



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)



Interim Report 2007

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, 2007, prepared in accordance with International Accounting Standard 34 “Interim financial reporting”.

CONDENSED CONSOLIDATED BALANCE SHEET

(Amounts expressed in thousands of Renminbi)

	Note	As at	
		June 30, 2007 <i>Unaudited</i>	December 31, 2006 <i>Audited</i>
ASSETS			
Non-current assets			
Property, plant and equipment, net	9	635,371	661,149
Intangible assets, net		10,115	9,969
Investments in associated companies		77,429	68,343
Deferred income tax assets		9,109	—
Other long-term investment		100,000	100,000
Other long-term assets		16,968	17,000
		848,992	856,461
Current assets			
Inventories		6,124	4,498
Accounts receivable, net	10	92,949	84,882
Due from associated companies		4,509	273
Due from related parties, net	11	328,411	300,070
Prepayments and other current assets		110,679	62,064
Short-term bank deposits		1,729,704	1,884,604
Cash and cash equivalents		1,608,946	1,233,166
		3,881,322	3,569,557
Total assets		4,730,314	4,426,018

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	Note	As at	
		June 30, 2007 <i>Unaudited</i>	December 31, 2006 <i>Audited</i>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Paid in capital	8	1,776,315	888,158
Reserves	7,8	1,276,196	2,066,112
Retained earnings			
— Proposed final cash dividend	8	—	195,395
— Others		955,658	749,137
		4,008,169	3,898,802
Minority interest		78,989	72,523
Total equity		4,087,158	3,971,325
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		108	—
Current liabilities			
Accounts payable and accrued liabilities	12	392,226	334,918
Due to related parties		212,154	85,442
Taxes payable		34,074	31,887
Deferred revenue		4,594	2,446
		643,048	454,693
Total liabilities		643,156	454,693
Total equity and liabilities		4,730,314	4,426,018
Net current assets		3,238,274	3,114,864
Total assets less current liabilities		4,087,266	3,971,325

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	Note	Unaudited Six months ended June 30 2007	2006
Revenues			
Aviation information technology services		731,881	673,783
Data network and others		176,585	137,999
Total revenues	3	908,466	811,782
Business taxes and other surcharges		(30,597)	(27,457)
Net revenues		877,869	784,325
Operating expenses			
Depreciation and amortisation		(109,821)	(115,461)
Network usage		(41,462)	(34,854)
Personnel		(132,403)	(115,167)
Operating lease rentals		(31,732)	(31,464)
Technical support and maintenance fees		(64,232)	(48,590)
Commission and promotion expenses		(121,679)	(89,382)
Other operating expenses		(80,944)	(70,831)
Total operating expenses		(582,273)	(505,749)
Operating profit		295,596	278,576
Financial income, net		24,544	24,950
Share of results of associated companies		8,046	6,307
Other (expense)/income, net		(3,665)	299
Profit before taxation	4	324,521	310,132
Taxation	5	(9,882)	(48,218)
Profit after taxation		314,639	261,914
Attributable to			
Equity holders of the Company		305,527	253,866
Minority interest		9,112	8,048
		314,639	261,914
Earnings per share for profit attributable to the equity holders of the Company			
Basic and diluted (RMB)	6	0.17	0.14

The accompanying notes are an integral part of these condensed consolidated financial statements.

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, 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>

	Unaudited				Total
	Attributable to equity holders of the Company			Minority Interest	
	Paid in capital	Reserves	Retained earnings		
Balance at January 1, 2007	888,158	2,066,112	944,532	72,523	3,971,325
Profit for the period	—	—	305,527	9,112	314,639
Dividend relating to 2006	—	—	(195,395)	—	(195,395)
Dividends paid to minority shareholders of subsidiaries	—	—	—	(2,646)	(2,646)
Currency translation differences	—	(765)	—	—	(765)
Bonus Issue	888,157	(888,157)	—	—	—
Appropriation to reserves	—	99,006	(99,006)	—	—
Balance at June 30, 2007	<u>1,776,315</u>	<u>1,276,196</u>	<u>955,658</u>	<u>78,989</u>	<u>4,087,158</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

