



中國民航信息網絡股份有限公司 TravelSky Technology Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code : 0696)



2006 Interim Report

The Board of Directors (the "Board") of TravelSky Technology Limited (the "Company") hereby presents the unaudited interim report of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2006, prepared in accordance with International Financial Reporting Standards.

CONDENSED CONSOLIDATED BALANCE SHEET

(Amounts expressed in thousands of Renminbi)

| | Note | As at | |
|--------------------------------------|------|----------------------------|------------------------------|
| | | June 30, 2006 Unaudited | December 31, 2005 Audited |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment, net | 8 | 688,515 | 728,325 |
| Intangible assets, net | | 10,267 | 13,232 |
| Investments in associated companies | | 58,683 | 53,854 |
| Other long-term investment | | 100,000 | 100,000 |
| Other long-term assets | | 16,968 | 20,906 |
| | | <u>874,433</u> | <u>916,317</u> |
| Current assets | | | |
| Inventories | | 4,012 | 3,390 |
| Accounts receivable, net | 9 | 64,453 | 61,516 |
| Due from associated companies | | 8,546 | 1,227 |
| Due from related parties, net | 10 | 316,559 | 272,991 |
| Prepayments and other current assets | | 51,142 | 48,072 |
| Short-term bank deposits | | 1,781,879 | 1,947,277 |
| Cash and cash equivalents | | 1,193,333 | 856,811 |
| | | <u>3,419,924</u> | <u>3,191,284</u> |
| Total assets | | <u>4,294,357</u> | <u>4,107,601</u> |

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)*(Amounts expressed in thousands of Renminbi)*

| | Note | As at | |
|---|------|-----------------------------------|-------------------------------------|
| | | June 30, 2006 <i>Unaudited</i> | December 31, 2005 <i>Audited</i> |
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Paid in capital | | 888,158 | 888,158 |
| Reserves | 6 | 2,014,258 | 1,911,454 |
| Retained earnings | | | |
| — Proposed final dividend | 7 | — | 204,276 |
| — Others | | 735,143 | 584,304 |
| | | 3,637,559 | 3,588,192 |
| Minority interest | | 67,628 | 61,296 |
| Total equity | | 3,705,187 | 3,649,488 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 11 | 384,829 | 326,461 |
| Due to related parties | | 168,428 | 93,981 |
| Taxes payable | | 33,012 | 35,698 |
| Deferred revenue | | 2,901 | 1,973 |
| | | 589,170 | 458,113 |
| Total equity and liabilities | | 4,294,357 | 4,107,601 |
| Net current assets | | 2,830,754 | 2,733,171 |
| Total assets less current liabilities | | 3,705,187 | 3,649,488 |

CONDENSED CONSOLIDATED INCOME STATEMENT*(Amounts expressed in thousands of Renminbi, except per share data)*

| | | Unaudited Six months ended June 30 | |
|---|------|---------------------------------------|-----------|
| | Note | 2006 | 2005 |
| Revenues | | | |
| Aviation information technology services | | 673,783 | 545,956 |
| Data network and others | | 137,999 | 126,723 |
| Total revenues | 2 | 811,782 | 672,679 |
| Business taxes and other surcharges | | (27,457) | (23,126) |
| Net revenues | | 784,325 | 649,553 |
| Operating expenses | | | |
| Depreciation and amortisation | | (115,461) | (80,341) |
| Network usage | | (34,854) | (32,676) |
| Personnel | | (93,771) | (79,228) |
| Operating lease rentals | | (31,464) | (29,360) |
| Technical support and maintenance fees | | (48,590) | (28,182) |
| Commission and promotion expenses | | (89,382) | (60,988) |
| Other operating expenses | | (92,227) | (84,375) |
| Total operating expenses | | (505,749) | (395,150) |
| Operating profit | | 278,576 | 254,403 |
| Financial income, net | | 24,950 | 26,164 |
| Share of results of associated companies | | 6,307 | 3,078 |
| Other income, net | | 299 | 1,717 |
| Profit before taxation | 3 | 310,132 | 285,362 |
| Taxation | 4 | (48,218) | (22,777) |
| Profit after taxation | | 261,914 | 262,585 |
| Attributable to | | | |
| Equity holders of the Company | | 253,866 | 254,669 |
| Minority interest | | 8,048 | 7,916 |
| | | 261,914 | 262,585 |
| Earnings per share for profit attributable to the equity holders of the Company, basic and diluted (RMB) | 5 | 0.29 | 0.29 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*(Amounts expressed in thousands of Renminbi)*

