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)

CONTENTS

CORPORATE PROFILE

TravelSky Technology Limited (the "Company", or including its subsidiaries, the "Group") is the dominant provider of information technology solutions for China's aviation and travel industry. The Group has been devoted to developing leading products and services that satisfy the needs of all the industry participants – ranging from commercial airlines, airports and air travel products and services suppliers to travel agencies, corporate clients, travelers and cargo shippers – to conduct electronic transactions and manage the demand for travel-related information. The core businesses of the Company include aviation information technology service, distribution information technology service, clearing and accounting and settlement service for aviation industry, etc.

The Company was incorporated in the People's Republic of China (the "PRC" or "China") on October 18, 2000. As of the date of this report, it has a direct controlling equity interest in each of the following significant subsidiaries: TravelSky Technology (Hong Kong) Limited, TravelSky Technology (Singapore) Limited, TravelSky Technology (Korea) Limited, TravelSky Technology (Japan) Limited, TravelSky Technology (Europe) GmbH, TravelSky Technology (USA) Ltd, Accounting Centre of China Aviation Limited Company ("ACCA"), Shanghai TravelSky Information Technology Limited, Guangzhou TravelSky Information Technology Limited, Hainan Civil Aviation Cares Co., Ltd., Cares Shenzhen Co., Ltd., Cares Hubei Co., Ltd., Cares Chongqing Information Technology Co., Ltd., Aviation Cares of Yunnan Information Co., Ltd., Civil Aviation Cares of Xiamen Ltd., Civil Aviation Cares of Qingdao Ltd., Civil Aviation Cares Technology of Xi'an Ltd., Civil Aviation Cares Technology of Xinjiang Ltd., InfoSky Technology Co., Ltd. and TravelSky Technology (Beijing) Real Estate Limited. The Company also holds an equity interest in each of the following associated companies: Shanghai Civil Aviation East China Cares System Integration Co., Ltd., Shenyang Civil Aviation Cares of Northeast China, Ltd., Aviation Cares of Southwest Chengdu, Ltd., Heilongjiang TravelSky Airport Technology Limited, Yunnan TravelSky Airport Technology Limited, Shanghai Dongmei Aviation Tourism Online Co., Ltd, Dalian TravelSky Airport Technology Limited, Hebei TravelSky Airport Technology Limited and Guangzhou Airport AirSpan Information Technology Co. Ltd.

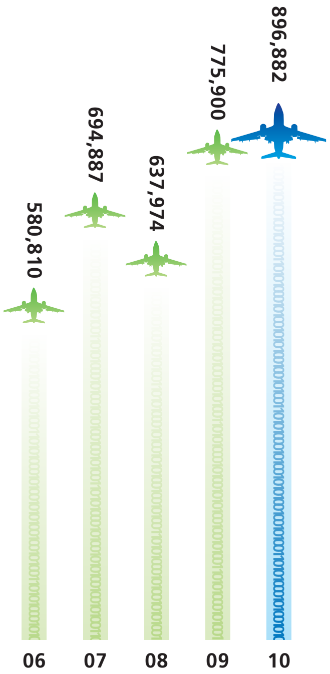
The Group had 4,324 employees as of December 31, 2010.

The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on February 7, 2001. As of the date of this report, the largest shareholder of the Company is China TravelSky Holding Company, which holds an equity interest of approximately 29.29% in the Company. A total of approximately 38.84% of the equity interest in the Company is held by 13 Chinese commercial airlines, including the holding companies of the three largest Chinese commercial airlines, namely, China Southern Air Holding Company, China Eastern Air Holding Company and China National Aviation Holding Company. The remaining 31.87% of the equity interest in the Company is held by holders of its H shares.

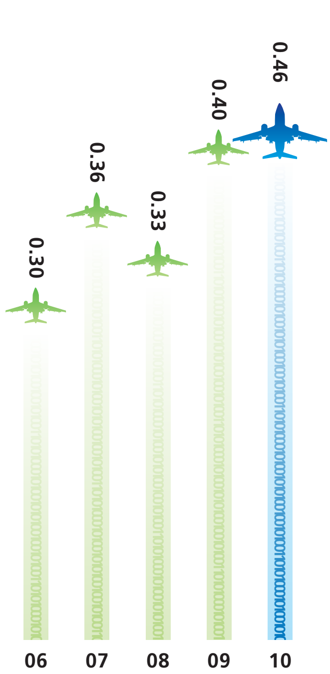
The Company established a Sponsored Level I American Depositary Receipt Programme. American depositary shares under the programme commenced trading on the U.S. over-the-counter market (OTC) on December 27, 2002.

FINANCIAL HIGHLIGHTS

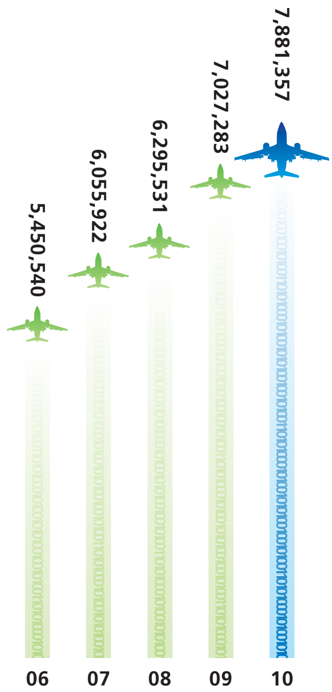
Profit Attributable to Equity Holders of the Company
RMB'000



