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, 2006, 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 and operated in the PRC except for TravelSky Technology (Hong Kong) Limited, TravelSky Technology (Singapore) Limited, TravelSky Technology (Korea) Limited and TravelSky Technology (Japan) Limited, which are limited liability companies incorporated and operated in Hong Kong, Singapore, Korea and Japan respectively.

Name	Date of incorporation	Percentage of equity interest held Direct	Percentage of equity interest held Indirect	Issued and fully paid capital RMB	Principal activities
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

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

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 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
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 A")	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

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

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)					
TravelSky Technology (Hong Kong) Limited ("Hong Kong Company")	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
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%	—	5,000,000	Computer hardware and software development and data network services

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

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

Name	Date of incorporation	Percentage of equity interest held		Issued and fully paid capital RMB	Principal activities
		Direct	Indirect		
Subsidiaries (continued)					
TravelSky Technology (Singapore) Limited ("Singapore Company")	October 21, 2005	100%	—	481,568	Computer hardware and system consulting services
TravelSky Technology (Korea) Limited ("Korea Company")	December 28, 2005	100%	—	403,677	Computer hardware and software development and data network services
TravelSky Technology (Japan) Limited ("Japan Company")	December 16, 2005	100%	—	670,121	Software development and computer equipment maintenance services

During the year, Xinjiang Cares had capitalized RMB2,000,000 of its retained earnings to share capital. As a result, its share capital has increased from RMB3,000,000 to RMB5,000,000.

During the year, the Company had set up three new wholly owned subsidiaries, namely Singapore Company, Korea Company and Japan Company, which are mainly engaged in provision of computer hardware and software development and data network services.

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	Percentage of equity interest held 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 B")	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 services

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

Name	Date of incorporation	Percentage of equity interest held Direct	Percentage of equity interest held Indirect	Issued and fully paid capital RMB	Principal activities
Associated Companies (continued)					
Shanghai Dongmei Aviation Tourism Online Co. Ltd. ("Shanghai Cares")	September 28, 2003	50%	—	24,800,000	E-commerce, Sales of computers and related parts and provision of network, technical services and economic consulting services
Dalian Travelsky Airport Technology Limited ("Dalian Cares")	January 28, 2005	50%	—	6,000,000	Computer hardware and software development and technical consulting services

During the year, Shanghai Cares had received additional capital contributions in cash from its existing shareholders amounting to RMB19,800,000. In addition, Shanghai Cares had capitalized RMB3,500,000 of its retained earnings to share capital. As a result, its share capital has increased from RMB1,500,000 to RMB24,800,000.

2. BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and 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 Group'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.

(a) Standards, amendments and interpretations effective in 2006 but are not relevant for the Group's operations or have no significant impact on the Group's account

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after January 1, 2006 but are not relevant to the Group's operations or have no significant impact on the Group's account:

- IAS 19 Amendment - Employee Benefits;
- IAS 21 Amendment - Net Investment in a Foreign Operation;
- IAS 39 Amendment - Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 Amendment - The Fair Value Option;
- IAS 39 and IFRS 4 Amendment - Financial Guarantee Contracts;
- IFRS 6 - Exploration for and Evaluation of Mineral Resources;
- IFRS 1 Amendment - First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRIC-Int 4, Determining whether an Arrangement contains a Lease;
- IFRIC-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC-Int 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

2. BASIS OF PRESENTATION *(continued)*

(b) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after May 1, 2006 or later periods but are not relevant for the Group's operations:

- IFRIC-Int 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
- IFRIC-Int 8, Scope of IFRS 2;
- IFRIC-Int 9, Reassessment of embedded derivatives;
- IFRIC-Int 10, Interim Financial Reporting and Impairment;
- IFRIC-Int 11-IFRS2, Group and Treasury share Transactions; and
- IFRIC-Int 12, Service Concession Arrangements.

(c) Standards that are not yet effective and have not been early adopted by the Group

The following standards have been published that are mandatory for the Group's accounting periods beginning on or after May 1, 2006 or later periods and have not been early adopted by the Group:

- IFRS 7 - Financial Instruments: Disclosures; and
- IFRS 8 - Operating segments.

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The Group will apply IFRS 7 from annual periods beginning January 1, 2007.