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

| | Unaudited | | | | Total |
|---|---|------------------|-------------------|-------------------|------------------|
| | Attributable to equity holders of the Company | | | Minority Interest | |
| | Paid in capital | Reserves | Retained earnings | | |
| Balance at January 1, 2006 | 888,158 | 1,911,454 | 788,580 | 61,296 | 3,649,488 |
| Profit for the period | — | — | 253,866 | 8,048 | 261,914 |
| Dividend relating to 2005 | — | — | (204,276) | — | (204,276) |
| Dividends paid to minority shareholders of subsidiaries | — | — | — | (1,716) | (1,716) |
| Currency translation differences | — | (223) | — | — | (223) |
| Appropriation to reserves | — | 103,027 | (103,027) | — | — |
| Balance at June 30, 2006 | <u>888,158</u> | <u>2,014,258</u> | <u>735,143</u> | <u>67,628</u> | <u>3,705,187</u> |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*(Amounts expressed in thousands of Renminbi)*

| | <i>Note</i> | Unaudited Six months ended June 30 2006 | 2005 |
|---|-------------|--|-------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 12 | 400,056 | 115,277 |
| Enterprise income tax paid | | (54,422) | (20,402) |
| Net cash provided by operating activities | | 345,634 | 94,875 |
| Cash flows from investing activities | | | |
| Purchases of property, plant, equipment and intangible assets | | (70,106) | (78,526) |
| Decrease / (Increase) in short-term bank deposits | | 165,398 | (1,159,608) |
| Interest received | | 36,488 | 40,683 |
| Dividends received from associated companies | | — | 205 |
| Proceeds from disposal of property, plant and equipment | | 96 | 223 |
| Investment to associated companies | | (5,000) | (3,000) |
| Net cash provided by (used in) investing activities | | 126,876 | (1,200,023) |
| Cash flows from financing activities | | | |
| Dividend paid to group shareholders | | (132,513) | (63,966) |
| Net cash used in financing activities | | (132,513) | (63,966) |
| Effect of foreign exchange rate changes on cash and cash equivalents | | (3,475) | — |
| Net Increase / (decrease) in cash and cash equivalents | | 336,522 | (1,169,114) |
| Cash and cash equivalents at beginning of the period | | 856,811 | 2,236,843 |
| Cash and cash equivalents at end of the period | | 1,193,333 | 1,067,729 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards, and have been reviewed by the Audit Committee of the Company. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended December 31, 2005.

2. REVENUES

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

3. PROFIT BEFORE TAXATION

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

| | Six months ended June 30 | |
|---|---------------------------------|----------|
| | 2006 | 2005 |
| | RMB'000 | RMB'000 |
| After charging: | | |
| Depreciation | 110,845 | 76,042 |
| Amortisation | 4,616 | 4,299 |
| Loss / (gain) on disposal of property, plant and equipment | 57 | (22) |
| Operating lease rentals | 31,464 | 29,360 |
| Provision for impairment of receivables | — | 38 |
| Cost of equipment sold | 4,970 | 2,266 |
| Contributions to defined contribution pension scheme | 7,620 | 6,312 |
| Auditors' remuneration | 1,125 | 905 |
| Exchange loss | 3,475 | 776 |
| Contribution to housing fund | 7,148 | 3,678 |
| Research and development expenses | 93,883 | 68,871 |
| After crediting: | | |
| Interest income | (28,426) | (26,164) |

4. TAXATION

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, registered as a new technology enterprise in October 2000 in Zhongguancun Haidian Science Park, has been approved by the Haidian State Tax Bureau to enjoy an EIT preferential rate of 7.5% from January 1, 2003 to December 31, 2005 and at 15% thereafter. For the six months ended 30 June, 2006, the Company is subject to EIT at a rate of 15%.

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

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

5. EARNINGS PER SHARE

Earnings per share for the six months ended June 30, 2005 and June 30, 2006 have been computed by dividing the profit attributable to the equity holders of the Company of RMB254,669,000 and RMB253,866,000, by the number of 888,157,500 ordinary shares issued and outstanding for the periods respectively.

There were no potential dilutive ordinary shares outstanding for the six months ended June 30, 2005 and June 30, 2006.

6. RESERVES

RMB102,779,000, representing 20% of the Company's net profit of year 2005, was transferred to the discretionary surplus reserves.

