documents governing those transactions; and
- (d) the aggregate amounts of the transactions have not exceeded the upper limits (referred to in (iv) above).

OTHER CONNECTED TRANSACTIONS

On November 17 and December 8, 2005, the Company entered into Financial Management System Enhancement Service Agreement and Computer Software Development Service Agreement respectively with Asia Technology Development Center (“Asia Technology”), pursuant to which the Company engaged Asia Technology to provide technology development services. As Asia Technology, being an indirect wholly owned subsidiary of CTHC, is an associate of CTHC, the promoter and substantial shareholder of the Company, the said technology development service agreements constituted connected transactions under the Listing Rules. The total consideration payable by the Company under the two agreements is RMB15,900,000. Since each of the applicable percentage ratios referred to in Rule 14A.32(1) of the Listing Rules in relation to such transactions is less than 2.5%, approval from the Company’s independent shareholders was not required. The Company have issued an announcement on December 8, 2005 setting out the terms of such transactions.

TRUST DEPOSITS AND IRRECOVERABLE OVERDUE TIME DEPOSITS

As at December 31, 2005, the Group did not have any trust deposits or irrecoverable overdue time deposits. All of the Group’s cash deposits are placed with commercial banks and are in compliance with applicable laws and regulations.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company’s securities.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

For Year 2005, the Group did not purchase, sell or redeem any of the Company’s securities.

AUDIT COMMITTEE AND COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE PRACTICES

The Audit Committee of the Company has discussed and reviewed with the Company’s management the financial information contained in this annual report, and has also discussed certain other matters including internal control and financial reporting procedures of the Company. The Board is of the opinion that the Company has complied with the requirements of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the Year 2005. Details of the compliance issues are set out in the “Corporate Governance Report” contained in this annual report.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Amendments to the Articles of Association of the Company will be proposed at the Annual General Meeting of the Company to be held on Thursday, May 25, 2006 to expand the scope of business of the Company. Details of the proposed amendments are set out in the Notice of Annual General Meeting contained in this annual report.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights under the Articles of Association of the Company or under PRC laws.

MATERIAL LITIGATION

The Group was not involved in any material litigation or dispute in Year 2005.

AUDITORS

Since the date of incorporation of the Company to December 31, 2001, Arthur Andersen & Co in Hong Kong and Arthur Andersen • Hua Qiang in the PRC were the Company's international and PRC auditors, respectively.

PricewaterhouseCoopers (Certified Public Accountants in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co. (Certified Public Accountants in the PRC) are respectively the Company's international and PRC auditors for Year 2002, Year 2003, Year 2004 and Year 2005. A resolution to appoint PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co. as the Company's international auditors and the Company's PRC auditors, respectively, for the year ending December 31, 2006 will be proposed at the Annual General Meeting of the Company to be held on Thursday, May 25, 2006.

By order of the Board

Zhu Yong

Chairman

April 7, 2006