IFRS 8, Operating Segments (effective for annual periods beginning on or after January 1, 2009) supersedes IAS 14, Segment Reporting and requires the reporting of financial and descriptive information about an entity's reportable segments on the basis of internal reports that are regularly reviewed by its management. The Group will apply IFRS 8 from January 1, 2009.

The Group is currently assessing the impact of both IFRS 7 and IFRS 8 on the Group's account.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company and its subsidiaries are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Consolidation

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

(i) Subsidiaries

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.

The purchase method of accounting is used for acquisition of subsidiaries by the Group. 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 transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3(f)). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivables.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

(ii) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(iii) 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 recognized 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 equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associated companies are recognized in the consolidated income statement.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses (Note 3(f)). The results of associated companies are accounted for by the Company on the basis of dividends received and receivables.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Foreign currencies *(continued)*

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) 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 transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) 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 and the cost of the asset can be measured reliably, 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
Leasehold improvements	Over the lease term

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Intangible assets

Intangible assets mainly represent purchased computer 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.

(e) 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:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- Management intends to complete the intangible asset and use or sell it;
- There is an ability to use or sell the intangible asset;
- It can be demonstrated how the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- The expenditure attributable to the intangible asset during its development can be reliably measured.

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, 2006, no development costs were capitalized as they did not meet all the criteria listed above (2005: nil).

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Impairment of assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) 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 Group's management 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Investments *(continued)*

Investments other than trading are initially measured at the fair value of the consideration given for them, including transaction costs. Investments held for trading are recognized at fair value, and transaction costs are expensed in the income statement.

Available-for-sale 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 recognized in the income statement in the period in which they arise.

Held-to-maturity investments are carried at amortized cost using the effective interest rate method.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(h) Operating leases (as the lessee)

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 (net of any incentives received from the lessor) are charged to expense based on the straight-line method over the period of the leases.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) 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.

(j) Accounts receivable

Accounts receivable is recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the accounts receivable is impaired. 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the provision is recognized in the income statement. When an accounts receivable is uncollectible, it is written off against the allowance account for account receivables. Subsequent recoveries of amounts previously written off are credited against expense in the income statement.

(k) 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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(m) Taxation

(i) Deferred income taxation

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 consolidated financial statements. 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 realized or the deferred income tax liability is settled. 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.

(ii) Other tax

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

(n) Employee benefits

All Chinese employees of the Group participate in employee social security plans, including pension, medical, housing and other welfare benefits, organized and administered by the government authorities. Other than the welfare benefits provided by these social security plans as disclosed, the Group has no material commitments to employees.

According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labor and social welfare authorities. Contributions to the plans are expensed as incurred.

3. 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 not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using an estimated current market interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision reflecting the passage of time is recognized as interest expense.

(p) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, sales discounts and after eliminating sales within the Group.

The Group recognizes revenue 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;

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) Revenue recognition *(continued)*

- 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.

(q) Dividend distribution

Dividend distribution to the Company's equity holders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(r) Share Capital

Ordinary shares are classified as equity. Mandatory redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

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. The amount of sales discount is subject to negotiation with customers. In certain cases, in situation where final agreement has not been reached, management makes an estimate of the discounts with reference to the status of negotiation and taking into accounts 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 3(c) 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 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 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 other 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:

	2006	2005
	RMB'000	*RMB'000*
After charging:		
Depreciation	**218,097**	171,871
Amortization of intangible assets	**8,409**	9,129
Amortization of leasehold improvements	**2,672**	1,015
Loss on disposal of property, plant and equipment	**83**	1,240
Provision for impairment of receivables	**10,608**	5,003
Provision for impairment of inventory	**106**	—
Cost of equipment sold	**25,229**	15,569
Contributions to defined contribution pension scheme	**17,921**	12,666
Auditors' remuneration	**2,520**	2,145
Exchange loss	**15,218**	14,572
Contribution to housing fund	**12,591**	11,171
Research and development expenses	**234,050**	180,247
After crediting:		
Interest income	**(67,624)**	(53,013)

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, 2006 (tax inclusive):