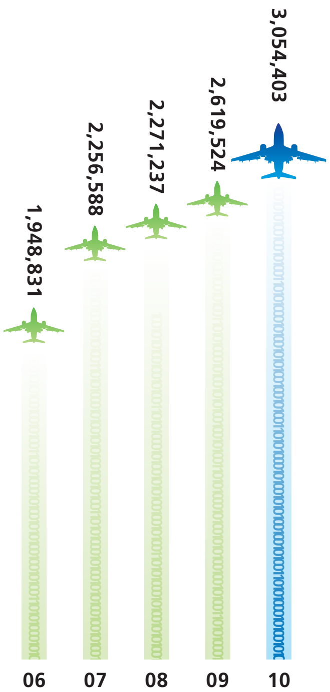
Earnings Per Share Basic and Diluted
RMB



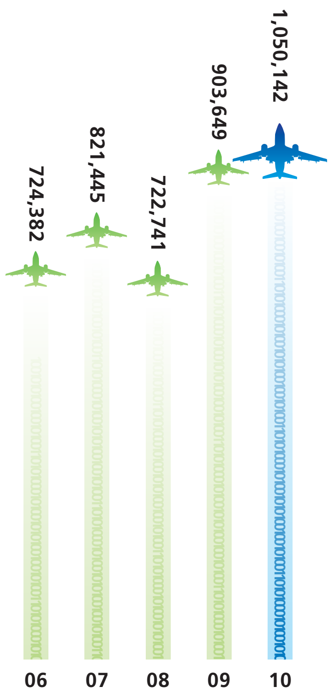
Total assets
RMB'000



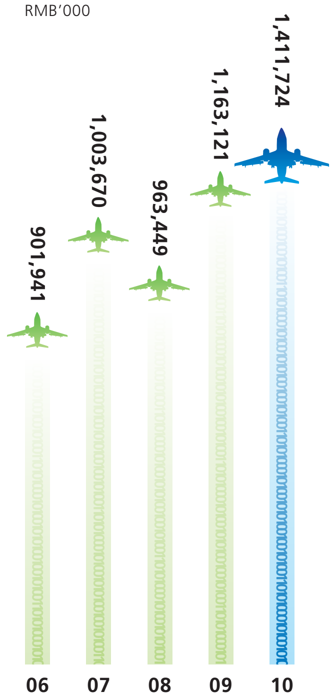
Revenues
RMB'000



Profit before taxation
RMB'000



Earnings before interests, tax, depreciation and amortization
RMB'000



Note: The financial figures for the year 2006, 2007 and 2008 have been adjusted, as if ACCA had been acquired at the earliest period presented.

CHAIRMAN'S STATEMENT

Mr. Xu Qiang
Chairman

DEAR SHAREHOLDERS,

2010 was the last year of the 11th Five-Year Plan period for the Group. It was also a year that witnessed the Group's proactive and progressive execution of the strategy of "growing stronger and larger to go global", making progress in fields of safety, market exploration, service improvement, product research and development and managerial reform by capturing the favourable opportunities emerged following the macro-economic rebound and the growth in tourism market fuelled by increased consumer spending. And also in this same year, the Group achieved encouraging operating results for another consecutive year and accomplished its mission of providing information security service for Shanghai Expo and Guangzhou Asia Games.

2011 is the first year of the 12th Five-Year Plan period for the Group. It is also a year that is crucial to leveraging on our past experience and preparing for future development. The favourable policies promulgated by the Chinese government and designated to build the nation into a civil aviation power, to accelerate the development of the tourism industry, to revitalize the logistics industry and to promote the development of information technology will underpin the growth of market demand and promote the sustained development of the industry, thus presenting a rare historic opportunity for the Group to achieve leapfrog development. On the other hand, the Group's development may be exposed to notable external challenges due to (among others) the further restructuring of the commercial airlines and their urgent needs to reach out to the world, the impact of high-speed railway system and other means of transport on air transport market, the liberalization trend of the GDS market and the free boundary problem of the IT industry as a result of technological advancements.

CHAIRMAN'S STATEMENT

To this end, based on the achievements accomplished during the 11th Five-Year Plan period, the Group will continue to implement its strategy of "growing stronger and larger to go global" in 2011, while riding on the emerging opportunities and avoiding relevant risks, guided by the scientific perspective on development, and endeavouring to become one of the world's first-class comprehensive information service enterprises. The Group will improve its capability of sustainable development and technology level in respect of safety by constructing the new operating centre in Shunyi, Beijing, which holds a leading position in China and meets the international standards. The Group will research and develop a new generation of the air passenger information service system and endeavour to achieve technology breakthroughs so as to strengthen its main business. In addition, the Group will expand its emerging businesses and overseas market by building and capitalizing on the electronic payment services platform, the integrated IT platform for airports, the air cargo logistics information platform, the hotel distribution platform and the shared information service platform as well as developing innovative service models. Furthermore, the Group will strive to activate the internal vitality and enthusiasm of all employees by talent and team building, corporate culture construction and innovating its internal systems and mechanisms. With these practices, the Group aims to achieve leapfrog development in the new period.

Finally, I would like to take this opportunity to extend my gratitude to all Shareholders, investors, customers, Directors and Supervisors for the trust and support they have bestowed upon us, as well as to our management and staff for the dedicated efforts devoted. Given the hard work of our management and staff and the joint efforts from shareholders, investors, directors and supervisors, I believe the Group will start the 12th Five-Year Plan period with more marvelous performance in offering better services to customers and the public and creating greater value for our shareholders.

Xu Qiang
Chairman

March 29, 2011

BUSINESS REVIEW

Mr. Xiao Yinhong
General Manager

As the leading provider of information technology solutions for China's aviation and travel industry, the Company stands at a core tache along the value chain of China's aviation and travel service distribution. The Company has been devoted to serving the needs of all industry participants ranging from commercial airlines, airports, travel product and services providers, travel agencies, travel service distributors, corporate clients, travelers and cargo shippers, as well as major international organizations such as IATA and government bodies, with the scope of services covering the provision of critical information systems on flight control, air ticket distribution, check-in, boarding and load planning, accounting, settlement and clearing system, etc.. With three decades of tenacious development, the Company has built up a complete industry chain for aviation and travel information technology service, established a relatively comprehensive, competitively priced product line of aviation and travel information technology service with robust functionality, aiming to help industry participants to expand their businesses, improve service quality, minimize operational costs and enhance operational efficiency, and ultimately bring benefits to travelers.

