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. The address of its registered office is Floor 18-20, South Wing, Pack C, Raycom InfoTech Park, No.2, Ke Xue Yuan South Road, Haidian District, Beijing 100080, PRC.

As at December 31, 2005, 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		Issued and fully paid capital RMB	Principal activities
		Direct	Indirect		
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%	—	11,000,000	Provision of electronic travel distribution and cargo management services; and sale and installation of the related information systems
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

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
Subsidiaries (continued)					
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%	—	23,149,285	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 ("Hong Kong Cares")	December 13, 2000	100%	—	3,182,873	Commercial services
Civil Aviation Cares of Xiamen Ltd. ("Xiamen Cares")	September 14, 2001	51%	—	4,000,000	Computer hardware and software development and data network services

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
Subsidiaries (continued)					
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%	—	5,000,000	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, Shenzhen Cares had capitalized RMB4,000,000 of its reserves to share capital. As a result, its share capital has increased from RMB7,000,000 to RMB11,000,000.

Infosky had received additional capital contributions from its existing shareholders of RMB2,454,285 in cash. As a result, the share capital of Infosky increased from RMB20,695,000 to RMB23,149,285.

Hongkong Cares had capitalized RMB20,806 of its retained earnings to share capital. As a result, its share capital has increased from RMB3,162,067 to RMB3,182,873.

Xi'an Cares had capitalized RMB3,000,000 of its retained earnings to share capital. As a result, its share capital has increased from RMB2,000,000 to RMB5,000,000.

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 ("Yunnan Cares")	April 1, 2003	40%	—	6,000,000	Computer hardware and software development and technical consulting services
Heilongjiang TravelSky Airport Technology Limited ("Heilongjiang Cares")	April 30, 2003	50%	—	6,000,000	Computer hardware and software development and technical consulting service
Shanghai Dongmei Aviation Tourism Online Co., Ltd ("Shanghai Cares")	September 28, 2003	50%	—	1,500,000	Sales of computers and related parts and provision of network, technical services and economic consulting service
Dalian Travelsky Airport Technology Limited ("Dalian Cares")	January 28, 2005	50%	—	6,000,000	Computer hardware and software development and technical consulting service

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

During the year, the Company and Dalian International Airport jointly incorporated Dalian Travelsky Airport Technology Limited ("Dalian Cares") that provides computer hardware and software development and technical consulting services. The Company had invested RMB3,000,000 in cash for a 50% equity interest of Dalian Cares.

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 IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in *Note 4*.

3A. CHANGES IN ACCOUNTING POLICIES

In Year 2005, the Group adopted certain new or revised International Accounting Standards ("IAS"), which are relevant to its operations. The figures in respect of Year 2004 have also been amended where necessary, in accordance with the relevant requirements.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement

3A. CHANGES IN ACCOUNTING POLICIES *(continued)*

The adoption of these new or revised IAS did not result in material changes to the Group's principal accounting policies or have any significant impact on the results of operations and financial position of the Group, except for the adoption of IAS 1, IAS 27 and IAS 28 as detailed below.

IAS 1 has affected the presentation of minority interest.

With effect from January 1, 2005 and in accordance with IAS 27 and IAS 28, the investments in subsidiaries and associated companies are accounted for at cost less impairment provision for losses, in the Company's separate financial statements.

This change in accounting policy has been accounted for retrospectively as follows:

	Before adoption of new/revised IAS *RMB'000*	**Effect of adoption of new/revised IAS** *RMB'000*	**As restated 2004** *RMB'000*
As at January 1, 2005:			
Investments in subsidiaries	86,151	(51,466)	34,685
Investments in associated companies	42,424	(33,534)	8,890
Retained earnings	(616,358)	85,000	(531,358)

3B. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company and its subsidiaries are as follows:

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

3B. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

The purchase method of accounting is used for acquisition of subsidiaries by the Group. 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. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company balances and transactions, including inter-company 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.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivables.

(b) Associated companies

Associated companies are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. Equity accounting involves recognizing in the consolidated income statement the Group's share of the profit or loss for the year of the associated companies.

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.

3B. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Associated companies *(continued)*

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivables.

(c) Foreign currencies

Based on the economic substance of the underlying events and circumstances, the functional currencies of the Company and its PRC subsidiaries are determined to be RMB, and the functional currency of Travelsky Technology (Hong Kong) Limited is determined to be Hong Kong dollars. The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates ruling at the balance sheet dates. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. The exchange differences arising in these cases are included in the consolidated income statement.

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the translation dates, in which case income and expenses are translated at the dates of the transactions); and

- All resulting exchange differences are recognized as a separate component of equity.

3B. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment loss. Historical 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 capitalized.

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 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.