	Year ended December 31, 2006					
Name of Director and Supervisor	Remuneration for Director	Bonus for Director	Salary of employee, Allowances and Benefits (employer's contribution inclusive)	Employees' Discretionary bonuses	Employer's contribution to pension scheme for employee	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Chairman of the Board						
Mr. Zhu Yong *	—	—	—	—	—	—
Executive directors						
Mr. Zhu Xiaoxing	—	—	190	307	19	516
Mr. Ding Weiping	—	—	105	391	19	515
Mr. Song Jinxiang	—	—	105	391	19	515
Non-Executive Directors						
Mr. Wang Quanhua *	—	—	—	—	—	—
Mr. Cao Jianxiong *	—	—	—	—	—	—
Mr. Gong Guokui (ii) *	—	—	—	—	—	—
Mr. Rong Gang *	—	—	—	—	—	—
Mr. Yang Yatie *	—	—	—	—	—	—
Mr. Li Xiaoguang *	—	—	—	—	—	—
Ms. Si Yupei *	—	—	—	—	—	—
Mr. Song Jian *	—	—	—	—	—	—
Independent Non-Executive directors						
Mr. Yick Wing Fat, Simon (iv)	90	—	—	—	—	90
Mr. Chow Kwok Wah, James	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)	—	—	99	343	19	461
Mr. Zhang Xin (Staff Representative Supervisor)	—	—	72	165	19	256
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, 2005 (tax inclusive):

	Year ended December 31, 2005					
Name of Director and Supervisor	Remuneration for Director	Bonus for Director	Salary of employee, Allowances and Benefits (employer's contribution inclusive)	Employees' Discretionary bonuses	Employer's contribution to pension scheme for employee	Total
	RMB'000	*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 *	—	—	—	—	—	—
Ms. 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

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, 2005 (tax inclusive):

	Year ended December 31, 2005					
Name of Director and Supervisor	Remuneration for Director	Bonus for Director	Salary of employee, Allowances and Benefits (employer's contribution inclusive)	Employees' Discretionary bonuses	Employer's contribution to pension scheme for employee	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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)	—	—	—	—	—	—

* 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

The five individuals whose emoluments were the highest in the Group for the year include three (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

	2006 **RMB'000**	2005 RMB'000
Basic salaries and allowances	**277**	210
Bonus	**666**	657
Retirement benefits	**38**	34
	981	901

The annual emoluments paid during the year ended December 31, 2006 to each of the directors (including the five highest paid employees) fell within the band from RMB nil to RMB1 million (2005: from RMB nil to RMB1 million).

During the year ended December 31, 2006, 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 (2005: 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, 2006 (2005: 20%). The contributions to the pension scheme made by the Group for the year ended December 31, 2006 amounted to approximately RMB17,921,000 (2005: RMB12,666,000). This amount was recorded in other operating expenses. 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 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, 2006 amounted to approximately RMB12,591,000 (2005: RMB11,171,000). This amount was recorded in other operating expenses.

The average number of employees in 2006 was 2,388 (2005: 2,089).

10. TAXATION

Income Tax

	2006	2005
	RMB'000	*RMB'000*
PRC enterprise income tax expenses	**98,484**	51,026
Overseas taxation	**(63)**	37
	98,421	51,063

Taxation of the Group except for HongKong Company, Singapore Company, Japan Company, and Korea Company 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.

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 was then subject to an EIT rate of 15% in 2006 onward.

The relevant authorities issued a notice dated January 9, 2007 recognising the Company as an "Important Software Enterprise" in 2006 under the National Planning Layout. According to the relevant regulations, the Company is entitled to a preferential tax rate of 10% in the year of recognition.

10. TAXATION *(continued)*

Income Tax *(continued)*

The Company has already paid EIT at the rate of 15% for the financial year ended December 31, 2006. According to the related regulation, the EIT paid by the Company for the financial year ended December 31, 2006 over the newly announced preferential tax rate of 10% will be refunded to the Company in the subsequent year. Its impact will be accounted for in 2007 financial statements accordingly.

The Company's subsidiaries are entitled to different preferential tax rates, ranging from 15% to 33%. These subsidiaries are located in special economic zones for which the applicable tax rate is 15% or designated as "New Technology Enterprise" for which the applicable tax rate is 15%. In addition, these subsidiaries are entitled to certain reductions in tax rates in their initial years of operations.