AVIATION INFORMATION TECHNOLOGY SERVICE

The aviation information technology ("AIT") services offered by the Company, which consist of a series of products and solutions, are provided to the PRC commercial airlines and more than 300 foreign and regional commercial airlines. The AIT services comprised electronic travel distribution ("ETD") service (including Inventory Control System ("ICS") service and Computer Reservation System ("CRS") service) and Airport Passenger Processing ("APP") service, as well as other extended information technology solutions related to the above core businesses, including but not limited to, product service for supporting aviation alliances, solutions for developing commercial airlines' e-tickets and e-commerce, data service for supporting decision-making of commercial airlines as well as information management system for improvement of ground operational efficiency.

In 2010, amidst slow global economy recovery, the PRC economy turned into a stable and rapid growth following a lukewarm rebound at earlier stage. The gradual pick-up in foreign trade and the fast growth in residents' income, coupled with the successful events including Shanghai Expo and Guangzhou Asia Games and other favourable factors, greatly stimulated the residents' demand

BUSINESS REVIEW

for air transportation. The Group's electronic travel distribution (ETD) system processed approximately 291.8 million flight bookings on domestic and overseas commercial airlines, representing an increase of approximately 17.2% over the same period in 2009. Among which, the processed flight bookings on commercial airlines in China increased by approximately 16.8%, while those on foreign and regional commercial airlines increased by approximately 29.7%. In 2010, apart from the major domestic commercial airlines that already adopted our APP service, more foreign and regional commercial airlines were using the Company's APP system service, multi-host connecting program service and the self-developed ANGEL CUE platform connecting service, resulting in the number of such users increased to 59, with approximately 4.4 million of passenger departures processed in 42 airports. At the same time, with the Company's continuing efforts to upgrade the level of direct links with foreign and regional commercial airlines, the number of foreign and regional commercial airlines with direct links to the systems of the Company reached 90, with sales percentage through direct links exceeding 99%. By virtue of the foregoing, the Company's ability to tackle with market risk has been further strengthened.

In 2010, the Group continued to monitor the development of the industry. In addition to continuous provision to major commercial airlines in China of information technology products and services along the value chain of the aviation industry, ranging from bookings, ticketing, check-in, boarding and load planning, accounting, settlement and clearing to value-added services for travellers, the Group has also kept fulfilling the demand of commercial airlines for the information technology solutions on traveller services, e-commerce, revenue management, auxiliary services and overseas services. As a strategic partner of the Fast Travel project of International Air Transport Association (IATA), the Company has contributed its support to Air China Limited for realizing the package self-service that meets with international standards in Beijing Capital International Airport, thereby making the Company one of the leading suppliers for Fast Travel project of IATA. The common use self-service check-in system (CUSS), the Company's self-developed product that conforms to IATA standards, has been launched in 59 major domestic airports, and the online check-in service has been applied in 80 airports at home and abroad. Together with the mobile check-in service, the number of departing passengers processed with above check-in services amounted to approximately 22 million. In 2010, the Company provided overall solutions through E-Build (an e-commerce supporting platform) to 20 e-commerce websites owned by China's 10 commercial airlines. Newsky, the Company's self-developed auxiliary supporting system for inventory revenue has already been adopted by China's 11 domestic commercial airlines to assist them in optimizing and enhancing revenue. Sky Passenger, a diversified service system for travellers has also been put into operation in various commercial airlines, to assist them in identifying and seeking for high-end passengers. The Electronic Miscellaneous Document (EMD) has been applied by Air China Limited to support the management of revenue from its auxiliary services, which has not only made it becoming one of the first airlines launching EMD in Asia-pacific region, but also enabled the Company to be the first Global Distribution System (GDS) in the world passing the EMD implementation ability authentication of IATA. In 2010, the Company also endeavoured to develop the E-Solution overall sales platform and integrated the overseas bills settlement solutions of WebLink products, the international B2B products, the graphic Eterm products and the international B2C products, aiming to provide commercial airlines with a full range of low-cost resolutions for overseas markets. The Company has also launched the WebLink products and international B2B websites in 4 overseas regions for 3 commercial airlines.

BUSINESS REVIEW

AIRPORT INFORMATION TECHNOLOGY SERVICE

In 2010, the Group seized the opportunity emerged from the further renovation and expansion of the nation's airports, and responded by rapidly expanding the coverage of airport information technology services and products and proactively participating in airport informatization on one hand, while promoting new businesses through product innovation on the other hand. In respect of the new generation APP front-end system, it has undergone an upgrade in the renovation and expansion project of 6 airports ranking top 50 airports in terms of throughput in China, including Guangzhou Airport and Guiyang Airport. It also facilitated China's commercial airlines in the launch of passenger check-in, transit and connecting flight services in 90 overseas or regional airports, processing approximately 13.4 million passenger departures, accounting for approximately 80.3% of overseas arrivals of the China's commercial airlines. The service of Angel Lite, a passenger front-end processing system designed and developed for small airports ranking beyond the top 60 airports in terms of throughput in China, was extended to 6 airports, including Luoyang Airport and Lianyungang Airport. Airport information service products were put into operation in 5 airports, including Shanghai Hongqiao Airport, and Hefei Airport, while ground operational products were installed in 11 airports, including Beijing Capital International Airport. The number of domestic and overseas commercial airlines using Advance Passenger Information (API) services increased by 9, including Jetstar Airways. And Airport Message Broker (AMB) platform, which integrated airport passenger information and luggage information, has been promoted to Chongqing Airport and Nanchang Airport, etc.