		Unaudited	
		Six months ended June 30	
	Note	2007	2006
Cash flows from operating activities			
Cash generated from operations	13	444,141	400,056
Enterprise income tax refund		30,180	—
Enterprise income tax paid		<u>(44,957)</u>	<u>(54,422)</u>
Net cash provided by operating activities		<u>429,364</u>	<u>345,634</u>
Cash flows from investing activities			
Purchases of property, plant, equipment and intangible assets		(159,158)	(70,106)
Decrease in short-term bank deposits		154,900	165,398
Interest received		31,551	36,488
Dividends received from associated companies		460	—
Proceeds from disposal of property, plant and equipment		492	96
Investment in associated companies		<u>(1,500)</u>	<u>(5,000)</u>
Net cash provided by investing activities		<u>26,745</u>	<u>126,876</u>
Cash flows from financing activities			
Dividends paid		(71,107)	(132,513)
Net cash used in financing activities		<u>(71,107)</u>	<u>(132,513)</u>
Effect of foreign exchange rate changes on cash and cash equivalents			
		(9,222)	(3,475)
Net Increase in cash and cash equivalents		375,780	336,522
Cash and cash equivalents at beginning of the period		<u>1,233,166</u>	<u>856,811</u>
Cash and cash equivalents at end of the period		<u>1,608,946</u>	<u>1,193,333</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL INFORMATION

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 (the "Stock Exchange") 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.

2. 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 Accounting Standard 34 "Interim financial reporting", and have been reviewed by the Audit Committee of the Company. The accounting policies adopted for the purpose of preparing this condensed consolidated financial statements are consistent with those followed in the Group's annual financial statements for the year ended December 31, 2006.

3. 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.

4. PROFIT BEFORE TAXATION

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

	Unaudited	
	Six months ended June 30	
	2007	2006
	RMB'000	RMB'000
After charging:		
Depreciation	103,428	109,653
Amortisation of intangible assets	4,067	4,616
Amortisation of leasehold improvements	2,326	1,192
Loss on disposal of property, plant and equipment	3,797	57
Operating lease rentals	31,732	31,464
Cost of equipment sold	18,238	4,970
Contributions to defined contribution pension scheme	9,702	7,620
Auditors' remuneration	912	1,125
Exchange loss	9,222	3,475
Contribution to housing fund	5,118	7,148
Research and development expenses	118,615	93,883
After crediting:		
Interest income	<u>(33,766)</u>	<u>(28,426)</u>

5. TAXATION

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 pay an enterprise income tax ("EIT") at a rate of 15% commencing from January 1, 2006.

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.

The Company had already paid EIT at a rate of 15% for the financial year ended December 31, 2006. The difference between the EIT paid by the Company over the preferential tax rate of 10% amounting to RMB30,180,000 had been refunded to the Company in June 2007. The tax refund has been recorded as an offset against income tax expense in the consolidated financial statements for the six months ended June 30, 2007.

The Company's subsidiaries are entitled to different preferential tax rates, ranging from 15% to 33%. In addition, these subsidiaries are entitled to certain reductions in tax rates in their initial years of operations.

6. EARNINGS PER SHARE

Due to the Bonus Issue as described in note 8, the number of ordinary shares for the period ended June 30, 2006 for the purpose of calculating earnings per share has been adjusted retrospectively for the increase of ordinary shares.

Earnings per share for the six months ended June 30, 2007 and June 30, 2006 have been computed by dividing the profit attributable to the equity holders of the Company of approximately RMB305,527,000 and RMB253,866,000, by the weighted average number of 1,776,315,000 ordinary shares issued and outstanding.

There were no potential dilutive ordinary shares outstanding for the six months ended June 30, 2006 and June 30, 2007.

7. RESERVES

RMB99,006,000, representing 20% of the Company's net profit of year 2006, was transferred to the discretionary surplus reserves.

8. DIVIDEND DISTRIBUTION AND OTHER DISTRIBUTIONS

The equity holders in the annual general meeting of the Company held on June 5, 2007 approved the final dividend in respect of 2006 of RMB0.22 per share amounting to a total of RMB195,394,650. The amount was accounted for in shareholders' equity as an appropriation of retained earnings for the six months ended June 30, 2007.

At the annual general meeting and class meetings of the Company held on June 5, 2007, a resolution was passed for the bonus issue of 888,157,500 new ordinary shares at per value of RMB1 per share to the equity holders of the Company on basis of one bonus share for one existing share ("Bonus Issue"), by conversion of reserve amounting to RMB888,157,500 into paid in capital. As a result, the number of ordinary shares increased from 888,157,500 to 1,776,315,000. The new shares rank pari passu in all respect with the existing shares.

9. PROPERTY, PLANT AND EQUIPMENT

For the six months ended June 30, 2007, the Group acquired property, plant and equipment amounting to approximately RMB84,123,000.