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:

	2006	2005
	RMB'000	*RMB'000*
Profit before taxation	**627,942**	594,757
Weighted average statutory tax rate	**33%**	33%
Tax calculated at domestic tax rates applicable to profits in the respective countries	**207,221**	196,270
Non-taxable income	**(450)**	(225)
Non-deductible expense	**5,444**	4,194
Effect of preferential tax rates	**(113,794)**	(149,176)
Tax charge	**98,421**	51,063

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.

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, 2006 and December 31, 2005 have been computed by dividing the profit attributable to the equity holders of the Company, of RMB515,587,000 and RMB529,647,000, by the weighted average number of 888,157,500 and 888,157,500 ordinary shares issued and outstanding for the years ended December 31, 2006 and December 31, 2005, respectively.

There were no potential dilutive ordinary shares outstanding during the years ended December 31, 2006 and 2005.

12. DIVIDENDS AND OTHER DISTRIBUTION

The shareholders in the annual general meeting on May 25, 2006 approved the final dividend in respect of 2005 of RMB0.23 per share amounting to a total of RMB204,276,225. The amount was accounted for in shareholders' equity as an appropriation of retained earnings in 2006.

The Board proposed a cash dividend of RMB0.22 per share for the year ended December 31, 2006, amounting to approximately RMB195,394,650. The proposed cash 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, 2007.

The Board further proposed a bonus issue of 888,157,500 new ordinary shares of RMB1 each to its shareholders on the basis of one new ordinary share to one ordinary share held, by conversion of reserves amounting to RMB888,157,500 into paid-in capital. This proposal is also subject to shareholders' approval and relevant regulatory approvals.

13. PROPERTY, PLANT AND EQUIPMENT, NET

At December 31, property, plant and equipment comprised:

The Group:

	Buildings *RMB'000*	Computer systems and software *RMB'000*	Motor vehicles *RMB'000*	Furniture, fixtures and other equipment *RMB'000*	Assets under construction *RMB'000*	Leasehold improvement *RMB'000*	Total *RMB'000*
Cost							
As at January 1, 2005	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
Purchases	2,710	119,662	5,077	9,245	3,464	14,044	154,202
Transfer upon completion	—	484	—	—	(484)	—	—
Disposals / write off	—	(6,114)	(1,664)	(610)	—	—	(8,388)
As at December 31,2006	61,206	1,638,637	37,655	38,485	3,161	14,044	1,793,188
Accumulated depreciation							
As at January 1, 2005	(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)
Charge for the year	(2,892)	(206,368)	(4,427)	(4,410)	—	(2,672)	(220,769)
Disposals / write off	—	5,711	1,525	543	—	—	7,779
As at December 31, 2006	(12,226)	(1,074,527)	(21,460)	(21,154)	—	(2,672)	(1,132,039)
Net book value							
As at December 31, 2005	49,162	650,735	15,684	12,563	181	—	728,325
As at December 31, 2006	48,980	564,110	16,195	17,331	3,161	11,372	661,149

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

The Company:

	Buildings	Computer systems and software	Motor vehicles	Furniture, fixtures and other equipment	Leasehold Improvement	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
As at January 1, 2005	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
Purchases	—	118,428	3,849	7,553	12,443	142,273
Disposals / write off	—	(5,711)	(923)	(453)	—	(7,087)
As at December 31, 2006	32,893	1,625,438	23,211	28,328	12,443	1,722,313
Accumulated depreciation						
As at January 1, 2005	(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)
Charge for the year	(1,595)	(205,345)	(2,502)	(2,857)	(2,045)	(214,344)
Disposals / write off	—	5,474	895	439	—	6,808
As at December 31, 2006	(5,311)	(1,064,429)	(12,651)	(14,973)	(2,045)	(1,099,409)
Net book value						
As at December 31, 2005	29,177	648,163	9,241	8,673	—	695,254
As at December 31, 2006	27,582	561,009	10,560	13,355	10,398	622,904