7. DIVIDEND DISTRIBUTION

The shareholders in the annual general meeting held on May 25, 2006 approved the final dividend in respect of 2005 of RMB0.230 per share amounting to a total of RMB204,276,225. The amount was accounted for in shareholders' equity as an appropriation of retained earnings for the six months ended June 30, 2006.

8. PROPERTY, PLANT AND EQUIPMENT

For the six months ended June 30, 2006, the Group acquired property, plant and equipment amounting to approximately RMB62,942,000.

9. ACCOUNTS RECEIVABLE, NET

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

The ageing analysis of accounts receivable is as follows:

| | June 30, 2006 <i>RMB'000</i> | December 31, 2005 <i>RMB'000</i> |
|---|---------------------------------|-------------------------------------|
| Within 6 months | 45,630 | 42,694 |
| Over 6 months but within 1 year | 6,624 | 5,033 |
| Over 1 year but within 2 years | 6,930 | 14,280 |
| Over 2 years but within 3 years | 5,902 | 142 |
| Over 3 years | 1,122 | 1,122 |
| Accounts receivable | <u>66,208</u> | <u>63,271</u> |
| Provision for impairment of receivables | <u>(1,755)</u> | <u>(1,755)</u> |
| Accounts receivable, net | <u><u>64,453</u></u> | <u><u>61,516</u></u> |

10. DUE FROM RELATED PARTIES, NET

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

The ageing analysis of the amount due from related parties is as follows:

| | June 30, 2006 RMB'000 | December 31, 2005 RMB'000 |
|---|--------------------------|------------------------------|
| Within 6 months | 285,670 | 267,399 |
| Over 6 months but within 1 year | 24,909 | 3,932 |
| Over 1 year but within 2 years | 8,560 | 5,152 |
| Over 2 years but within 3 years | 1,571 | 1,005 |
| Over 3 years | 1,234 | 888 |
| Due from related parties | 321,944 | 278,376 |
| Provision for impairment of receivables | (5,385) | (5,385) |
| Due from related parties, net | <u>316,559</u> | <u>272,991</u> |

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The ageing analysis of accounts payable is as follows:

| | June 30, 2006 RMB'000 | December 31, 2005 RMB'000 |
|--|--------------------------|------------------------------|
| Within 6 months | 32,023 | 60,549 |
| Over 6 months but within 1 year | 55,356 | 12,938 |
| Over 1 year but within 2 years | 8,501 | 2,978 |
| Over 2 years but within 3 years | 4,589 | 12,121 |
| Over 3 years | 19,151 | 28,026 |
| Accounts payable | 119,620 | 116,612 |
| Accrued liabilities | 265,209 | 209,849 |
| Total accounts payable and accrued liabilities | <u>384,829</u> | <u>326,461</u> |

12. CASH GENERATED FROM OPERATIONS

| | Six months ended June 30 | |
|---|--------------------------|-----------------|
| | 2006 RMB'000 | 2005 RMB'000 |
| Profit before taxation | 310,132 | 285,362 |
| Adjustments for: | | |
| Depreciation and amortisation | 115,461 | 80,341 |
| Loss / (gain) on disposal of property, plant and equipment | 57 | (22) |
| Interest income | (28,426) | (26,164) |
| Provision for impairment of receivables | — | 38 |
| Share of results of associated companies | (6,307) | (3,078) |
| Exchange loss and the change of currency translation differences | 3,252 | — |
| Operating profit before working capital changes | 394,169 | 336,477 |
| Decrease / (increase) in current assets: | | |
| Accounts receivable | (2,937) | (11,655) |
| Inventories | (622) | (1,519) |
| Prepayments and other current assets | (5,952) | 1,337 |
| Due from related parties and associated companies | (44,409) | (194,201) |
| Increase / (decrease) in current liabilities: | | |
| Accounts payable and accrued liabilities | 54,394 | (11,462) |
| Deferred revenue | 928 | 1,977 |
| Due to related parties | 967 | (226) |
| Taxes payable | 3,518 | (5,451) |
| Cash generated from operations | 400,056 | 115,277 |

13. COMMITMENTS

(a) Capital commitments

As at June 30, 2006, the Group had the following capital commitments:

| | <i>RMB'000</i> |
|--|----------------|
| Authorised and contracted for – computer system | 16,588 |
| Authorised but not contracted for – computer system | 120,290 |
| Total | <u>136,878</u> |

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

No contracted capital commitments outstanding at June 30, 2006 was denominated in U.S. dollars.