(e) Intangible assets

Intangible assets mainly represent purchased software.

Cost of acquisition of the new software is capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortized on a straight line basis over 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 recognized as an expense when the restoration or maintenance work is carried out.

3B. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) 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;
- 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.

Capitalized development costs are amortized on a straight-line basis over their expected useful lives. The period of amortization does not normally exceed 5 years. During the year ended December 31, 2005, no development costs were capitalized as they did not meet all the conditions listed above (2004: nil).

(g) Impairment of assets

Financial instruments are reviewed for impairment at each balance sheet date.

For financial assets carried at amortized 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 recognized in the income statement. Reversal of impairment losses previously recognized 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 recognized to the extent it does not exceed what amortized cost would have been had the impairment not been recognized.

For available-for-sale financial assets, the cumulative gain or loss previously recognized 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.

3B. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) 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 recognized 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 or 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 recognized in prior years is recorded when there is an indication that the impairment losses recognized 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 recognized to the extent it does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for that asset in prior years.

(h) 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 realize them within 12 months of the balance sheet date.

All purchases and sales of investments are recognized 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.

3B. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Investments *(continued)*

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.

Gains or losses on measurement to fair value of available-for-sale investments are recognized 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 recognized 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 amortized cost using the effective interest rate method.

(i) 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.

(j) Inventories

Inventories, which principally comprise equipment for sale, spare parts and consumable items, are carried at the lower of cost or net realizable 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 realizable 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.

(k) Accounts receivable

Accounts receivable is recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

3B. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) 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.

(m) 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.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of an asset or liability and its carrying amount in the balance sheet. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized 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 utilized.

Other tax liabilities are provided in accordance with the regulations issued by the PRC government authorities.

(n) Retirement scheme

The fixed contributions for retirement benefits made under defined contribution schemes are charged to expense in the year to which they relate.

3B. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Provisions

A provision is recognized 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 recognized as interest expense.

(p) Revenue recognition

Revenue is recognized, 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 services is recognized when the services are rendered;

- Revenue for data network services is recognized when the services are rendered;

- Sale of equipment is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer;

- Revenue for equipment installation project is recognized 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 recognized only to the extent of expenses recognized 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;

- Interest income is recognized on a time-proportion basis, taking into account the principal amounts outstanding and the applicable interest rates; and

- Dividend income is recognized when the right to receive payment is established.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an on-going basis, the Company evaluates its estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Sales discount

Revenues derived from aviation information technology services and data network services are recognized net of sales discount. These sales discounts are estimated based on the ongoing negotiations with the selected customers, taking into account of historical experiences and industry performance.

(b) Depreciation of property, plant and equipment

The property, plant and equipment of the Group are depreciated at rates sufficient to write off their costs less accumulated impairment losses and estimated residual values over their estimated useful lives on a straight-line basis. The Group reviewed the useful lives periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of economic benefits from the property, plant and equipment. The Group estimates the useful lives of the property, plant and equipment as set out in Note 3B(d) based on the historical experience with similar assets, taking into account anticipated technological changes. The depreciation expenses in the future periods will change if there are significant changes to these estimates.

(c) Impairment of assets

At each balance sheet date, the Group considers both internal and external sources of information to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized to reduce the carrying amount of the asset to its recoverable amount. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the assets.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(d) Fair value

The Group estimates the fair value of its financial assets and financial liabilities including accounts receivable, prepayments, other current assets, accounts payable, accrued liabilities and other current liabilities for disclosure purposes by discounting its future contractual cash flows at the estimated current market interest rate that is available to the Group for similar financial instruments. The future disclosed values will change if there are changes in the estimated market interest rate.

(e) Income taxes

The Group is subject to income taxes in both PRC and HK jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. REVENUES

Revenues primarily comprise the service fees earned by the Group for the provision of the Group's aviation information technology services and related data network services. A substantial portion of these revenues was generated from the shareholders of the Company.

6. PROFIT BEFORE TAXATION

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

	2005	2004
	RMB'000	*RMB'000*
After charging:		
Depreciation	**171,871**	156,633
Amortization	**9,129**	8,212
Leasehold amortization	**1,015**	1,896
Loss on disposal of property, plant and equipment	**1,240**	5,516
Operating lease rentals	**61,878**	49,406
Provision (write back) for impairment of receivables	**5,003**	(1,299)
Cost of equipment sold	**15,569**	12,727
Contributions to defined contribution pension scheme	**12,666**	5,758
Auditors' remuneration	**2,145**	1,785
Exchange loss	**14,572**	152
Contribution to housing fund	**11,171**	4,478
Research and development expenses	**180,247**	135,658
After crediting:		
Interest income	**(53,013)**	(37,710)

7. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(1) Directors' and Supervisors' emoluments

The following table sets out the emoluments paid to the Company's directors and supervisors during the year ended December 31, 2005 (tax inclusive):

	Year ended December 31, 2005				
Name of Director / Supervisor	Remuneration	Salary, Allowances and Benefits (employer's contribution inclusive)	Discretionary bonuses	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman of the Board					
Mr. Zhu Yong *	—	—	—	—	—
Executive directors					
Mr. Zhu Xiaoxing	—	190	232	16	438
Mr. Ding Weiping	—	110	335	16	461
Mr. Song Jinxiang	—	110	335	16	461
Non-Executive Directors					
Mr. Wang Quanhua *	—	—	—	—	—
Mr. Cao Jianxiong*	—	—	—	—	—
Mr. Zhang Xueren (i) *	—	—	—	—	—
Mr. Gong Guokui (ii) *	—	—	—	—	—
Mr. Rong Gang *	—	—	—	—	—
Mr. Yang Yatie *	—	—	—	—	—
Mr. Li Xiaoguang *	—	—	—	—	—
Mr. Si Yupei *	—	—	—	—	—
Mr. Song Jian *	—	—	—	—	—
Independent Non-Executive directors					
Mr. Yick Wing Fat, Simon(iv)	54	—	—	—	54
Mr. Chow Kwok Wah, James	90	—	—	—	90
Mr. Wu Jiapei	90	—	—	—	90
Mr. Lee Kwok Ming, Don (iii)	36	—	—	—	36
Supervisors					
Ms. Li Xiaojun *	—	—	—	—	—
Ms. Du Hongying *	—	—	—	—	—
Mr. Zhang Yakun *	—	—	—	—	—
Mr. Wang Yongqiang *	—	—	—	—	—
Mr. Chen Lihong *	—	—	—	—	—
Mr. Tan Xiaoxu (Staff Representative Supervisor)	—	103	291	16	410
Mr. Zhang Xin (Staff Representative Supervisor)	—	73	142	16	231
Mr. Rao Geping (Independent Supervisor)	—	—	—	—	—

7. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(1) Directors' and Supervisors' emoluments *(continued)*

The following table sets out the emoluments paid to the Company's directors and supervisors during the year ended December 31, 2004 (tax inclusive):

	Year ended December 31, 2004				
Name of Director / Supervisor	Remuneration	Salary, Allowances and Benefits (employer's contribution inclusive)	Discretionary bonuses	Employer's contribution to pension scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman of the Board					
Mr. Zhu Yong *	—	—	—	—	—
Executive directors					
Mr. Zhu Xiaoxing	—	94	237	13	344
Mr. Ding Weiping	—	89	239	13	341
Mr. Song Jinxiang	—	89	239	13	341
Non-Executive directors					
Mr. Wang Quanhua *	—	—	—	—	—
Mr. Cao Jianxiong *	—	—	—	—	—
Mr. Zhang Xueren(i) *	—	—	—	—	—
Mr. Rong Gang *	—	—	—	—	—
Mr. Yang Yatie *	—	—	—	—	—
Mr. Li Xiaoguang *	—	—	—	—	—
Mr. Si Yupei *	—	—	—	—	—
Mr. Song Jian *	—	—	—	—	—
Independent Non-Executive directors					
Mr. Chow Kwok Wah, James	90	—	—	—	90
Mr. Lee Kwok Ming, Don (iii)	90	—	—	—	90
Mr. Wu Jiapei	90	—	—	—	90
Supervisors					
Ms. Li Xiaojun *	—	—	—	—	—
Ms. Du Hongying *	—	—	—	—	—
Mr. Zhang Yakun *	—	—	—	—	—
Mr. Wang Yongqiang *	—	—	—	—	—
Mr. Chen Lihong *	—	—	—	—	—
Mr. Tan Xiaoxu (Staff Representative Supervisor)	—	86	223	13	322
Mr. Zhang Xin (Staff Representative Supervisor)	—	61	111	13	185
Mr. Rao Geping (Independent Supervisor)	—	—	—	—	—

* These directors and supervisors are employees of the shareholders of the Company or their subsidiaries, and obtain emoluments from them.

i) Resigned on August 23, 2005
ii) Appointed on August 23, 2005
iii) Resigned on August 23, 2005
iv) Appointed on August 23, 2005

During the years, no director had waived or agreed to waive any emolument.

7. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(2) Five highest paid individuals

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

	2005 *RMB'000*	2004 *RMB'000*
Basic salaries and allowances	**620**	447
Bonus	**1,559**	1,210
Retirement benefits	**82**	66
	2,261	1,723
Number of directors	**3**	3
Number of employees	**2**	2
	5	5

The annual emoluments paid during the year ended December 31, 2005 to each of the directors (including the five highest paid employees) fell within the band from RMB nil to RMB1 million (2004: from RMB nil to RMB1 million).