DISTRIBUTION OF INFORMATION TECHNOLOGY SERVICE

The Group's travel service distribution network comprises nearly 60,000 sales terminals owned by more than 6,000 travel agencies and travel service distributors, with high-level networking and direct links to all GDS around the world and 90 foreign and regional commercial airlines through SITA networks, covering over 400 domestic and overseas cities. The Group rendered technology support and localized services to travel agencies and travel service distributors through more than 30 local distribution centers across China and 6 overseas distribution centers across Asia, Europe and North America. The network processed over 215.9 million transactions during 2010 with transaction amount up to RMB260.7 billion.

In 2010, the Group further developed its core product lines for distribution information technology services, which was mainly represented by its TravelWeb front-end business system, LinkoSky comprehensive distribution platform, online distribution products, etc, and vigorously promoted its core travel product series called Bluesky, which mainly run on several platforms, namely the travel management consultant business platform (TMC), the online booking tool business platform (OBT) and the travel data business platform (DAL) and some other front-end products. The product series were promoted to top travel management corporations across the world, including American Express and Carlson Wagonlit Travel. Meanwhile, new products incorporated in Linkosky comprehensive distribution platform such as bus, insurance, ticket booking and vehicle renting services enriched the services provided by travel agencies and broadened the Company's source of income.

TRAVEL PRODUCT DISTRIBUTION SERVICE

In 2010, by enhancing hotel platform building, constructing diversified product structure, and integrating upstream and downstream channels to develop hotel resources, the Group successfully established direct link with various domestic and overseas leading hotels' GDS, extended its CRS hotel products coverage to 50 domestic cites, and incorporated various types of products provided by tourism service providers. The Group distributed 2,197,000 hotel's room-nights during the year, representing an increase of approximately 103.7% as compared with the corresponding period in 2009.

AIR FREIGHT LOGISTICS INFORMATION TECHNOLOGY SERVICE

In 2010, the growth momentum of China's air freight market was significantly higher than global average, and there were new movements in integration and competition among domestic air freight enterprises. The Group seized the opportunity by upgrading the old freight systems used by existing airport and airline clients and enrich its product mix, while further enhanced its marketing effort, and won tenders to build an air freight system for the new cargo terminal in Chengdu Airport and provide an information system for the neutral cargo terminal in Guangdong Chaoshan Airport. The Group also promoted its air freight business system to cargo terminals of medium and small sized airports and recently expanded its services to 5 other airports including Shaanxi Hanzhong Airport and Zhejiang Zhoushan Airport. The Group processed approximately 6.8 million airway bills during the year, representing an increase of approximately 38.8% over that in the corresponding period of 2009. In 2010, the Group also reinforced its collaboration with IATA, customs and logistic and storage equipment providers, researched and developed electronic air freight bill logistic information platform to assist commercial airlines and airports in China to implement electronic freight bill transportation, launched electronic customs declaration system for the European Union (EU), becoming the first enterprise to cooperate with various countries in the EU for electronic customs declaration, and entered into a letter of intent with Jiangsu Feida Baokai Electric Co., Ltd. in relation to strategic cooperation regarding logistic system service to enhance the integrating power of logistic information system.

ACCOUNTING, SETTLEMENT AND CLEARING SERVICE

The Company provided accounting, settlement and clearing services and information system development and support services to commercial airlines and other aviation corporations through Accounting Centre of China Aviation Limited Company (中國航空結算有限責任公司) ("ACCA"), a wholly-owned subsidiary of the Company. As the downstream businesses of the Company's principal activities in air travel service distribution and sales, the above businesses strengthened the Company's information technology business in the air transportation and travel industry. Apart from being the world's largest service provider of IATA BSP Data Processing ("BSP DP"), ACCA is also the largest provider of outsourced services and system products in revenue settlement and clearing in the air transportation industry in China. Its major customers include domestic passenger and cargo airlines, overseas and regional commercial airlines, domestic airports, government organizations and IATA. In 2010, there were approximately 433.9 million transactions and approximately 216.5 million BSP tickets processed with respect to the system service business of ACCA, while passenger and cargo postal revenues, miscellaneous fees as well as international and domestic clearing fees settled through our system amounted to approximately US$4.1 billion.

BUSINESS REVIEW

In 2010, apart from consolidating its existing market share of settlement and clearing services, the Group also endeavoured to explore overseas markets and enhanced awareness of its brand around the world by capitalizing on the successful transfer of its data treatment and software services for 42 BSP companies across Asia-Pacific and Europe and a time when its business operations remained stable. While accelerating the research and development of the new generation revenue management system relating to international passenger, the Group cooperated closely with IATA, the Settlement and Clearance Center of CAAC and the e-payment platforms, and became one of the first testers of IATA's Simplify Interline Settlement (SIS) project in respect of passenger, cargo and service fee businesses. Besides, the Group has signed agreements with IATA to settle booking receivables by sales amount of BSP.

CONSTRUCTION OF THE NEW GENERATION AVIATION PASSENGER SERVICE SYSTEM

The designing theme of the Group's new generation aviation passenger service system is passenger orientation. It adopts service-orientation architedium ("SOA") technical structure, which not only has advantages such as powerful mainframe handling capacity, flexible research and development on open platforms and technologies, and quicker response, but also achieves smooth transition of system functions and maintains low operation cost, so as to support the sustainable development of commercial airlines' businesses and tie in with the development trend of aviation and travel industry.