(b) Operating lease commitments

As at June 30, 2006, the Group had the following commitments under operating leases:

| | <i>RMB'000</i> |
|--------------------------------|----------------|
| Within one year | 37,377 |
| Over 1 year but within 5 years | 51,667 |
| Over 5 years | — |
| Total | <u>89,044</u> |

14. SEGMENT REPORTING

The Group conducts its business within one business segment - the business of providing aviation information technology services and related services in the PRC. The Group's chief decision maker for operation is considered to be the Group's General Manager. The information reviewed by the General Manager is identical to the information presented in the consolidated financial statements. Hence, no segment information has been prepared by the Group for the period ended June 30, 2005 and June 30, 2006. The Group also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented in these financial statements.

BUSINESS REVIEW FOR THE FIRST HALF OF 2006

The Group faced various challenges in the first half of 2006. Along with trends of the air transportation liberalization, more and more Chinese commercial airlines joined international aviation alliances and competed in the global market, and the demand for high-level and internationalized information technology solutions has been increasing. Meanwhile, as the commercial airlines are subject to great operation pressure caused by the oil price surge, they have pressing need for costs cut. In addition, following the intensified deregulation and competition in the industry, the operating environment became more open and internationalized. Furthermore, with the extensive application of internet and e-ticket technology, the distribution business model of aviation and travel industry is facing structural change. In response to such challenges, the Group continued to capture opportunities in light of its development strategy and achieved satisfactory results in various areas, including safety in production, technical support, business development, system enhancement, product development and internal management.

The continuing rapid growth of the PRC economy, the increasing booming of the PRC business trips and leisure travel market, the expanding foreign trade and the vibrant international investment in the first half of 2006 continued to boost the steady growth in the PRC aviation and transportation industry. As the dominant supplier of information technology services in the industry, the Company grasped the opportunities. In the first half of 2006, the Company's Electronic Travel Distribution (ETD) system processed approximately 81.6 million bookings on domestic and overseas commercial airlines, representing an increase of approximately 15.7% over the same period in 2005. Among them, bookings on domestic commercial airlines increased by approximately 15.7%, while those on foreign and regional commercial airlines increased by approximately 15.9%. With the joining of Korean Air and KLM Royal Dutch Airlines, the number of foreign and regional commercial airlines using the Company's Airport Passenger Processing (APP) system increased to 39, and the number of travelers processed reached approximately 1,103 thousand.

During the first half of 2006, in addition to enhancement of the functions and the products of its core businesses such as ETD and APP, the Company also made efforts in securing the domestic market and exploring overseas market to expand the market scale and share of its core businesses. Following the use on the Company's ETD and APP systems by private airlines such as Okay Airways and United Eagle Airlines, newly established private airlines such as Eaststar and Lucky Air have also decided to use the Company's systems. Further to the installation of new generation APP front system in Qingdao Airport at the beginning of the year, the installation of this system in Xiamen Airport and Beijing Capital Airport is in progress. With the application of APP system for Air China Limited Company in Frankfurt Airport and Munich Airport and for Air Macau in Taipei Airport, there were 11 foreign and regional airports using the Company's APP system, which processed over 3,253 thousand passengers for Chinese commercial airlines.

In the first half of 2006, increasing emphasis on research and development and combining self development and joint development, the Company improved and upgraded the functions of products to satisfy the growing needs for customized core value services of industry participants such as commercial airlines, airports and travel agencies. In order to meet the needs of commercial airlines in streamlining business workflows, joining aviation alliances, starting-up of hub development and controlling operating costs, the Company's self-developed e-ticket itinerary has paved the way for the comprehensive marketing of e-ticket. The Interline Electronic Ticketing (IET) between Air China Limited Company and Cathay Pacific Airways has also realized. In addition, three major e-ticketing technology solutions, namely Billing and Settlement Plan (BSP) e-ticketing, Airline Direct-sale e-ticketing, and Airline Online e-ticketing, were fully adopted by China Eastern Airlines Limited Company. E-tickets sold amounted to approximately 21.2 million segments in the first half of 2006, representing approximately 27.0% of sales of domestic flight tickets. The technological preparation of system support provided by the Company for Air China Limited Company and Shanghai Airlines Limited Company in joining Star Alliance was accredited by Lufthansa information system. The Company also provided technological preparation for China Southern Airlines Limited Company in joining SkyTeam. The Company's self-developed Common Use Self Service (CUSS) facility which meets the international standards was applied in Beijing Capital Airport to support commercial airlines' hub operation and services. Multi-functional domestic fares auto display products such as electronic fare handbook, transfer fare and auto ticketing were extensively used by various commercial airlines. Product for centralized management of petroleum has played a vital role in cutting fuel cost for commercial airlines. Funnel flight products reduced the system expenses and simplified flight control, providing commercial airlines with a new mode of business cooperation. The airport data services system firstly utilized in Xi'an Airport has showed good effects. The Company developed a series of products catered for major customers based on the geographical and business characteristics of large-scale travel agencies. The Company continued to improve and enrich travel agencies' front-end products, intermediary and back-office MIS and strengthen functions such as graphic design, multi-language, auto-updating and self training etc so as to help travel agencies to operate their businesses more expediently and flexibly.