During the year ended December 31, 2005, 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 (2004: nil).

8. 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, 2005 (2004: 20%). The contributions to the pension scheme made by the Group for the year ended December 31, 2005 amounted to approximately RMB12,666,000 (2004: RMB5,758,000). Under this scheme, the Group has no obligation for post-retirement benefits beyond the annual contributions made.

9. 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, 2005 amounted to approximately RMB11,171,000 (2004: RMB4,478,000).

The average number of employees in 2005 was 2,089 (2004: 1,825).

10. TAXATION

Income Tax

	2005	2004
	RMB'000	*RMB'000*
PRC enterprise income tax - current	**51,026**	40,141
Hong Kong profits tax - current	**37**	47
	51,063	40,188

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 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 (Document (2000) Haiguoshuiersuo No.19) to enjoy an 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) that enjoy a preferential tax rate of 0%. In addition, these subsidiaries are entitled to certain reductions in tax rates in their initial years of operations.

10. TAXATION *(continued)*

The reconciliation between the Group's actual tax charge and the amount which is calculated based on the weighted average statutory tax rate is as follows:

	2005	2004
	RMB'000	*RMB'000*
Profit before taxation	**594,757**	499,598
Weighted average statutory tax rate	**33%**	33%
Tax calculated at the weighted average statutory tax rate	**196,270**	164,867
Non-taxable income	**(225)**	(225)
Non-deductible expense	**4,194**	7,885
Effect of preferential tax rates	**(149,176)**	(132,339)
Tax charge	**51,063**	40,188

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.

The combined effect of the preferential tax rate applicable to the Company and certain subsidiaries is as follows:

	2005	2004
Aggregate amount (RMB'000)	**149,176**	132,339
Per share effect (RMB)	**0.17**	0.15

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%

10. 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.

11. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2005 and December 31, 2004 have been computed by dividing the profit attributable to the equity holders of the Company, of RMB529,647,000, and RMB449,181,000, by the weighted average number of 888,157,500 and 888,157,500 ordinary shares issued and outstanding for the years ended December 31, 2005 and December 31, 2004, respectively.

There were no potential dilutive ordinary shares outstanding during the years ended December 31, 2005 and 2004.

12. DIVIDENDS

The shareholders in the Annual General Meeting 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.

The Board proposed a final dividend of RMB0.230 per share for the year ended December 31, 2005, amounting to approximately RMB204,276,225. 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, 2006. After the appropriation of the dividend, the reserve available for distribution as at December 31, 2005 was approximately RMB423,646,000 (2004: RMB299,882,000).

	2005	2004
Dividend proposed after year end		
Proposed final dividend (RMB'000)	**204,276**	177,632
Dividend per share (RMB)	**0.230**	0.200

13. PROPERTY, PLANT AND EQUIPMENT, NET

At December 31, 2005, property, plant and equipment comprised:

The Group:

	Buildings	Computer systems and software	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
As at January 1, 2004	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 / write off	—	(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
Purchases	3,148	413,123	5,993	5,377	181	427,822
Disposals / write off	—	(66,422)	(907)	(1,680)	—	(69,009)
As at December 31, 2005	58,496	1,524,605	34,242	29,850	181	1,647,374
Accumulated depreciation						
As at January 1, 2004	(3,810)	(656,286)	(11,811)	(8,481)	—	(680,388)
Charge for the year	(3,028)	(145,514)	(2,817)	(5,274)	—	(156,633)
Disposals / write off	—	22,691	312	575	—	23,578
As at December 31, 2004	(6,838)	(779,109)	(14,316)	(13,180)	—	(813,443)
Charge for the year	(2,496)	(158,481)	(5,121)	(5,773)	—	(171,871)
Disposals / write off	—	63,720	879	1,666	—	66,265
As at December 31, 2005	(9,334)	(873,870)	(18,558)	(17,287)	—	(919,049)
Net book value						
As at December 31, 2004	48,510	398,795	14,840	12,973	—	475,118
As at December 31, 2005	49,162	650,735	15,684	12,563	181	728,325

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

The Company:

	Buildings	Computer systems and software	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
As at January 1, 2004	30,098	1,105,949	14,481	14,356	2,880	1,167,764
Purchases	—	74,947	3,797	4,802	320	83,866
Disposals / write off	—	(16,170)	(362)	(274)	(3,200)	(20,006)
As at December 31, 2004	30,098	1,164,726	17,916	18,884	—	1,231,624
Purchases	2,795	412,305	2,877	3,121	—	421,098
Disposals / write off	—	(64,310)	(508)	(777)	—	(65,595)
As at December 31, 2005	32,893	1,512,721	20,285	21,228	—	1,587,127
Accumulated depreciation						
As at January 1, 2004	(502)	(641,638)	(7,476)	(5,511)	—	(655,127)
Charge for the year	(1,908)	(143,507)	(1,979)	(3,690)	—	(151,084)
Disposals / write off	—	15,306	312	244	—	15,862
As at December 31, 2004	(2,410)	(769,839)	(9,143)	(8,957)	—	(790,349)
Charge for the year	(1,306)	(157,231)	(2,394)	(4,344)	—	(165,275)
Disposals / write off	—	62,512	493	746	—	63,751
As at December 31, 2005	(3,716)	(864,558)	(11,044)	(12,555)	—	(891,873)
Net book value						
As at December 31, 2004	27,688	394,887	8,773	9,927	—	441,275
As at December 31, 2005	29,177	648,163	9,241	8,673	—	695,254

14. INTANGIBLE ASSETS, NET

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
As at January 1	**41,084**	28,788	**37,038**	24,882
Additions	**7,184**	12,296	**7,184**	12,156
As at December 31	**48,268**	41,084	**44,222**	37,038
Accumulated amortisation				
As at January 1	**(25,907)**	(17,695)	**(23,468)**	(16,066)
Amortisation for the year	**(9,129)**	(8,212)	**(8,304)**	(7,402)
As at December 31	**(35,036)**	(25,907)	**(31,772)**	(23,468)
Net book value				
As at December 31	**13,232**	15,177	**12,450**	13,570

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

15. INVESTMENTS IN SUBSIDIARIES

	The Group		The Company	
	2005	2004	**2005**	2004
				Restated
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Investments, at cost:	**—**	—	**35,951**	34,685

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

16. INVESTMENTS IN ASSOCIATED COMPANIES

	The Group		The Company	
	2005	2004	**2005**	2004 Restated
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**42,424**	36,327	**8,890**	8,890
Share of profit	**11,312**	10,934	**—**	—
Dividend received from associated companies	**(2,882)**	(4,837)	**—**	—
Additional capital contribution	**3,000**	—	**3,000**	—
End of the year	**53,854**	42,424	**11,890**	8,890

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

17. OTHER LONG-TERM INVESTMENT

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

	Interest rate and maturity	**2005** ***RMB'000***	2004 *RMB'000*
Treasury bonds	3% per annum with maturity in December 2008	**100,000**	100,000

18. OTHER LONG-TERM ASSETS

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

19. INVENTORIES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Equipment for sale	**2,792**	3,951	**352**	221
Spare parts	**8**	1	**—**	—
Other	**590**	146	**—**	—
Total	**3,390**	4,098	**352**	221

No inventories have been pledged as security for borrowings.

20. ACCOUNTS RECEIVABLE, NET

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts receivable	**63,271**	40,307	**33,313**	19,409
Provision for impairment of receivables	**(1,755)**	(2,137)	**(9,368)**	(9,368)
Accounts receivable, net	**61,516**	38,170	**23,945**	10,041

The credit period is normally within six months after the services are rendered.

The carrying amounts of the Group's accounts receivable approximated its fair value as at December 31, 2005 because of the short maturities of these receivables.

As December 31, 2005 and 2004, the ageing analysis of the accounts receivable was as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**42,694**	30,456	**30,308**	17,253
Over 6 months but within 1 year	**5,033**	7,883	**1,546**	327
Over 1 year but within 2 years	**14,280**	846	**334**	707
Over 2 years but within 3 years	**142**	126	**3**	126
Over 3 years	**1,122**	996	**1,122**	996
Accounts receivable	**63,271**	40,307	**33,313**	19,409
Provision for impairment of receivables	**(1,755)**	(2,137)	**(9,368)**	(9,368)
Accounts receivable, net	**61,516**	38,170	**23,945**	10,041

20. ACCOUNTS RECEIVABLE, NET *(continued)*

The movement of provision for impairment of receivables is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balance at beginning of year	**2,137**	3,486	**9,368**	10,845
Write back	**(382)**	(1,299)	**—**	(1,477)
Less: Amount utilized	**—**	(50)	**—**	—
Balance at end of year	**1,755**	2,137	**9,368**	9,368

21. DUE FROM RELATED PARTIES, NET

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**267,399**	107,036	**261,559**	102,028
Over 6 months but within 1 year	**3,932**	1,251	**3,727**	1,247
Over 1 year but within 2 years	**5,152**	3,636	**5,148**	1,170
Over 2 years but within 3 years	**1,005**	888	**992**	888
Over 3 years	**888**	—	**888**	—
Due form related parties	**278,376**	112,811	**272,314**	105,333
Provision for impairment of receivables	**(5,385)**	—	**(5,385)**	—
Due form related parties, net	**272,991**	112,811	**266,929**	105,333

These balances are trade related; interest free, unsecured and generally repayable within six months.