In 2010, the Group accelerated the construction of a new generation aviation passenger service system (the New Generation System). As the development direction and strategies had been clarified, it was time for action. Based on the historical demand of the users, the Group launched coordinated investigations with major commercial airlines to determine the development direction, the path, the strategies of joint construction and the business cooperation model. The Group also accelerated the basic configuration of the system. The technical framework of the New Generation System was basically completed, which consisted of several platforms, namely, Message Central Switching System (MCSS), TravelSky Unified Message Service (TUMS), TravelSky API (TAPI), TravelSky Data Integration Engine (TDIE) and TravelSky Application Management (TAM), and thus materialized a smooth transition from a stage of mainframe integration to a stage of service integration. In addition, due to better configuration of our service systems, remarkable results were obtained in the installation and upgrading of the core public service systems used by ICS, CRS and APP. The Group will also boost construction of its core systems, and promote research and development in core application systems, including a new generation flight control system, an airlines front-end system, etc.

INFRASTRUCTURE

The Group's infrastructure serves to achieve sustainable development for its business. Its objectives are to ensure safety in production, satisfy the needs of business development, adjust system structure and optimize resource allocation by making full use of existing technologies, business and management instruments, so as to improve operation reliability and interference-resistant ability and realize low cost operation.

In 2010, adhering to the principle of "putting equal emphasis on stability and development, and treasuring both safety and efficiency", the Group strived to improve safety in production, enhance safety supervision, exploit system potential and accelerate technological transformation. The Group also established the safety production assessment system, implemented the potential safety hazard tracking system, promoted the construction of standardized systems, developed the operation automation platform and conducted the optimization scheme that was intended to incorporate the long-term and short-term mainframe systems. In addition, the Group completed the upgrading of the passenger departure system hot backup for some extra large airports, such as Beijing Capital International Airport, Guangzhou Airport and Shanghai Hongqiao Airport, reinforced the monitoring of core systems and the system disaster recovery rehearsal, and perfectly completed the mission of ensuring security for the civil aviation travellers information systems during the Shanghai World Expo and Guangzhou Asian Games. In 2010, the utilization ratios of the Group's ICS, CRS, APP, the core open system and the settlement and clearing mainframe systems were around 100%, 100%, 100%, 99.99% and 99.93% respectively.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial information of the Group contained in the financial statements (together with the notes thereto) reproduced in this annual report. The financial statements have been prepared in accordance with International Financial Reporting Standards. The following discussions on the synopsis of historical results do not represent a prediction as to the future business operations of the Group.

OVERVIEW

For Year 2010, profit before taxation of the Group was approximately RMB1,050.1 million, representing an increase of approximately 16.2% over that in the year ended December 31, 2009 ("Year 2009"). Earnings before interests, tax, depreciation and amortization (EBITDA) reached approximately RMB1,411.7 million, representing an increase of approximately 21.4% over that in Year 2009. Profit attributable to equity holders of the Company was approximately RMB896.9 million, representing an increase of approximately 15.6% over that in Year 2009 mainly due to the strict cost control amid a growth in revenue.

The basic and diluted earnings per share of the Group in Year 2010 were RMB0.46.

TOTAL REVENUE

The total revenue of the Group in Year 2010 amounted to approximately RMB3,054.4 million, representing an increase of approximately RMB434.9 million, or 16.6% from approximately RMB2,619.5 million in Year 2009. The increase in total revenue is reflected as follows:

- Aviation information technology service revenue represented 68.2% of the total revenue of the Group in Year 2010 as compared to 69.1% in Year 2009. Aviation information technology service revenue increased by 15.2% to RMB2,082.7 million in Year 2010 from RMB1,808.3 million in Year 2009, mainly due to the growth in the number of air travelers.

- Accounting, settlement and clearing revenue accounted for 9.7% of the Group's total revenue in Year 2010, as compared to 9.5% for Year 2009. Accounting, settlement and clearing services revenue increased by approximately 18.5% to approximately RMB296.3 million in Year 2010 from approximately RMB250.0 million for Year 2009, primarily due to the increase in business volume of international accounting, settlement and clearing services.

- Data network and other revenue represented 22.1% of the total revenue of the Group in Year 2010 as compared to 21.4% in Year 2009. Data network and other revenue increased by approximately 20.4% to approximately RMB675.4 million in Year 2010 from RMB561.2 million in Year 2009, mainly due to the increase in revenue from data network services.

OPERATING EXPENSES

Operating expenses for Year 2010 amounted to RMB2,063.3 million, representing an increase of RMB242.0 million, or 13.3%, from RMB1,821.3 million in Year 2009. The increase in operating expenses is reflected as follows:

- Depreciation and amortization increased by 17.5%, mainly due to purchase of new equipments and land use rights;
- Along with rapid growth in business volume, the Group has adopted cost control measures, as such the network usage charge decreased by 9.1%;
- Staff costs increased by 26.5%, primarily due to the increase in the number of staff and improvement of staff benefits for supporting the Group's business development.
- Operating lease payments decreased by 26.8%, mainly due to decrease in leased space due to the re-zoning of the office area; and
- Commission and promotion expenses increased by 29.8%, mainly due to the business development of the Group and the increased usage of APP system;

As a result of the above changes in revenue and operating expenses, the operating profit of the Group increased by approximately RMB192.9 million, or approximately 24.2% to approximately RMB991.1 million in Year 2010 from approximately RMB798.2 million in Year 2009.

CORPORATE INCOME TAX

Under the Corporate Income Tax Law of the People's Republic of China ("new CIT Law"), in general, the applicable income tax rate of enterprises in China is 25%. Pursuant to relevant requirements, enterprises recognized as "High and New Technology Enterprises" are entitled to a favorable statutory tax rate of 15%. In December 2008, the Company has been approved and certified by relevant authorities as a "High and New Technology Enterprise", and was entitled to the preferential tax rate of 15% from 2008 to 2010.

In addition to the recognised "High and New Technology Enterprise" enjoying a preferential income tax rate of 15%, enterprises being approved and certified by relevant authorities as an "Important Software Enterprise" can further enjoy a preferential income tax rate of 10%. According to the relevant regulations, the differences that resulted from the enterprise income tax paid at the rate of 15% over this preferential income tax rate of 10% should be adjusted in the period when an enterprise obtained its "Important Software Enterprise" certification.