10. 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, 2007 Unaudited RMB'000	December 31, 2006 Audited RMB'000
Within 6 months	71,468	73,294
Over 6 months but within 1 year	13,680	4,859
Over 1 year but within 2 years	2,601	2,083
Over 2 years but within 3 years	6,208	6,598
Over 3 years	2,070	1,126
Accounts receivable	96,027	87,960
Provision for impairment of receivables	(3,078)	(3,078)
Accounts receivable, net	92,949	84,882

11. 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, 2007 Unaudited RMB'000	December 31, 2006 Audited RMB'000
Within 6 months	325,205	289,133
Over 6 months but within 1 year	3,492	10,889
Over 1 year but within 2 years	4,068	7,685
Over 2 years but within 3 years	7,734	5,148
Over 3 years	2,577	1,880
Due from related parties	<u>343,076</u>	314,735
Provision for impairment of receivables	<u>(14,665)</u>	(14,665)
Due from related parties, net	<u><u>328,411</u></u>	<u><u>300,070</u></u>

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The ageing analysis of accounts payable is as follows:

	June 30, 2007 Unaudited RMB'000	December 31, 2006 Audited RMB'000
Within 6 months	24,563	25,238
Over 6 months but within 1 year	12,867	8,773
Over 1 year but within 2 years	24,227	55,809
Over 2 years but within 3 years	2,097	754
Over 3 years	18,443	19,568
Accounts payable	<u>82,197</u>	110,142
Accrued liabilities	<u>310,029</u>	224,776
Total accounts payable and accrued liabilities	<u><u>392,226</u></u>	<u><u>334,918</u></u>

13. CASH GENERATED FROM OPERATIONS

	Unaudited	
	Six months ended June 30	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	324,521	310,132
Adjustments for:		
Depreciation and amortisation	109,821	115,461
Loss on disposal of property, plant and equipment	3,797	57
Interest income	(33,766)	(28,426)
Share of results of associated companies	(8,046)	(6,307)
Exchange loss and the change of currency translation differences	8,457	3,252
Operating profit before working capital changes	404,784	394,169
Increase in current assets:		
Accounts receivable	(8,067)	(2,937)
Inventories	(1,626)	(622)
Prepayments and other current assets	(4,190)	(5,952)
Due from related parties and associated companies	(32,577)	(44,409)
Increase / (decrease) in current liabilities:		
Accounts payable and accrued liabilities	85,810	54,394
Deferred revenue	2,148	928
Due to related parties	(222)	967
Taxes payable	(1,919)	3,518
Cash generated from operations	444,141	400,056

14. COMMITMENTS

(a) Capital commitments

At the balance sheet date, the Group had the following capital commitments:

	June 30, 2007 Unaudited RMB'000	December 31, 2006 Audited RMB'000
Authorised and contracted for		
— computer system	245,040	7,923
Authorised but not contracted for		
— computer system	250,000	494,680
Total	<u>495,040</u>	<u>502,603</u>

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

An amount of approximately RMB193,681,000 of capital commitments outstanding at June 30, 2007 was denominated in U.S. dollars.

(b) Operating lease commitments

At the balance sheet date, the Group had the following commitments under operating leases:

	June 30, 2007 Unaudited RMB'000	December 31, 2006 Audited RMB'000
Within one year	19,228	17,521
Over 1 year but within 5 years	41,442	46,530
Over 5 years	217	—
Total	<u>60,887</u>	<u>64,051</u>

15. 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 the Group's Chief Executive Officer (CEO). The information reviewed by the CEO 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, 2006 and June 30, 2007. 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.

16. Reclassification

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

BUSINESS REVIEW FOR THE FIRST HALF OF 2007

In the first half of 2007, the air transportation market in China enjoyed more popularity amid the industrial environment featuring further deepened international air transportation liberalization and participation of social capital into the air transportation industry encouraged by Civil Aviation Administration of China (CAAC). The major commercial airlines competed aggressively in the international market through alliance and cooperation while newly-established private-owned airlines devoted themselves into domestic market which competition has become increasingly fierce. With the extensive application of e-tickets and widely use of open platform technologies, relevant participants along the value chain of the aviation and travel distribution were spurred to explore new business models and reduce operating costs, thus shaping the whole industry. As the 2008 Beijing Olympic Games are approaching, the passengers are pressing for continuous services provided by the industry during their trips. In view of such opportunities and challenges, the Group, guided by its development strategy, took initiatives in various fields and secured breakthroughs with the Group's established strengths, so as to boost its operating results.