14. INTANGIBLE ASSETS, NET

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
As at January 1	**48,268**	41,084	**44,222**	37,038
Additions	**5,146**	7,184	**3,364**	7,184
As at December 31	**53,414**	48,268	**47,586**	44,222
Accumulated amortisation				
As at January 1	**(35,036)**	(25,907)	**(31,772)**	(23,468)
Amortisation for the year	**(8,409)**	(9,129)	**(7,906)**	(8,304)
As at December 31	**(43,445)**	(35,036)	**(39,678)**	(31,772)
Net book value				
As at December 31	**9,969**	13,232	**7,908**	12,450

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

15. INVESTMENTS IN SUBSIDIARIES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Investments, at cost:	**–**	—	**37,507**	35,951

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

16. INVESTMENTS IN ASSOCIATED COMPANIES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**53,854**	42,424	**11,890**	8,890
Share of profit	**11,727**	11,312	**—**	—
Dividend received from associated companies	**(7,138)**	(2,882)	**—**	—
Additional capital contribution	**9,900**	3,000	**9,900**	3,000
End of the year	**68,343**	53,854	**21,790**	11,890

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	**2006**	2005
		RMB'000	*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**	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Equipment for sale	**4,359**	2,792	**2,632**	352
Spare parts	**83**	8	**—**	—
Other	**162**	590	**—**	—
Total	**4,604**	3,390	**2,632**	352
Provision for impairment of inventories	**(106)**	—	**—**	—
Total	**4,498**	3,390	**2,632**	352

No inventories have been pledged as security for borrowings with the Group and the Company.

20. ACCOUNTS RECEIVABLE, NET

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts receivable	**87,960**	63,271	**60,997**	33,313
Provision for impairment of receivables	**(3,078)**	(1,755)	**(2,872)**	(1,557)
Accounts receivable, net	**84,882**	61,516	**58,125**	31,756

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, 2006 because of the short-term maturities of these receivables.

As December 31, 2006 and 2005, the ageing analysis of the accounts receivable was as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**73,294**	42,694	**56,190**	30,308
Over 6 months but within 1 year	**4,859**	5,033	**2,196**	1,546
Over 1 year but within 2 years	**2,083**	14,280	**1,224**	334
Over 2 years but within 3 years	**6,598**	142	**265**	3
Over 3 years	**1,126**	1,122	**1,122**	1,122
Accounts receivable	**87,960**	63,271	**60,997**	33,313
Provision for impairment of receivables	**(3,078)**	(1,755)	**(2,872)**	(1,557)
Accounts receivable, net	**84,882**	61,516	**58,125**	31,756

20. ACCOUNTS RECEIVABLE, NET *(continued)*

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balance at beginning of year	**1,755**	2,137	**1,557**	1,557
Provision(write back)	**1,323**	(382)	**1,315**	—
Balance at end of year	**3,078**	1,755	**2,872**	1,557

The carrying amounts of the accounts receivable are denominated in the following currencies:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**27,587**	19,837	**16,722**	1,016
HKD denominated	**4,112**	4,597	**2,077**	4,038
USD denominated	**56,213**	38,837	**42,198**	28,259
Others	**48**	—	**—**	—
	87,960	63,271	**60,997**	33,133

21. DUE FROM RELATED PARTIES, NET

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**289,133**	267,399	**279,376**	261,559
Over 6 months but within 1 year	**10,889**	3,932	**10,855**	3,727
Over 1 year but within 2 years	**7,685**	5,152	**7,157**	5,148
Over 2 years but within 3 years	**5,148**	1,005	**5,148**	992
Over 3 years	**1,880**	888	**1,880**	888
Due from related parties	**314,735**	278,376	**304,416**	272,314
Provision for impairment of receivables	**(14,665)**	(5,385)	**(14,665)**	(5,385)
Due from related parties, net	**300,070**	272,991	**289,751**	266,929

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 RMB9,280,000 (2005: RMB5,385,000) for the estimated losses resulting from the inability of its related parties to make the required payments.

22. DUE FROM SUBSIDIARIES, NET

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**—**	—	**8,540**	7,344
Over 6 months but within 1 year	**—**	—	**2,287**	3,404
Over 1 year but within 2 years	**—**	—	**3,783**	10,621
Over 2 years but within 3 years	**—**	—	**4,813**	10,662
Over 3 years	**—**	—	**10,615**	4,751
Total	**—**	—	**30,038**	36,782
Provision for impairment of receivables	**—**	—	**(7,811)**	(7,811)
Due from subsidiaries, net	**—**	—	**22,227**	28,971

These balances are trade related; interest free and unsecured.