With the progress the Company achieved in travel products distribution business in the first half of 2006, the Company sold 65.0 thousand hotels' room-nights, representing an increase of 5.5 times over the same period in 2005. For the information technology integration services, the Company has completed projects such as the 101 Project of Beijing Municipal Public Security Bureau and electronic declaration for Beijing Entry-Exit Inspection and Quarantine, accelerating our business development on information safety of aviation in China.

In the first half of 2006, in addition to optimizing the system functions and improving customer service capabilities, the Group aimed at securing the operational stability of infrastructures and improving the safety safeguarding capability by implementation of technological reform projects such as OMSE capacity expansion, open platform and network centralized monitoring. Meanwhile, the Company sought to explore the system resources potential. System processing capability was enhanced by implementation of SAVE technology, and communication expenses were also reduced with the wide application of MATIP technology. The utilization rates of Inventory Control System (ICS), Computer Reservation System (CRS) and APP mainframe systems of the Company were approximately 99.9%, 99.9% and 99.9% respectively.

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

Summary

For the first half of 2006, the Group achieved a profit before tax of RMB310.1 million, representing an increase of 8.7%, compared to the first half of 2005. Earnings before interest and tax, depreciation and amortization (EBITDA) amounted to RMB397.2 million, representing an increase of 17.0%, compared to the first half of 2005. Net profit attributable to shareholders of the Company was RMB253.9 million, representing a decrease of 0.3%, compared to the first half of 2005. The decrease in profit of the Group was mainly attributable to the increase of the operating expenses and the enterprise income tax of the Company, net off by the increase of the revenue.

The turnover and results of the Group were mainly derived from its operations in the PRC. The earnings per share of the Group was RMB0.29 for the first half of 2006.

Total revenue

The total revenue of the Group in the first half of 2006 amounted to RMB811.8 million, representing an increase of RMB139.1 million, or 20.7%, from that of RMB672.7 million in the first half of 2005. Such increase was mainly attributable to the growth in bookings handled by the Group's system. The increase in total revenue is reflected as follows:

- Aviation information technology ("AIT") service revenue represented 83.0% of the Group's total revenue in the first half of 2006, as compared to 81.2% in the first half of 2005. AIT service revenue increased by 23.4% to RMB673.8 million in the first half of 2006 from RMB546.0 million in the first half of 2005. The increase of revenue resulted primarily from the growth in the number of air travelers.
- Data network revenue and other revenue accounted for 17.0% of the Group's total revenue in the first half of 2006, as compared to 18.8% for the first half of 2005. Data network revenue and other revenue increased by 8.9% to RMB138.0 million in the first half of 2006 from RMB126.7 million for the first half of 2005. The increase was mainly attributable to a rise of other incomes such as hotel distribution.

Net revenue

Net revenue increased by 20.7% to RMB784.3 million in the first half of 2006 from RMB649.6 million in the first half of 2005.

Operating expenses

Total operating expenses increased by RMB110.6 million, or 28.0% to RMB505.7 million in the first half of 2006 from RMB395.2 million in the first half of 2005. The increase in operating expenses is reflected as follows:

- Depreciation and amortization expenses increased by 43.7%, mainly because the Company had purchased additional large-scale mainframe in the second half of 2005;
- Personnel expenses increased by 18.4%, primarily due to an increase in the number of employees in order to support the development of the Group's businesses;
- Technical support and maintenance costs increased by 72.4% after the Company step up the research and development of new products and new technology;

- Commission and marketing expenses increased by 46.6%, mainly due to successful implementation of marketing plans and increased related business; and
- Other operating expenses increased by 9.3%, mainly due to the increase of business development related cost of the Group.

Operating profit

As a result of the above changes in net revenue and operating expenses, the operating profit of the Group increased by RMB24.2 million, or 9.5%, to RMB278.6 million in the first half of 2006 from RMB254.4 million in the first half of 2005.