The PRC air transportation market saw continuous and rapid growth as boosted by the prosperity of the PRC economy, the deepening regional business cooperation, 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 2007. As the dominant supplier of information technology services in the PRC aviation and travel industry, the Group captured development opportunities and its Electronic Travel Distribution (ETD) system processed approximately 95.4 million bookings on domestic and overseas commercial airlines in the first half of 2007, representing an increase of approximately 16.9% over the same period in 2006, among which, bookings on Chinese commercial airlines increased by approximately 16.8%, while that on foreign and regional commercial airlines increased by approximately 18.8%; the number of passengers processed in foreign and regional commercial airlines using the Company's Airport Passenger Processing (APP) system reached 1,230 thousand, an increase of approximately 11.5% over the same period in 2006. In the first half of 2007, in addition to 17 Chinese commercial airlines as the Company's customers using the ETD and APP systems and related services, the foreign and regional commercial airlines with direct links with Computer Reservation System (CRS) of the Company increased to 52 following the implementation of Participating Carrier Agreements with 18 additional foreign and regional commercial airlines including Lufthansa German Airlines, Air France and British Airways.

In the first half of 2007, focusing on the product lines like airline inventory control, distribution information technology solutions and air fare solution for commercial airlines, the Company continued to diversify and improve its aviation information technologies and related services to meet the needs of Chinese commercial airlines for informatization for the purpose of streamlining business workflows, joining aviation alliances, starting-up of hub development, strengthening overseas service capability and enhancing operational efficiency. In respect of streamlining business workflows, the Company fully realized the Interline Electronic Ticketing (IET) between Chinese commercial airlines in the first half of 2007 and has been working on the international IET between Chinese commercial airlines and foreign or regional commercial airlines. In the first half of 2007, E-tickets sold by Chinese commercial airlines using the Company's electronic ticketing system amounted to approximately 68.5 million segments, and such amount in percentage to flight bookings reached 87.0% in June 2007. The Company's self-developed Common Use Self Service (CUSS) system which meets the IATA standard was also installed in Shanghai Hongqiao Airport and Chengdu Shuangliu Airport after the installation in Beijing Capital Airport and Kunming Airport in 2006, improving the level of services of Chinese commercial airlines. In the first half of 2007, the Company actively facilitated the technical preparatory work to Chinese commercial airlines in joining the airline alliances. Part of the technical preparatory work provided by the Company for Air China Limited and Shanghai Airlines Company Limited in joining Star Alliance passed the examination, and the technical preparatory work for China Southern Airlines Company Limited in joining SkyTeam is being carried out actively. In terms of the usage of the Company's APP system in overseas airports, the number of passengers handled by Chinese commercial airlines in 21 overseas or regional airports using the Company's APP system amounted to 2,883 thousand in the first half of 2007. The Group also continued to provide related services to Chinese commercial airlines, including technical and data support in workflows of decision-making, passenger services and cost control, to help them improve their operating efficiency.

With further restructuring of domestic airports and involvement of foreign capital, the requirements on informatization of domestic airports are changing from automated processing towards supporting long-term business development. Therefore, the Company also provides value-added services in relation to APP system to the airports after it established a leading position of its NewAPP front system at large and medium domestic airports. In the first half of 2007, the Company continued to promote data services system to Wuhan, Urumqi Airport and other airports. It rendered support for decision-making of the airports, and provided information technology integration services to operation departments such as airports' security, helping foster the progress of informatization construction at domestic airports.

Aiming to help travel agencies operate their businesses more expediently and flexibly, in the first half of 2007, the Group diversified and improved the product line of travel distribution service distributors, further unified various front-end products of travel distribution service, strengthened its interface function and improved its compatibility with other business system as well as establish a set of standard for integrated business supporting platform in line with the characteristics of travel agencies business. The Group further enriched the saleable contents of the system and improved the function of fare inquiry and computation.

In the first half of 2007, the travel products distribution business of the Company achieved further progress with 152.0 thousand hotels' room-nights distributed, representing an increase of 133.8% over the same period in 2006.

To lay a solid foundation to ensure safe, reliable and efficient operation of the information system for 2008 Olympic season, the Group further invested in infrastructure, purchased new mainframe system and properly implemented the reformation projects including the APP hot backup system in the first half of 2007, with a view to upgrading system capabilities to support business continuity. Through horizontal interaction, vertical coordination, and various drills, business guarantee processes have been further perfected, and response capability in emergency has been enhanced. Meanwhile, the Company took initiatives to advance the application of open technology such as AV OPEN, OPEN ET and adopted Optimization Algorithm, Memory Call technology to save operating resources. In the first half of 2007, the availability ratios of the Company's Inventory Control System (ICS), CRS and APP mainframe systems 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 2007, the Group achieved a profit before tax of RMB324.5 million, representing an increase of 4.6%, compared to the first half of 2006. Earnings before interest and tax, depreciation and amortization (EBITDA) amounted to RMB400.6 million, representing an increase of 0.9%, compared to the first half of 2006. Net profit attributable to equity holders of the Company was RMB305.5 million, representing an increase of 20.3%, compared to the first half of 2006. The increase in profit of the Group was mainly attributable to the refund of the income tax in current year.