The Company was recognized as an "Important Software Enterprise" for 2009 by relevant authorities in December 2009, and therefore it used an income tax rate of 10% in computing its corporate income tax for Year 2009.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As described in the announcement of the Company dated February 24, 2011, the Company was recognized as an "Important Software Enterprise" for 2010 by relevant authorities, and therefore it used an income tax rate of 10% in computing its corporate income tax for Year 2010.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

As a result of the above factors, the profit attributable to equity holders of the Company increased by approximately 15.6% to approximately RMB896.9 million in Year 2010 from approximately RMB775.9 million in Year 2009.

PROFIT AVAILABLE FOR DISTRIBUTION

After the appropriation of the statutory surplus reserve fund and the discretionary surplus reserve fund (as stated in Note 33 to the financial statements) from the profit attributable to shareholders of the Company, the profit available for dividend distribution as at December 31, 2010, amounted to approximately RMB1,572.8 million (2009: RMB1,220.1 million).

PROPOSED BONUS ISSUE AND DISTRIBUTION OF A FINAL CASH DIVIDEND FOR 2010

As disclosed in the announcement of the Company dated December 21, 2010, the Board proposed a bonus issue of one new share for every two existing shares held by the shareholders of the Company. Such proposals are subject to approval by the shareholders at the 2010 annual general meeting (the "AGM") and class meetings and by the relevant regulatory authorities (if any) and compliance with relevant laws and regulations. Further details of the proposed bonus issue will be contained in the circular to be issued to the shareholders, which will be despatched to the shareholders by the Company as soon as possible.

On March 29, 2011, the Board proposed the distribution of a final cash dividend of RMB306.3 million, which represented RMB0.157 per share for Year 2010. The total number of shares in issue which entitles the receipt of those dividends is 1,950,806,393 shares. Upon distribution of the above final dividend, the distributable profit as at December 31, 2010 will be approximately RMB778.8 million (2009: RMB958.7 million).

Pursuant to the new CIT Law and the Implementation Rules of the Corporate Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》), non-resident enterprise shareholders (including enterprises holding H shares of the Company as defined by the new CIT Law) are subject to an enterprise income tax for its income arising within the PRC territory (including dividends they were entitled to as defined by the new CIT Law). The applicable tax rate is 10% and the amount is withheld by the Company.

The annual general meeting and the H/domestic shareholder class meetings of the Company will be held at an appropriate time in Beijing, the PRC. The register of members of the Company will be closed within 30 days prior to the convening of the AGM. A notice of AGM and H/domestic shareholder class meetings specifying the book close date and the last registration date will be published accordingly. Holders of the H shares and domestic shares whose names appear on the register of members of the Company on or before the last registration date are entitled to attend the AGM and the H/domestic shareholder class meetings, the bonus share and the proposed final cash dividend for Year 2010 to be approved at the AGM.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company will make further announcement(s) on the specific arrangements in relation with bonus issue and cash dividend payment after the AGM and the H/domestic shareholder class meetings, including the date of payment of cash dividends and mechanism of withholding the income tax payable by non-resident enterprise shareholders.

LIQUIDITY AND CAPITAL STRUCTURE

The following table summarizes the cash flows of the Group for the following years:

	For the year ended December 31	
	2010	2009
	(RMB in million)	*(RMB in million)*
Net cash generated from operating activities	**1,303.4**	700.1
Net cash used in investing activities	**(1,714.6)**	(157.4)
Net cash used in financing activities	**(243.3)**	(312.6)
Effect of foreign exchange rate changes on cash and cash equivalents	**(2.0)**	(0.8)
Net increase (decrease) in cash and cash equivalents	**(656.6)**	229.3

The Group's working capital for Year 2010 mainly came from operating activities. Net cash inflow from operating activities amounted to RMB1,303.4 million. In Year 2010, the Group had no short-term and long-term bank loans, and the Group did not use any financial instruments for hedging purposes. As at December 31, 2010, cash and cash equivalents of the Group amounted to approximately RMB899.1 million, of which approximately 96.5%, 1.9% and 0.5% were denominated in Renminbi, U.S. dollars and Hong Kong dollars, respectively.

HELD-TO-MATURITY FINANCIAL ASSETS

The Company did not hold any treasury bonds of China or any held-to-maturity financial assets as at December 31, 2010.

CHARGE ON ASSETS

As at December 31, 2010, the Group had no charge on its assets.

CAPITAL EXPENDITURE

The capital expenditure of the Group amounted to approximately RMB2,513.3 million in Year 2010, representing an increase of approximately RMB2,108.1 million as compared to that of approximately RMB405.2 million in Year 2009. The capital expenditure of the Group in Year 2010 consisted principally of construction of the new operating centre in Beijing (inclusive of the related expenses of land acquisition detailed in the paragraph below), development of the new generation aviation passenger service system and promotion of other new businesses.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As set out in the announcements dated January 26, 2010 and February 26, 2010, and the circular dated March 2, 2010, the Company made a successful bid for the land use right of 08, 09, 19 and 21 blocks at Xincheng 19 Street, Shunyi District, Beijing at a transfer price of RMB1,910 million at an open auction to construct a new operating centre of the Group. The Company had fully paid the land transfer price on March 12, 2010.

The Board estimates that the Group's planned capital expenditure for the financial year ending 2011 will amount to approximately RMB1,049.5 million, which is mainly for construction of the new operating centre in Beijing and development of the new generation aviation passenger service system and promotion of other new businesses. The sources of funding for the capital expenditure commitments will include existing cash on hand and internal cash flow generated from operations. The Board estimates that the sources of funding of the Group in 2011 will be sufficient for its capital expenditure commitments, daily operations and other purposes.