Enterprise income tax

The enterprise income tax of the Company in the first half of 2006 amounted to RMB48.2 million, representing an increase of RMB25.4 million or a rise of 111.7%, as compared with RMB22.8 million of the first half of 2005. The increase was because the Company paid the enterprise income tax at a rate of 15% in the first half of 2006 while the preferential enterprise income tax rate in 2005 for the Company was 7.5%.

Net profit attributable to shareholders of the Company

As a result of the above factors, the Group's net profit attributable to the shareholders of the Company decreased by RMB0.8 million, or 0.3%, to RMB253.9 million in the first half of 2006 from RMB254.7 million in the first half of 2005.

Liquidity and capital structure

The Group's working capital for the first half of 2006 mainly came from operating activities. Net cash inflow for operating activities amounted to RMB345.6 million.

During the first half of 2006, the Group had no short-term or long-term bank loan. Nor did it use any financial instruments for hedging purposes.

As at June 30, 2006, cash and cash equivalents of the Group amounted to RMB1,193.3 million, of which 89.6%, 8.4% and 1.9% were denominated in Renminbi, US dollars and Hong Kong dollars respectively.

Long-term investment

As at June 30, 2006, the Group held RMB100 million of China treasury bonds with an interest rate of 3% per annum. The maturity date of the treasury bonds is December 18, 2008.

Charge on assets

As at June 30, 2006, the Group had no charges on its assets.

Capital expenditure

The capital expenditure of the Group totalled RMB64.5 million in the first half of 2006, representing a decrease of RMB2.6 million, as compared to that of RMB67.1 million in the first half of 2005.

The capital expenditure of the Group in the first half of 2006 consisted principally of the purchase of hardware, software and equipment to implement the Group's business strategy.

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

The sources of funding for the capital expenditure commitments will include the internal cash flow generated from operating activities of the Company.

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

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 expected to be denominated in US dollars. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

Gearing ratio

As at June 30, 2006, the gearing ratio of the Group was 13.7% (December 31, 2005: 11.2%), which was computed by dividing the total amount of liabilities by the total assets of the Group as at June 30, 2006.

Contingent liabilities

As at June 30, 2006, the Group had no material contingent liabilities.

Employees

As at June 30, 2006, the total number of employees of the Group was 2,240. Personnel expenses amounted to RMB93.8 million for the first half of 2006, representing 18.5% of the total operating expenses of the Group for the first half of 2006. The remuneration of the Group's employees (including Executive Directors and Staff Representative Supervisors) includes salaries, bonuses and other welfare 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 laws and regulations in the PRC.

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 the Independent Non-executive Directors during their service period will be borne by the Company.

In the first half of 2006, the Group continued to provide its employees with learning opportunities to acquire skills in relation to the aviation and travel industry, computer technologies and business management and provide training on the latest development in areas such as computer technologies, laws and economics.

LOOKING AHEAD FOR THE SECOND HALF OF 2006

In the second half of 2006, it is anticipated that China's aviation and travel industry will be booming driven by the rapid development of the economy, paving a solid market base for fast growing of the Group. However, high fuel price, growing demand from high-end customers, extensive application of e-ticket, open platform and internet technology, deregulation and competition-encouraging industrial policies are challenges as well as opportunities to the Group. Therefore, abided by its vision of "develop itself through competitions in an open environment", the Group will improve the functions and products of existing system and advance the formation of strategic alliances with leading international companies to jointly develop new generation customer service system; improve the market services, product services and technological support ability to secure the leading position of its core businesses by combining customers' demand with the industry development; proactively develop new businesses such as travel products distribution, e-commerce and data services; further reinforce business information safety and the safeguarding capability of the system by enhancing system technological innovation, perfecting various security workflows and implementing strict emergency management in the light of promoting safety by development; and accelerate the establishment of internal control systems to enhance corporate governance and strategy implementation capability.

INTERIM DIVIDEND

The Board recommends not to pay an interim dividend for the first half of 2006.