The turnover and results of the Group were mainly derived from its operations in the PRC. The earnings per share of the Group was RMB0.17 for the first half of 2007.

Total revenue

The total revenue of the Group in the first half of 2007 amounted to RMB908.5 million, representing an increase of RMB96.7 million, or 11.9%, from that of RMB811.8 million in the first half of 2006. 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 80.6% of the Group's total revenue in the first half of 2007, as compared to 83.0% in the first half of 2006. AIT service revenue increased by 8.6% to RMB731.9 million in the first half of 2007 from RMB673.8 million in the first half of 2006. The increase of revenue resulted primarily from the growth in the number of air travelers.
- Data network revenue and other revenue accounted for 19.4% of the Group's total revenue in the first half of 2007, as compared to 17.0% for the first half of 2006. Data network revenue and other revenue increased by 28.0% to RMB176.6 million in the first half of 2007 from RMB138.0 million for the first half of 2006. The increase was mainly attributable to a rise of incomes from businesses such as information technology integration services and hotel distribution services.

Net revenue

Net revenue increased by 11.9% to RMB877.9 million in the first half of 2007 from RMB784.3 million in the first half of 2006.

Operating expenses

Total operating expenses increased by RMB76.6 million, or 15.1% to RMB582.3 million in the first half of 2007 from RMB505.7 million in the first half of 2006. The increase in operating expenses is reflected as follows:

- Depreciation and amortisation expenses decreased by 4.9%, mainly due to the fact that a large-scale mainframe was fully depreciated in the end of 2006;
- Personnel expenses increased by 15.0%, primarily due to an increase in the number of employees and salaries in order to support the development of the Group's businesses;
- Technical support and maintenance fees increased by 32.2%, mainly due to an increase in the number of large-scale mainframe and network facilities of the Company resulting in an increase in technical maintenance fee;
- Commission and promotion expenses increased by 36.1%, mainly due to successful implementation of marketing plans and increase in related business; and
- Other operating expenses increased by 14.3%, mainly due to the increase of cost of equipments sold as a result of the business development in information technology integration 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 RMB17.0 million, or 6.1%, to RMB295.6 million in the first half of 2007 from RMB278.6 million in the first half of 2006.

Enterprise income tax

The differences between the enterprise income tax paid by the Company at a tax rate of 15% for year 2006 and that at a preferential tax rate of 10% announced in 2007 amounting to RMB30,180,000 had already been refunded to the Company in June 2007.

Net profit attributable to equity holders of the Company

As a result of the above factors, the Group's net profit attributable to the equity holders of the Company increased by RMB51.6 million, or 20.3%, to RMB305.5 million in the first half of 2007 from RMB253.9 million in the first half of 2006.

Liquidity and capital structure

The Group's working capital for the first half of 2007 mainly came from operating activities. Net cash inflow for operating activities amounted to RMB429.4 million.

During the first half of 2007, 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, 2007, cash and cash equivalents of the Group amounted to RMB1,608.9 million, of which 80.2%, 5.8% and 13.6% were denominated in Renminbi, US dollars and Hong Kong dollars respectively.

Long-term investment

As at June 30, 2007, 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, 2007, the Group had no charges on its assets.

Capital expenditure

The capital expenditure of the Group totalled RMB84.2 million in the first half of 2007, representing an increase of RMB19.7 million, as compared to that of RMB64.5 million in the first half of 2006.

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 the year 2007 will amount to approximately RMB494.7 million, which is mainly for the development and gradual promotion of the new generation traveler service system.

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 2007 will be sufficient for its capital expenditure commitments and daily operations.

Exchange risks

The Group is exposed to foreign exchange risks related to its accounts receivable that are denominated in foreign currencies and capital expenditures, of which a significant amount is related to the purchase of imported equipment that are 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, 2007, the gearing ratio of the Group was 13.6% (December 31, 2006: 10.3%), which was computed by dividing the total amount of liabilities by the total assets of the Group as at June 30, 2007.

Contingent liabilities

As at June 30, 2007, the Group had no material contingent liabilities.