EXCHANGE RISKS

The Group's foreign exchange risk arises from commercial transactions and recognized assets and liabilities denominated in foreign currencies. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

GEARING RATIO

As at December 31, 2010, the gearing ratio of the Group was approximately 13.6% (2009: 12.4%), which was computed by dividing the total amount of liabilities by the total assets of the Group as at December 31, 2010.

CONTINGENT LIABILITIES

As at December 31, 2010, the Group had no material contingent liabilities.

EMPLOYEES

As at December 31, 2010, the total number of employees of the Group was 4,324. Staff costs amounted to approximately RMB616.6 million for Year 2010, representing approximately 29.9% of the total operating cost of the Group for Year 2010.

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 PRC laws and regulations, as amended from time to time. The remuneration of the employees of the Group includes salaries, bonuses and fringe benefits provided in compliance with relevant regulations in the PRC, as amended from time to time, such as medical insurance, pension, unemployment insurance, maternity insurance and housing funds.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In 2008, the Group established a corporate annuity scheme (or "supplementary pension plan") in accordance with relevant policies of the PRC. According to the corporate annuity scheme which had been approved and come into effect in 2008, the Group is required to make provision for monthly corporate annuity fees with reference to the total actual salary each month during 2008 and the ratio approved by the relevant authorities of the PRC. It also needs to deposit the annuities in the custody account of corporate annuity fund opened by its custodian. In 2010, the annual corporate annuity of the Group amounted to approximately RMB24.2 million (2009: RMB19.1 million).

Relevant details of Directors' remuneration are set out in Note 7 to the financial statements. Currently, none of the Non-executive Directors of the Company receive any remuneration. Nevertheless, any reasonable fees and expenses incurred by the Non-executive Directors during their tenure of service will be borne by the Company. Independent Non-executive Directors of the Company do receive director's fee, which is determined by reference to the prevailing market price, their duties and personal qualifications, and that any reasonable fees and expenses incurred by Independent Non-executive Directors during their tenure of service will be borne by the Company. All directors of the Company (the "Directors") are entitled to liability insurance taken out by the Company for Directors.

The Group also provides its employees with opportunities to acquire skills in areas such as the aviation and travel industry, computer information technologies and business administration, and provides training on the latest development in areas such as computer information technologies, personal qualities, laws, regulations and economics.

As disclosed in the announcement of the Company dated December 21, 2010, the Board proposed the adoption of the H Share Appreciation Rights Scheme (the "Scheme") for certain Directors, senior management and employees of the Company. The Scheme shall first be approved by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") before adoption by the Company. If SASAC approves the Scheme, the Scheme will further be submitted to the shareholders for approval at a general meeting. Further details of the general meeting for the purpose of considering and approving the Scheme by the shareholders and a circular setting out further details of the Scheme will be dispatched to the shareholders as soon as practicable after obtaining approval of the Scheme from the SASAC.

CORPORATE GOVERNANCE REPORT

The board of Directors (the "Board"), Supervisory Committee and senior management of the Company are committed to implementing effective corporate governance policies to ensure that all decisions are made in good faith and in accordance with the principles of transparency, fairness and integrity. With necessary and effective counterbalance, the Company continues to improve its corporate governance structure, so as to raise the quality of supervision and management, and to meet the expectation of its shareholders and the relevant parties.

CORPORATE GOVERNANCE PRACTICE

In compliance with the Company Law of the People's Republic of China (the "PRC Company Law") and the Articles of Association of the Company (the "Articles"), the Company has regulated its operations and provided information of the Company to all market participants and regulatory authorities on a timely, accurate, complete and true basis, aiming to enhance its transparency. The Board has adopted the code provisions as stipulated in the "Code on Corporate Governance Practices" (the "Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the Company's code of corporate governance practices.

In 2010, the Company has fully complied with the Code except the code provisions D.1.1 and D.1.2. In 2010, the Company has set out the respective duties of the Board and the General Manager in the Articles. However, the Company has not formulated specific written guidelines in respect of other duties and authority delegated to the management, which deviates from code provisions D.1.1 and D.1.2 of the Code. Currently, the Board grants special authority to the management for approval or execution of certain type of matters or events based on actual requirements and the Board is of the opinion that the current arrangement does not prejudice the interests of the Company.

SECURITIES TRANSACTIONS OF DIRECTORS

Each Director of the Company has fulfilled their duties in a conscientious, diligent and honest manner. In 2010, the Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 to the Listing Rules, requesting all Directors to carry out securities transactions in accordance with the Model Code. Having made specific enquiries of all Directors, no Director failed to comply with the relevant requirements of the Model Code in 2010.

THE BOARD

The Board is responsible to lead and monitor the Company, and to collectively make decision on and supervise the operation of the Company.

The Board is responsible for preparing accounts for each financial period to ensure them to reflect the Group's business and results during the period in an accurate and fair manner. In preparing the accounts for 2010, the Board has adopted the International Financial Reporting Standard ("IFRS") and selected the appropriate accounting policy to make prudent and reasonable judgments and estimations, and prepared accounts on ongoing concern basis. The Directors accept responsibilities for the preparation of the Group's financial statements. In 2010, the Board announced the annual results for 2009 and the interim results for 2010 within 120 days and 60 days respectively after the end of the respective financial periods in accordance with the requirements under the Articles.

According to the provisions of the Articles, the Board comprises 9 Directors, (please refer to the section of "Corporate Information" for the list of Directors), including 3 Independent Non-executive Directors.

During the reporting period, the Company received from the three Independent Non-executive Directors, namely Mr. Cheung Yuk Ming, Mr. Zhou Deqiang and Mr. Pan Chongyi, annual confirmations of their independence for 2010 in accordance with Rule 3.13 of the Listing Rules. The Company considers that all of the above Independent Non-executive Directors are independent.