23. DUE FROM ASSOCIATED COMPANIES

These balances are trade related; interest free, unsecured and generally repayable within one year.

24. PREPAYMENTS AND OTHER CURRENT ASSETS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Advance payments	**13,578**	8,550	**5,050**	6,994
Interest receivable	**28,894**	25,840	**28,894**	25,840
Prepaid expenses	**13,045**	8,986	**12,775**	8,761
Other current assets	**6,547**	4,696	**1,069**	291
Total	**62,064**	48,072	**47,788**	41,886

25. SHORT-TERM BANK DEPOSITS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**1,601,100**	1,489,362	**1,530,000**	1,432,362
HKD denominated	**221,034**	336,851	**221,034**	333,210
USD denominated	**62,470**	121,064	**62,470**	121,064
	1,884,604	1,947,277	**1,813,504**	1,886,636

The annual interest rate on short-term bank deposits ranges from 1.71% to 4.89% (2005: 1.88% to 3.70%) and these deposits have a maturity period ranging from 6 to 36 months (2005: 6 to 36 months).

26. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash				
RMB	**300**	156	**110**	2
HKD denominated	**30**	31	**—**	—
USD denominated	**1**	7	**—**	—
Others	**8**	31	**—**	—
	339	225	**110**	2
Demand deposits				
RMB	**1,064,720**	760,228	**1,022,124**	709,142
USD denominated	**109,976**	77,858	**79,295**	38,230
HKD denominated	**55,921**	18,062	**45,488**	9,272
Others	**2,210**	438	**—**	—
	1,232,827	856,586	**1,146,907**	756,644
Total cash and cash equivalents	**1,233,166**	856,811	**1,147,017**	756,646

27. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts payable	**110,142**	116,612	**96,457**	100,538
Accrued departure technology support fee	**55,476**	52,144	**62,494**	54,783
Accrued bonus to employees	**44,279**	46,174	**42,729**	46,174
Accrued technical support fee	**27,548**	19,725	**25,742**	18,714
Accrued network usage fees	**45,565**	28,412	**45,565**	28,412
Other accruals	**51,908**	63,394	**47,774**	52,835
	334,918	326,461	**320,761**	301,456

As December 31, 2006, approximately RMB123,664,000 of the above balances were denominated in US dollars (2005: RMB111,419,000).

The ageing analysis of accounts payable was as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**25,238**	60,549	**16,059**	54,219
Over 6 months but within 1 year	**8,773**	12,938	**6,758**	5,360
Over 1 year but within 2 years	**55,809**	2,978	**53,531**	839
Over 2 years but within 3 years	**754**	12,121	**541**	12,094
Over 3 years	**19,568**	28,026	**19,568**	28,026
Total accounts payable	**110,142**	116,612	**96,457**	100,538
Accrued liabilities	**224,776**	209,849	**224,304**	200,918
Total	**334,918**	326,461	**320,761**	301,456

28. DUE TO RELATED PARTIES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 6 months	**1,153**	—	**152**	—
Over 6 months but within 1 year	**50,945**	71,842	**50,850**	71,842
Over 1 year but within 2 years	**11,366**	3,277	**10,794**	2,788
Over 2 years but within 3 years	**3,116**	5,247	**2,787**	5,247
Over 3 years	**18,862**	13,615	**9,524**	4,277
Total	**85,442**	93,981	**74,107**	84,154

These balances comprised mainly dividend payables.

29. TAXES PAYABLE

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Enterprise income tax payable	**7,605**	17,159	**4,655**	13,876
Business tax payable	**17,640**	14,409	**16,977**	13,587
VAT payable	**167**	367	**(126)**	110
Other	**6,475**	3,763	**6,141**	3,234
Total	**31,887**	35,698	**27,647**	30,807

30. PAID-IN CAPITAL

The paid-In capital as at December 31, 2006 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.