During the year, the Group recognized an impairment loss of approximately RMB5,385,000 (2004: Nil) for the estimated losses resulting from the inability of its related parties to make the required payments.

22. DUE FROM SUBSIDIARIES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**—**	—	**7,344**	37,723
Over 6 months but within 1 year	**—**	—	**3,404**	—
Over 1 year but within 2 years	**—**	—	**10,621**	11,114
Over 2 years but within 3 years	**—**	—	**10,662**	6,932
Over 3 years	**—**	—	**4,751**	1,333
Total	**—**	—	**36,782**	57,102

These balances are trade related; interest free and unsecured.

23. DUE FROM ASSOCIATED COMPANIES

These balances comprise mainly dividend receivables from associated companies of approximately RMB832,000, and the remaining portion is trade related; interest free, unsecured and generally repayable within one year.

24. PREPAYMENTS AND OTHER CURRENT ASSETS

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advance payments	**8,550**	27,059	**6,994**	26,048
Interest receivable	**25,840**	33,910	**25,840**	33,910
Prepaid expenses	**8,986**	13,359	**8,761**	13,148
Other current assets	**4,696**	8,651	**291**	3,149
Total	**48,072**	82,979	**41,886**	76,255

25. SHORT-TERM BANK DEPOSITS

The annual interest rate on short-term bank deposits range from 1.88% to 3.70% (2004: 0.80% to 2.70%) and these deposits have a maturity period ranging from 6 to 36 months (2004: 6 to 36 months).

26. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash				
RMB	**156**	409	**2**	39
HKD denominated	**31**	53	**—**	—
USD denominated	**7**	69	**—**	—
GBP denominated	**12**	14	**—**	—
EUR denominated	**19**	21	**—**	—
	225	566	**2**	39
Demand deposits				
RMB	**760,228**	1,971,284	**709,142**	1,936,570
USD denominated	**77,858**	239,303	**38,230**	183,075
HKD denominated	**18,062**	25,269	**9,272**	14,041
JPY denominated	**438**	421	**—**	—
	856,586	2,236,277	**756,644**	2,133,686
Total cash and cash equivalents	**856,811**	2,236,843	**756,646**	2,133,725

27. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts payable	**116,612**	92,430	**100,538**	82,408
Accrued departure technology support fees	**52,144**	105,877	**54,783**	122,195
Accrued technical bonus to employees	**46,174**	47,443	**46,174**	45,562
Accrued technical support fees	**19,725**	21,411	**18,714**	17,192
Accrued network usage fees	**28,412**	64,038	**28,412**	64,038
Other accruals	**63,394**	73,278	**52,835**	62,595
	326,461	404,477	**301,456**	393,990

As December 31, 2005, approximately RMB111,419,000 of the above balances were denominated in US dollars (2004: RMB104,625,000).

At 31 December 2005 and 2004, the aging analysis of accounts payable was as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**60,549**	24,623	**54,219**	16,691
Over 6 months but within 1 year	**12,938**	3,542	**5,360**	2,201
Over 1 year but within 2 years	**2,978**	29,120	**839**	28,708
Over 2 years but within 3 years	**12,121**	1,358	**12,094**	1,021
Over 3 years	**28,026**	33,787	**28,026**	33,787
Total accounts payable	**116,612**	92,430	**100,538**	82,408
Accrued liabilities	**209,849**	312,047	**200,918**	311,582
	326,461	404,477	**301,456**	393,990

28. DUE TO RELATED PARTIES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**—**	—	**—**	—
Over 6 months but within 1 year	**71,842**	6,580	**71,842**	6,092
Over 1 year but within 2 years	**3,277**	5,247	**2,788**	5,247
Over 2 years but within 3 years	**5,247**	1,119	**5,247**	1,119
Over 3 years	**13,615**	14,102	**4,277**	3,309
Total	**93,981**	27,048	**84,154**	15,767

These balances comprised mainly dividend payables.

29. TAXES PAYABLE

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Enterprise income tax payable	**17,159**	12,794	**13,876**	11,466
Business tax payable	**14,409**	14,011	**13,587**	13,185
VAT payable	**367**	(239)	**110**	(20)
Other	**3,763**	3,572	**3,234**	3,200
Total	**35,698**	30,138	**30,807**	27,831

30. PAID-IN CAPITAL

The Paid-In capital as at December 31, 2005 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.