Employees

As at June 30, 2007, the total number of employees of the Group was 2,473. Personnel expenses amounted to RMB132.4 million for the first half of 2007, representing 22.7% of the total operating expenses of the Group for the first half of 2007. The remuneration of the Group's employees (including Executive Directors and Staff Representative Supervisors) includes salaries, bonuses, social security contribution 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 2007, 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 2007

In the second half of 2007, it is anticipated that China's aviation and travel industry will continue booming, paving an extensive market base for the Group's growth. However, the Group will put forward a series of challenges mixed with opportunities by the gradual implementation of industrial policies for deepening reform, further opening up and encouraging competition, as well as the broadened application of new technologies including open platform and internet which are fundamentally reshaping the existing business modes in the industry. As such, the Group will accelerate the construction of the new-generation aviation and travel system focusing on passengers by further improving the functions of system and its technological expertise. Efforts will also be devoted into improving the customer-oriented technologies and the product service system by integrating industrial development and identifying customers' needs. While securing its predominant position of its existing core business, the Group will actively develop new businesses including travel product distribution, e-commerce, data services and integration of information technology. Meanwhile, the Group will seek opportunities of merger and acquisition to optimize its business and asset portfolios for a leap in development. The Group will invest more in infrastructures, optimize allocation of resources and establish a sound emergency and backup system to ensure continuity of business. In addition, the Group will enhance corporate governance and introduce an equity incentive plan on a timely manner to unite the interests between shareholders and employees, so as to strengthen cohesion and executive ability force and improve its operating efficiency consistently.

INTERIM DIVIDEND

The Board recommends not to pay an interim dividend for the first half of 2007.

SHARE CAPITAL STRUCTURE

The issued share capital of the Company as at June 30, 2007 was 1,776,315,000 shares, with a par value of RMB1 each. As at June 30, 2007, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage to the total number of shares in issue (%)
Domestic Shares	1,154,607,000	65
H Shares	621,708,000	35
Total	1,776,315,000	100

SUBSTANTIAL SHAREHOLDERS

As at June 30, 2007, pursuant to the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "Ordinance"), the following substantial shareholders held an interest of 5% or more in their respective class of share capital of the Company:

Name of shareholder	Class and number of shares (Note 1)	Capacity	Percentage of respective class of share capital	Percentage of total share capital (Note 2)
Oppenheimer Funds, Inc.	42,467,220 H shares of RMB1 each (L)	Investment Manager	9.65% (Note 3)	2.39%
Platinum Investment Management Limited (Formerly known as Platinum Asset Management Limited)	5,656,276 H shares of RMB1 each (L) 22,820,650 H shares of RMB1 each (L)	Investment Manager Trustee (other than a bare trustee)	1.82% (Note 4) 7.34% (Note 4)	0.32% 1.28%
Matthews International Capital Management, LLC	28,239,000 H shares of RMB1 each (L)	Investment Manager	9.08% (Note 5)	1.59%
J.P.Morgan Fleming Asset Management (Asia) Inc.	22,199,000 H shares of RMB1 each (L)	Investment Manager	7.14% (Note 6)	1.25%
J.P.Morgan Fleming Asset Management Holdings Inc.	22,199,000 H shares of RMB1 each (L)	Investment Manager	7.14% (Note 6)	1.25%
JF Asset Management Limited	22,199,000 H shares of RMB1 each (L)	Investment Manager	7.14% (Note 6)	1.25%
Templeton Asset Management Limited	43,306,000 H shares of RMB1 each (L)	Investment Manager	6.97%	2.44%

Name of shareholder	Class and number of shares (Note 1)	Capacity	Percentage of respective class of share capital	Percentage of total share capital (Note 2)
Plantinum International Fund	15,809,650 H shares of RMB1 each (L)	Beneficial owner	5.09% (Note 7)	0.89%
China TravelSky Holding Company	198,496,500 Domestic shares of RMB1 each (L) (Note 8)	Beneficial owner	34.38%	22.35%
China Southern Air Holding Company	116,460,500 Domestic shares of RMB1 each (L) (Note 8)	Beneficial owner	20.17%	13.11%
China Eastern Air Holding Company	109,414,500 Domestic shares of RMB1 each (L) (Note 8)	Beneficial owner	18.95%	12.32%
China National Aviation Holding Company	89,433,500 Domestic shares of RMB1 each (L) (Note 8)	Beneficial owner	15.49%	10.07%

Notes:

- (1) (L) - Long position.
- (2) Percentage of total share capital is based on 1,776,315,000 shares of the total issued share capital of the Company as at June 30, 2007.
- (3) Such percentage is shown in the corporate substantial shareholder notice of OppenheimerFunds, Inc. filed on December 6, 2006. However, the number of H shares held by OppenheimerFunds, Inc. stated in such notice was 42,467,220, which, if correct, represents 13.66% of total H shares of the Company based on the total 310,854,000 issued H shares of the Company. As to the knowledge, the information collected and belief of the directors of the Company, they are unable to confirm whether such ratio represents the shareholding ratio of the shareholder after the Bonus Issue.