	2006 Number of shares *'000*	**2006 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

The Group

	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*
Balance as at January 1, 2005	1,194,956	165,866	155,335	203,383	—	1,719,540
Transfer from retained earnings	—	52,138	51,995	88,231	—	192,364
Currency translation differences	—	—	—	—	(450)	(450)
Balance as at December 31, 2005,	1,194,956	218,004	207,330	291,614	(450)	1,911,454
Transfer from Statutory Public Welfare Fund	—	207,330	(207,330)	—	—	—
Transfer from retained earnings	—	52,248	—	103,111	—	155,359
Currency translation differences	—	—	—	—	(701)	(701)
Balance as at December 31, 2006	1,194,956	477,582	—	394,725	(1,151)	2,066,112

31. RESERVES *(continued)*

The Company

	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*
Balance as at January 1, 2005	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
Transfer from Statutory Public Welfare Fund	—	205,554	(205,554)	—	—	—
Transfer from retained earnings	—	51,478	—	102,779	—	154,257
Balance as at December 31, 2006	1,194,956	472,960	—	394,307	—	2,062,223

32. APPROPRIATIONS AND DISTRIBUTION OF PROFIT

In accordance with the Company Law of PRC, which was revised on October 27, 2005 and became effective on January 1, 2006, and the Articles of Association of the Company, the Company would not make any appropriations to the statutory public welfare fund commencing from 2006. According to the Circular on corporate accounting treatment following the implementation of Company Law issued by the Ministry of Finance on March 15, 2006, the balance of the statutory public welfare fund as at December 31, 2005 was transferred into the statutory surplus reserve fund.

In Year 2006, according to the Company Law of PRC, related regulations, and the Articles of Association of the Company, the distributable net profit after taxation and minority interest is distributed in order as follows:

(i) making up cumulative prior years' losses, if any;

(ii) appropriation to the statutory surplus reserve fund;

(iii) appropriation to the discretionary surplus reserve fund; and

(iv) appropriation to the distribution of dividends for ordinary shares.

For the year ended December 31, 2006, the Board proposed appropriations of RMB51,478,000 and RMB99,006,000 to the statutory surplus reserve fund and discretionary surplus reserve fund, respectively. For the year ended December 31, 2005, the Board of Directors proposed appropriations of RMB51,390,000, RMB51,390,000 and RMB102,779,000 to the statutory surplus reserve fund, the statutory public welfare fund and discretionary surplus reserve fund, respectively.

The annual general meeting on May 25, 2006 approved the appropriation of RMB102,779,000 to the discretionary surplus reserve fund under profit distribution. The amount was accounted for in shareholder's equity as a distribution of retained earnings in Year 2006.

The proposed appropriation of RMB99,006,000 to the discretionary surplus reserve fund for the year ended December 31, 2006 is subject to shareholders' approval at the next general meeting. Therefore, the amount will be recorded in the Group's financial statements for year ending December 31, 2007.

After the appropriations mentioned above, the retained earnings available for distribution as at December 31, 2006 was approximately RMB787,939,000 (2005: RMB627,922,000).

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB495,029,000 for the year ended December 31, 2006 (2005: RMB513,896,000).

33. CASH GENERATED FROM OPERATING ACTIVITIES

	2006 **RMB'000**	2005 RMB'000
Profit before taxation	**627,942**	594,757
Adjustments for:		
Depreciation and amortization	**229,178**	182,015
Loss on disposal of property, plant and equipment	**83**	1,240
Interest income	**(67,624)**	(53,013)
Provision for impairment of receivables	**10,608**	5,003
Provision for impairment of inventories	**106**	—
Share of results from associated companies	**(11,727)**	(11,312)
Exchange loss and the change of currency translation differences	**14,517**	—
Operating profit before working capital changes	**803,083**	718,690
Decrease (increase) in current assets:		
Accounts receivable	**(24,689)**	(22,964)
Inventories	**(1,214)**	708
Prepayments and other current assets	**(4,391)**	26,837
Due from related parties/associated companies	**(36,237)**	(165,960)
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	**14,410**	(102,459)
Deferred revenue	**473**	(1,170)
Due to related parties	**1,733**	(1,643)
Taxes payable	**5,743**	1,195
Cash generated from operations	**758,911**	453,234

34. FINANCIAL INSTRUMENTS

Financial risk management

The Group is exposed to financial risks arising from the Group's credit, changes in interest and foreign exchange rates.