SUBSTANTIAL SHAREHOLDERS

As at June 30, 2006, pursuant to the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "Ordinance"), the following substantial shareholders held an interest of 5% or more in their respective class of share capital of the Company:

| Name of shareholder | Capacity | Class and no. of Securities <i>(Note 1)</i> | Percentage of respective class of share capital | Percentage of total share capital |
|---|------------------------|--|--|---|
| Templeton Asset Management Ltd. | Investment Manager | 36,143,000 H shares of RMB 1 each (L) | 11.63% | 4.07% |
| Matthews International Capital Management, LLC | Investment Manager | 28,239,000 H shares of RMB 1 each (L) | 9.08% | 3.18% |
| OppenheimerFunds, Inc | Investment Manager | 24,888,000 H shares of RMB 1 each (L) | 8.01% | 2.80% |
| Platinum Asset Management Limited | Investment Manager | 7,202,000 H shares of RMB 1 each (L) | 2.32% | 0.81% |
| | Trustee | 11,635,000 H shares of RMB 1 each (L) | 3.74% | 1.28% |
| JPMorgan Chase & Co. | Investment Manager | 16,829,000 H shares of RMB 1 each (L) | 5.41% | 1.89% |
| | Custodian | 1,893,000 H shares of RMB 1 each (L) | 0.61% | 0.21% |
| | <i>(Note 2)</i> | 1,893,000 H shares of RMB 1 each (lending pool) | 0.61% | 0.21% |
| Shanghai Industrial Investment (Holdings) Company Limited | Controlled Corporation | 49,849,000 H shares of RMB 1 each (L) <i>(Note 3)</i> | 16.04% | 5.61% |
| J.P.Morgan Fleming Asset Management (Asia) Inc. | Investment Manager | 22,199,000 H shares of RMB 1 each (L) | 7.14% | 2.50% |

TravelSky Technology Limited

| | | | | |
|---|--------------------|---|--------|--------|
| J.P.Morgan Fleming Asset Management Holdings Inc. | Investment Manager | 22,199,000 H shares of RMB 1 each (L) | 7.14% | 2.50% |
| JF Asset Management Limited | Investment Manager | 22,199,000 H shares of RMB 1 each (L) | 7.14% | 2.50% |
| China TravelSky Holding Company | Beneficial owner | 198,496,500 Domestic shares of RMB 1 each (L) | 34.38% | 22.35% |
| China Southern Air Holding Company | Beneficial owner | 116,460,500 Domestic shares of RMB 1 each (L) | 20.17% | 13.11% |
| China Eastern Air Holding Company | Beneficial owner | 109,414,500 Domestic shares of RMB 1 each (L) | 18.95% | 12.32% |
| China National Aviation Holding Company | Beneficial owner | 89,433,500 Domestic shares of RMB 1 each (L) | 15.49% | 10.07% |

Notes:

1. The letter "L" represents long position in the securities.
2. The capacity in which the securities are held was not stated in the corporate substantial shareholders notice of JPMorgan Chase & Co..
3. According to the corporate substantial shareholders notice of Shanghai Industrial Investment (Holdings) Company Limited, 1,937,000 H shares in which Shanghai Industrial Investment (Holdings) Company Limited is interested are derivative interests.

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

As at June 30, 2006, none of the Directors, Supervisors or chief executives had any interest or short position in any shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Ordinance) that is required to be recorded in the register maintained in accordance with Section 352 of the Ordinance, or any interest required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. None of the Directors, Supervisors or chief executives of the Company or their respective associates had been granted or had exercised any rights to subscribe the securities of the Company or any of its associated corporation (as defined in Part XV of the Ordinance) for the six months ended June 30, 2006.

TRUST DEPOSITS AND OVERDUE TIME DEPOSITS

As at June 30, 2006, the Group did not have any trust deposits or irrecoverable overdue time deposits. Cash held by the Group is deposited with commercial banks and in accordance with the relevant laws and regulations.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

In the first half of 2006, the Group did not purchase, sell or redeem any of the listed securities of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company has discussed and reviewed with the Company's management the unaudited interim results of the Group for the six months ended June 30, 2006, and has also discussed among themselves matters including internal control and financial reporting.

CORPORATE GOVERNANCE

The Company is committed to establishing and maintaining high level of corporate governance. The Company has adopted the code provisions set out in Appendix 14 "Code on Corporate Governance Practices" (the "Code") to the Listing Rules as its code on corporate governance.

In the first half of 2006, the Company has fully complied with code provisions, with certain deviations from the code provisions D.1.1 and D.1.2 of the Code. The Company has set out respective duties of the Board and the General Manager in its Articles of Association (the "Articles"). However, it has not formulated specific guidelines in respect of other duties of the management and authority delegated to the management, which deviates from code provisions D.1.1 and D.1.2 of the Code. The Board is of the opinion that the Articles of the Company has set out respective duties of the Board and the General Manager, and currently the Company has no arrangement detrimental to its interests. Relevant details have been set out in the corporate governance report in 2005 Annual Report.