- (4) *Such percentage is shown in the corporate substantial shareholder notice of Platinum Investment Management Limited declared and filed on April 11, 2007 at the latest. As to the knowledge, the information collected and belief of the directors of the Company, they are unable to confirm whether such ratio represents the shareholding ratio of the shareholder after the Bonus Issue.*
- (5) *Such percentage is shown in the corporate substantial shareholder notice of Matthews International Capital Management declared and filed on August 5, 2005 at the latest. As to the knowledge, the information collected and belief of the directors of the Company, they are unable to confirm whether such ratio represents the shareholding ratio of the shareholder after the Bonus Issue.*
- (6) *Such percentage is shown in the corporate substantial shareholder notice of this shareholder declared and filed on April 1, 2003 at the latest. As to the knowledge, the information collected and belief of the directors of the Company, they are unable to confirm whether such ratio represents the shareholding ratio of the shareholder after the Bonus Issue.*
- (7) *Such percentage is shown in the corporate substantial shareholder notice of Plantinum International Fund declared and filed on April 11, 2007 at the latest. As to the knowledge, the information collected and belief of the directors of the Company, they are unable to confirm whether such ratio represents the shareholding ratio of the shareholder after the Bonus Issue.*
- (8) *To the knowledge of the directors of the Company, after the bonus issue (details of which were set out in the circular of the Company dated April 18, 2007, and which was approved at the annual general meeting and class meetings held on June 5, 2007), the number of the domestic shares of the Company held by substantial shareholders, the percentage of such domestic shares to the total domestic share capital and percentage to total share capital are as follows: (i) 396,993,000 domestic shares are held by China TravelSky Holding Company, representing 34.38% of the total domestic shares and 22.35% of the total share capital; (ii) 232,921,000 domestic shares are held by China Southern Air Holding Company, representing 20.17% of the total domestic shares and 13.11% of the total share capital; (iii) 218,829,000 domestic shares are held by China Eastern Air Holding Company, representing 18.95% of the total domestic shares and 12.32% of the total share capital; (iv) 178,867,000 domestic shares are held by China National Aviation Holding Company, representing 15.49% of the total domestic shares and 10.07% of the total share capital.*

Save as disclosed above, as at June 30, 2007, no other persons or companies held an interest or short positions of 5% or more of the issued share capital or in the respective class of shares of the Company pursuant to the register required to be maintained under Section 336 of the SFO.

INTERESTS AND SHORT POSITION OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY OTHER ASSOCIATED CORPORATIONS

As at June 30, 2007, the interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations held by the Directors, supervisors or chief executives of the Company that is required to be notified to the Company and the Stock Exchange required to be recorded and kept in the register in accordance with Section 352 of the Ordinance, or the interest or short position required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

Name of Director	Number and class of shares (Note 1)	Capacity of holder	Percentage to the corresponding share capital	Percentage to the total share capital (Note 2)
Chua Keng Kim	417,000 H shares (L) of RMB1 each	Interest of spouse	0.07%	0.02%

Notes:

- (L) — Long position
- The percentage to the total share capital is calculated based on the total number of 1,776,315,000 shares in issue of the Company as at 30 June 2007.

As set out above, as at June 30, 2007, 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 or short position required to be notified to the Company and the Stock Exchange pursuant to 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, 2007.

TRUST DEPOSITS AND OVERDUE TIME DEPOSITS

As at June 30, 2007, 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 2007, 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, 2007, 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, making the information disclosure to all the market participants and supervising authorities in a timely, accurate, complete, and reliable manner to enhance the transparency of the Company. The Company has adopted the code provisions as stipulated in "Code of Corporate Governance Practices"(the "Code") in Appendix 14 to the Listing Rules as the Company's code of corporate governance practices.

Save as deviations from the code provisions D.1.1 and D.1.2, the Company has fully complied with the Code in the first half of 2007. The Company has set out respective duties of the Board and the General Manager in its articles of association. 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 Company's management, who is responsible for managing the Company's daily operation, is a management team led by the General Manager. The Company's current arrangement does not prejudice the interests of the Company. The Board is also considering to gradually set out explicitly the duties of the management through the improvement of the Company's internal control management system. Relevant details have been set out in the corporate governance report in the 2006 Annual Report of the Company.

As set out in the corporate governance report in the 2006 Annual Report of the Company, the Company also deviated from the Code provisions A.1.1 and C.2.1 during 2006. In the first half of 2007, the Company proactively rectified the deviations, aiming to fully comply with the above 2 provisions in 2007. In the first half of 2007, the Board held a total of three Board meetings. At the meeting held in March 2007, the Board reviewed the Group's internal control system and its effectiveness, which covered all the important aspects of internal control, including financial, operation and compliance controls and risk management functions, and got an opinion that the Group's internal control system is basically effective and sufficient. For any imperfection found during the review, the Group will gradually improve it.