	2005 Number of shares *'000*	2005 Amount *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

31. RESERVES

	Capital Surplus RMB'000	Statutory Surplus Reserve Fund RMB'000	Statutory Public Welfare Fund RMB'000	Discretionary Surplus Reserve Fund RMB'000	Currency translation differences RMB'000	Total RMB'000
The Group						
Balance as at January 1, 2004	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
Transfer from retained earnings	—	52,138	51,995	88,231	—	192,364
Translation	—	—	—	—	(450)	(450)
Balance as at December 31, 2005	1,194,956	218,004	207,330	291,614	(450)	1,911,454

	Capital Surplus RMB'000	Statutory Surplus Reserve Fund RMB'000	Statutory Public Welfare Fund RMB'000	Discretionary Surplus Reserve Fund RMB'000	Currency translation differences RMB'000	Total RMB'000
The Company						
Balance as at January 1, 2004	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
Transfer from retained earnings	—	51,390	51,390	88,231	—	191,011
Balance as at December 31, 2005	1,194,956	215,928	205,554	291,528	—	1,907,966

32. 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 interest 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 to be the lower of the amounts in accordance with PRC GAAP and IFRS, 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 the after-tax profit, as determined to be the lower of the amounts in accordance with PRC GAAP and IFRS, which can only be used for the collective welfare of the employees.

The shareholders in the Annual General Meeting on May 10, 2005 approved the appropriation of RMB88,231,000 to the discretionary surplus reserve. The amount was accounted for in shareholder's equity as a distribution of retained earnings in the year ended December 31, 2005.

For the year ended December 31 2005, the Board of Directors proposed appropriations of 10%, 10% and 20% of the net profit as reflected in the Company's financial statements prepared under IFRS (2004: 10%, 10% and 20% respectively of the net profit as reflected in the Company's statutory financial statements prepared under PRC GAAP), or RMB51,390,000, RMB51,390,000 and RMB102,779,000 (2004: RMB44,115,000, RMB44,115,000 and RMB88,231,000), to the statutory surplus reserve fund, the statutory public welfare fund and the discretionary surplus reserve fund, respectively.

The proposed appropriation of approximately RMB102,779,000 (20% of net profit after tax) to the discretionary surplus reserve fund for the year ended December 31, 2005 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, 2005 will be recorded in the Group's financial statements for year ending December 31, 2006.

After the appropriations mentioned above, the retained earnings available for distribution as at December 31, 2005 was approximately RMB627,922,000 (2004: RMB477,514,000).

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB513,896,000 (2004: RMB442,371,000) for the year ended December 31, 2005.

33. CASH GENERATED FROM OPERATING ACTIVITIES

	2005	2004
	RMB'000	*RMB'000*
Profit before taxation	**594,757**	499,598
Adjustments for:		
Depreciation and amortization	**182,015**	166,741
Loss on disposal of property, plant and equipment	**1,240**	5,516
Impairment of investment	**—**	171
Interest income	**(53,013)**	(37,710)
Provision (write back) for impaiment of receivables	**5,003**	(1,299)
Share of results from associated companies	**(11,312)**	(10,934)
Operating profit before working capital changes	**718,690**	622,083
Decrease (increase) in current assets:		
Accounts receivable	**(22,964)**	(18,519)
Inventories	**708**	(1,463)
Prepayments and other current assets	**26,837**	(8,825)
Due from related parties/associated companies	**(165,960)**	(29,128)
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	**(102,459)**	58,683
Deferred revenue	**(1,170)**	1,092
Due to related parties	**(1,643)**	(641)
Taxes payable	**1,195**	(2,159)
Cash generated from operations	**453,234**	621,123

34. 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, 2005 because of the short maturities of these instruments.

The treasury bonds that are held to maturity are carried at amortized cost. At December 31, 2005, the market value of the treasury bonds was approximately RMB101,720,000 (2004: RMB95,881,000).

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 RMB3,291 million as at December 31, 2005 (2004: RMB3,202 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 risks related to its capital expenditure as a substantial portion of its capital expenditure represents imported equipment that is purchased in U.S. dollars. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

35. SEGMENT REPORTING

The Group conducts its business within one business segment - the business of providing aviation information technology 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 the year ended December 31, 2005 and 2004. 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.

36. COMMITMENTS

(a) Capital commitments

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

	2005	2004
	RMB'000	*RMB'000*
Authorised and contracted for		
— Computer System	**22,844**	36,883
Authorised but not contracted for		
— Computer System	**370,000**	411,000
Total	**392,844**	447,883

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

At December 31, 2005, approximately RMB2,348,428 of the above balance were dominated in US dollars (2004: RMB2,408,200).