As the code provisions relating to internal control as set out in the Code on Corporate Governance Practices are applicable to the accounting periods commencing on or after July 1, 2005, the Company will abide by requirements of code provision C.2 of the Code. In the first half of 2006, the Company proactively carried out preparations for review on the internal control of the Company and its subsidiaries, and considered the appointment of an external professional organization as its consultant for subject investigation and research on internal control system of the Company.

For the six months ended June 30, 2006, the Company has adopted the Model Code. After making specific enquiries to the directors, the Company confirms that all directors have acted in full compliance with the requirements regarding directors' securities transactions set out in the provisions of the Model Code during the six months ended June 30, 2006.

By order of the Board
Zhu Yong
Chairman

August 30, 2006

BOARD OF DIRECTORS

| | |
|-----------------|--|
| Chairman | (appointed on August 26, 2004) |
| Zhu Yong | Executive Director (appointed on December 5, 2003) |

Directors

| | |
|----------------------|---|
| Zhu Xiaoxing | Executive Director (General Manager) (appointed on October 12, 2004) |
| Ding Weiping | Executive Director (Company Secretary) (appointed on December 5, 2003) |
| Song Jinxiang | Executive Director (appointed on December 5, 2003) |
| Wang Quanhua | Vice Chairman, Non-executive Director (appointed on December 5, 2003) |
| Cao Jianxiong | Vice Chairman, Non-executive Director (appointed on December 5, 2003) |
| Gong Guokui | Vice Chairman (appointed on August 24, 2005) Non-executive Director (appointed on August 23, 2005) |
| Rong Gang | Non-executive Director (appointed on December 5, 2003) |
| Yang Yatie | Non-executive Director (appointed on December 5, 2003) |
| Li Xiaoguang | Non-executive Director (appointed on December 5, 2003) |
| Si Yupei | Non-executive Director (appointed on December 5, 2003) |
| Song Jian | Non-executive Director (appointed on December 5, 2003) |
| Wu Jiawei | Independent non-executive Director (appointed on December 5, 2003) |
| Chow Kwok Wah, James | Independent non-executive Director (appointed on December 5, 2003) |
| Yick Wing Fat, Simon | Independent non-executive Director (appointed on August 23, 2005) |

AUDIT COMMITTEE

| | |
|----------------------|--|
| Wu Jiawei | Chief member (appointed on December 5, 2003) |
| Chow Kwok Wah, James | Member (appointed on December 5, 2003) |
| Yick Wing Fat, Simon | Member (appointed on August 24, 2005) |

STRATEGIC COMMITTEE

| | |
|---------------|--|
| Cao Jianxiong | Chief member (appointed on March 11, 2004) |
| Zhu Yong | Member (appointed on March 11, 2004) |
| Wang Quanhua | Member (appointed on March 11, 2004) |
| Gong Guokui | Member (appointed on August 24, 2005) |
| Rong Gang | Member (appointed on March 11, 2004) |
| Ding Weiping | Member (appointed on March 11, 2004) |

REMUNERATION AND EVALUATION COMMITTEE

| | |
|----------------------|--|
| Chow Kwok Wah, James | Chief member (appointed on March 11, 2004) |
| Wu Jiawei | Member (appointed on March 11, 2004) |
| Yick Wing Fat, Simon | Member (appointed on August 24, 2005) |
| Wang Quanhua | Member (appointed on March 11, 2004) |
| Yang Yatie | Member (appointed on March 11, 2004) |

SUPERVISORY COMMITTEE

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

SUPERVISORS

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

COMPANY SECRETARY

| | |
|--------------|--------------------|
| Ding Weiping | Executive Director |
|--------------|--------------------|

COMPANY'S WEBSITE

www.travelsky.net

AUDITORS

International Auditors:

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

PRC Auditors:

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

LEGAL ADVISERS TO THE COMPANY

as to Hong Kong law:

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

as to PRC law:

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

REGISTERED ADDRESS AND CONTACT DETAILS

TravelSky Technology Limited
18-20/F, South Wing, Park C
Raycom InfoTech Park
No. 2, Ke Xue Yuan South Road
Haidian District, Beijing 100080, PRC
Telephone: (8610) 8286 1610
Facsimile: (8610) 8286 1612

PLACE OF BUSINESS IN HONG KONG

Rooms 3005-3007, 30/F
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 696

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

DEPOSITARY OF SPONSORED LEVEL I AMERICAN DEPOSITARY RECEIPT PROGRAMME

The Bank of New York
Shareholder
P.O. Box 11258
Church Street Station
New York, NY10286-1258, U.S.A.

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