For the six months ended June 30, 2007, the Company has adopted, a code of conduct on terms no less exacting than the required standard set out in the Model Code. After making specific enquiries to all 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 and the Company's code of conduct during the six months ended June 30, 2007.

By order of the Board

Zhu Yong

Chairman

August 24, 2007

BOARD OF DIRECTORS

Chairman	(appointed on January 9, 2007)
Zhu Yong	Executive Director (appointed on January 9, 2007)
Directors	
Zhu Xiaoxing	Executive Director (CEO) (appointed on January 9, 2007)
Ding Weiping	Executive Director (Secretary to the Board and the Company) (appointed on January 9, 2007)
Song Jinxiang	Executive Director (appointed on January 9, 2007)
Wang Quanhua	Vice Chairman, Non-executive Director (appointed on January 9, 2007)
Luo Chaogeng	Vice Chairman, Non-executive Director (appointed on June 5, 2007)
Gong Guokui	Vice Chairman, Non-executive Director (appointed on January 9, 2007)
Rong Gang	Non-executive Director (appointed on January 9, 2007)
Sun Yongtao	Non-executive Director (appointed on January 9, 2007)
Liu Dejun	Non-executive Director (appointed on January 9, 2007)
Xia Yi	Non-executive Director (appointed on January 9, 2007)
Song Jian	Non-executive Director (appointed on January 9, 2007)
Yuan Yaohui	Independent Non-executive Director (appointed on January 9, 2007)
Yick Wing Fat, Simon	Independent Non-executive Director (appointed on January 9, 2007)
Chua Keng Kim	Independent Non-executive Director (appointed on June 5, 2007)
Cao Jianxiong	Vice Chairman, Non-executive Director (appointed on January 9, 2007 and resigned on June 5 2007)
Chow Kwok Wah, James	Independent Non-executive Director (appointed on January 9, 2007 and resigned on June 5, 2007)

AUDIT COMMITTEE

Yick Wing Fat, Simon	Chief member (Chairman) (appointed on January 9, 2007)
Chua Keng Kim	Member (appointed on June 5, 2007)
Yuan Yaohui	Member (appointed on January 9, 2007)
Chow Kwok Wah, James	Member (appointed on January 9, 2007 and resigned on June 5, 2007)

STRATEGIC COMMITTEE

Luo Chaogeng	Chief member (Chairman) (appointed on 5 June, 2007)
Zhu Yong	Member (appointed on January 9, 2007)
Wang Quanhua	Member (appointed on January 9, 2007)
Gong Guokui	Member (appointed on January 9, 2007)
Rong Gang	Member (appointed on January 9, 2007)
Ding Weiping	Member (appointed on January 9, 2007)
Cao Jianxiong	Chief member (Chairman) (appointed on 9 January, 2007 and resigned on June 5, 2007)

REMUNERATION AND EVALUATION COMMITTEE

Yuan Yaohui	Chief Member (Chairman) (appointed on January 9, 2007)
Yick Wing Fat, Simon	Member (appointed on January 9, 2007)
Chua Keng Kim	Member (appointed on June 5, 2007)
Wang Quanhua	Member (appointed on January 9, 2007)
Sun Yongtao	Member (appointed on January 9, 2007)
Chow Kwok Wah, James	Member (appointed on January 9, 2007 and resigned on June 5, 2007)

SUPERVISORY COMMITTEE

Chairman	(appointed on January 9, 2007)
Li Xiaojun	Supervisor (appointed on January 9, 2007)
Vice Chairman	(appointed on January 9, 2007)
Du Hongying	Supervisor (appointed on January 9, 2007)

SUPERVISORS

Jing Gongbin	Supervisor (appointed on January 9, 2007)
Zhang Yakun	Supervisor (appointed on January 9, 2007)
Yu Yanbing	Supervisor (appointed on January 9, 2007)
Gao Jingping	Staff Representative Supervisor (appointed on January 9, 2007)
Wang Xiaomin	Staff Representative Supervisor (appointed on January 9, 2007)
Zhang Xin	Staff Representative Supervisor (appointed on January 9, 2007)
Rao Geping	Independent Supervisor (appointed on January 9, 2007)

COMPANY SECRETARY

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

COMPANY'S WEBSITES

Website of consolidated information of the Company

www.travelsky.net

Website established in accordance with Rule 2.07C(6)(a) of the Listing Rules

<http://travelsky.wsfq.hk>

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 <http://travelsky.wsfg.hk>.