The Group continues to monitor and manage these risks and will take appropriate actions should there be any changes to the Group's risk profile.

- **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, 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 RMB3,665 million as at December 31, 2006 (2005: RMB3,291 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's foreign exchange risk arises from commercial transactions, and recognised assets and liabilities. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

- **Cash flow and fair value interest rate risk**

  As the Group has RMB3,218 million in interest-bearing assets as at December 31, 2006 (2005: RMB2,904 million), which are mainly bank deposits and treasury bond, the Group's income and operating cash flows are affected by the changes in market interest rates.

34. FINANCIAL INSTRUMENTS *(continued)*

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, 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, 2006 because of the short-term maturities of these instruments.

The treasury bonds that are held to maturity are carried at amortized cost. At December 31, 2006, the market value of the treasury bonds was approximately RMB100,430,000 (2005: RMB101,720,000).

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, 2006 and 2005. The Group also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

36. COMMITMENTS

(a) Capital commitments

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

	2006 ***RMB'000***	2005 *RMB'000*
Authorised and contracted for		
— Computer System	**7,923**	22,844
Authorised but not contracted for		
— Computer System	**494,680**	370,000
Total	**502,603**	392,844

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

At December 31, 2006, none of the above balance were dominated in US dollars (2005: RMB2.3 million).

36. COMMITMENTS *(continued)*

(b) Operating lease commitments

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

	2006	2005
	RMB'000	*RMB'000*
Within one year	**17,521**	52,621
Later than one year but not later than five years	**46,530**	43,597
Total	**64,051**	96,218

(c) Equipment maintenance fee commitments

As at December 31, 2006, the Group had no equipment maintenance fee commitments (2005: RMB5.1 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.

37. RELATED PARTY TRANSACTIONS *(continued)*

(1) Related parties

The major related parties 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
China National Aviation Holding Company	Shareholder of the Company
Air China Limited	Subsidiary of a shareholder of the Company
Xiamen Airlines Company Limited	Shareholder of the Company
China Eastern Air 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
Technology Development Center of Beijing ("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	2006 RMB'000	2005 RMB'000
China Southern Airlines Company Limited (a)	**300,552**	266,019
China Eastern Airlines Company Limited (b)	**246,545**	218,671
Air China Limited	**226,965**	202,532
Hainan Airlines Company Limited	**123,533**	119,118
Shanghai Airlines Company Limited	**79,347**	81,908
Shenzhen Airlines Company Limited	**78,464**	79,084

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

(b) Included the transaction amount of its subsidiary, China Eastern Air 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, 2006, operating lease rentals for lease of properties from CTHC amounted to RMB38,608,608 (2005: RMB38,608,608). The pricing of operating lease rentals for buildings is based on agreed rates with CTHC with reference to market rates.

37. RELATED PARTY TRANSACTIONS *(continued)*

(2) Related party transactions *(continued)*

(iii) Computer software development services from Asia Technology

For the year ended December 31, 2006, computer software development support services from Asia Technology amounted to RMB18,800,000 (2005: RMB15,900,000). Asia Technology is an indirect wholly owned subsidiary of CTHC. The pricing of computer software development service fee is based on contractual arrangement with Asia Technology which is arrived at after arm's length negotiation and with reference to the prevailing market price.

(3) Balances with related parties

Balances with related parties mainly comprised:

Name	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
China Southern Airlines Company Limited (a)	**18,215**	69,969	**16,516**	67,848
China Eastern Airlines Company Limited (b)	**93,685**	58,757	**92,932**	58,393
Air China Limited	**77,188**	61,710	**77,180**	61,710
Hainan Airlines Company Limited	**39,847**	42,280	**39,796**	42,238
Shenzhen Airlines Company Limited	**45,204**	11,107	**45,126**	11,064

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

(b) Included the transaction balance of its subsidiary, China Eastern Air 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:

	The Group		The Company	
Name	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank balances	**2,064,720**	1,181,532	**1,912,320**	1,027,185

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 the ultimate holding company.

39. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current year presentation.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on March 28, 2007.