36. COMMITMENTS *(continued)*

(b) Operating lease commitments

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

	2005	2004
	RMB'000	*RMB'000*
Within one year	**52,621**	57,192
Later than one year but not later than five years	**43,597**	87,787
Later than five years	**—**	7,865
Total	**96,218**	152,844

(c) Equipment maintenance fee commitments

As at December 31, 2005, the Group had total equipment maintenance fee commitments of approximately RMB5.1 million (2004: RMB6.8 million).

37. 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.

Management believes that meaningful information relative to related party disclosures has been adequately disclosed.

(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 Company	Shareholder of the Company
China Southern Airlines Company Limited	Subsidiary of a shareholder of the Company
China Eastern Air Holding Company	Shareholder of the Company
China Eastern Airlines Company Limited	Subsidiary of a shareholder of the Company
CNA Holding	Shareholder of the Company
Air China Limited	Subsidiary of a shareholder of the Company
Xiamen Airlines Company Limited	Shareholder of the Company
China Eastern Airlines (Wuhan) Company Limited	Shareholder of the Company
Hainan Airlines Company Limited	Shareholder of the Company
Shenzhen Airlines Company Limited	Shareholder of the Company
Shanghai Airlines Company Limited	Shareholder of the Company
Asia Technology Development Center ("Asia Technology")	Indirect wholly owned subsidiary of a shareholder of the Company

37. RELATED PARTY TRANSACTIONS *(continued)*

(2) Related party transactions

The following is a summary of significant recurring transactions carried out with the Group's related parties.

(i) Revenue for aviation information technology and data network services, the pricing of which was based on either contractual arrangements or negotiated prices with these related parties with reference to the pricing standards prescribed by Civil Aviation Administration of China ("CAAC") where applicable.

Name	**2005** **RMB'000**	2004 RMB'000
China Southern Airlines Company Limited (a)	**266,019**	256,515
China Eastern Airlines Company Limited (b)	**218,671**	177,772
Air China Limited	**202,532**	170,321
Hainan Airlines Company Limited	**119,118**	117,287
Shanghai Airlines Company Limited	**81,908**	54,045
Shenzhen Airlines Company Limited	**79,084**	50,704

(a) Included the transaction amount of its subsidiary, Xiamen Airlines Company Limited.

(b) Included the transaction amount of its subsidiary, China Eastern Airlines (Wuhan) Company Limited.

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 CTHC

For the year ended December 31, 2005, operating lease rentals for lease of properties from CTHC amounted to RMB 38,608,608 (2004: RMB 34,570,760). The pricing of operating lease rentals for buildings is based on agreed rates with CTHC with reference to market rates.

(iii) Technical support services from Asia Technology Co.

For the year ended December 31, 2005, technical support services from Asia Technology amounted to RMB 15,900,000 (2004: RMB15,076,800). Asia Technology is an indirect wholly owned subsidiary of CTHC. The pricing of technical service fee is based on contractual arrangement with Asia Technology.

37. RELATED PARTY TRANSACTIONS *(continued)*

(3) Balances with related parties

Balances with related parties mainly comprised:

Name	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
China Southern Airlines Company Limited (a)	**69,969**	51,192	**67,848**	48,526
China Eastern Airlines Company Limited (b)	**58,757**	1,706	**58,393**	—
Air China Limited	**61,710**	37,871	**61,710**	37,871
Hainan Airlines Company Limited	**42,280**	—	**42,238**	—
Shenzhen Airlines Company Limited	**11,107**	559	**11,064**	519

(a) Included the transaction balance of its subsidiary, Xiamen Airlines Company Limited.

(b) Included the transaction balance of its subsidiary, China Eastern Airlines (Wuhan) Company Limited.

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.

37. RELATED PARTY TRANSACTIONS *(continued)*

(4) Amounts due from other major state-owned enterprises

The balances with major state-owned banks are as follows:

Name	The Group		The Company	
	2005	2004	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank balances	**1,181,532**	743,565	**1,027,185**	601,471

The Group is a state-owned enterprise. In accordance with the revised IAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than entities under the Group, directly or indirectly controlled by the PRC government are also defined as related parties of the Company and its subsidiaries.

The majority of the business activities of the Company and its subsidiaries are conducted with state-owned enterprises. For the purpose of the related party transactions disclosure in accordance with IAS 24, the Company and its subsidiaries have established procedures to determine, to the extent possible, the identification of the ownership structure of its customers and suppliers as to whether they are state-owned enterprises. However, many state-owned enterprises have a multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatization programs. Nevertheless, management believes that all material related party balances and transactions have been adequately disclosed.

38. ULTIMATE HOLDING COMPANY

The directors regard China TravelSky Holding Company established in the PRC as being the ultimate holding company.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on April 7, 2006.