Pursuant to the Articles and the PRC Company Law, the Directors serve a term of 3 years and are subject to re-election upon expiry. Where election cannot be arranged in time before the expiry of term, or where the number of members of the Board falls below the quorum due to resignation of Directors during the term, then, prior to assuming office by the elected Directors, the existing Directors shall continue to perform their duties in accordance with the requirements of the laws, administrative regulations and the Articles.

Upon election at the extraordinary general meeting of the Company held on March 16, 2010, Mr. Xu Qiang, Mr. Cui Zhixiong and Mr. Xiao Yinhong were re-elected as Executive Directors, Mr. Wang Quanhua and Mr. Luo Chaogeng were re-elected as Non-executive Directors, Mr. Sun Yude was elected as a Non-executive Director, and Mr. Cheung Yuk Ming, Mr. Zhou Deqiang and Mr. Pan Chongyi were elected as Independent Non-executive Directors; the above 9 persons shall form the fourth Board of the Company for a term of 3 years with effect from the conclusion of such extraordinary general meeting. In addition, Mr. Cao Guangfu shall cease to be a Non-executive Director, and Mr. Yick Wing Fat, Simon, Mr. Yuan Yaohui and Mr. Chua Keng Kim shall cease to be Independent Non-executive Directors with effect from the conclusion of the extraordinary general meeting. On the same day, the fourth Board held its first meeting, Director Xu Qiang was re-appointed as the Chairman; Director Xiao Yinhong was re-appointed as General Manager; Mr. Rong Gang, Mr. Wang Wei, Mr. Sun Yongtao, Mr. Zhu Xiaoxing and Mr. Huang Yuanchang, were re-appointed as Deputy General Managers; Mr. Sun Yongtao was appointed as Financial Controller; Mr Li Jinsong was appointed as General Counsel; Mr. Yu Xiaochun was appointed as Company Secretary (Secretary to the Board) and Solicitor Liu Pui Yee was engaged as Joint Company Secretary.

CORPORATE GOVERNANCE REPORT

Biographies of each of the members of the fourth Board of the Company are set out on pages 126 to 130. Each of the Directors has extensive experience in aviation, information technology, corporate management or finance, etc. The appointment of Independent Non-executive Directors is in compliance with the requirements as set out in Rules 3.10(1) and (2) of the Listing Rules. The Chairman of the Board (Chairman) and Chief Executive Officer (General Manager) were assumed by different Directors, who performed their respective duties according to the Articles.

Independent Non-executive Directors of the Company will perform their duties with care and due diligence, and with their valuable professional experience, provide guidance for operation management of the Company based on the overall interests of the Company. Moreover, being the members of the Audit Committee and the Remuneration and Evaluation Committee (the "Remuneration Committee"), they have performed their duties such as supervising financial reporting procedures and internal control. In 2010, the Independent Non-executive Directors conducted a hearing into the work report on the Company's business systems and operating strategies, etc., and conducted investigation and research in respect of the business environment of the Company and the market development trend.

In 2010, the third Board held one meeting and the fourth Board held a total of four meetings, with attendance of the Board meetings as follows:

Name	**Position**	**Number of meetings attended** *(Times)*	**Number of meetings held** *(Times)*	**Attendance rate**
Xu Qiang	Chairman, Executive Director	5	5	100%
Cui Zhixiong	Executive Director	5	5	100%
Xiao Yinhong	Executive Director	5	5	100%
Wang Quanhua	Non-executive Director	5 (with 1 attended by another authorised Director on his behalf)	5	100%
Luo Chaogeng	Non-executive Director	5 (with 3 attended by another authorised Director on his behalf)	5	100%
Sun Yude	Non-executive Director	4 (with 1 attended by another authorised Director on his behalf)	4	100%

Name	Position	Number of meetings attended *(Times)*	Number of meetings held *(Times)*	Attendance rate
Zhou Deqiang	Independent Non-executive Director	4	4	100%
Pan Chongyi	Independent Non-executive Director	4	4	100%
Cheung Yuk Ming	Independent Non-executive Director	4	4	100%
Cao Guangfu	Non-executive Director (Resigned in March 2010)	1	1	100%
Yick Wing Fat, Simon	Independent Non-executive Director (Resigned in March 2010)	1	1	100%
Chua Keng Kim	Independent Non-executive Director (Resigned in March 2010)	1	1	100%
Yuan Yaohui	Independent Non-executive Director (Resigned in March 2010)	1 (with 1 attended by another authorised Director on his behalf)	1	100%

In 2010, in addition to the above-mentioned meetings, the Board also convened two meetings by circulation of documents, and each Director expressed his opinion in writing in respect of the matters proposed at each of such two meetings.

CORPORATE GOVERNANCE REPORT

The Board is accountable to the general meeting in accordance with the Articles and performs the following duties: convening general meetings and reporting its work therein; implementing resolutions passed at the general meetings; confirming business plans and investment plans; preparing the annual budgets and accounts; proposing to shareholders on the distribution of dividends and bonuses as well as increment and decrement of share capital; establishing proposals for amendment to the Articles; deciding other significant affairs and administrative issues of the Company other than issues to be resolved in the general meetings as stipulated in the PRC Company Law and the Articles, and exercising other power by virtue of office and obligations as delegated by the general meetings and the Articles. It is also stipulated in the Company's Articles that resolutions approved by the Board in connection with the Company's connected transactions are not valid unless they are signed by Independent Non-executive Directors.

The Chairman of the Board (Chairman) and the General Manager (Chief Executive Officer) of the Company are assumed by Director Xu Qiang and Director Xiao Yinhong respectively. According to the Articles, the Chairman is responsible for convening and presiding at the Board meetings, organizing and executing the duties of the Board, examining the implementation of the resolutions of the Board, signing the securities of the Company and executing other duties delegated by the Board; the General Manager is responsible for managing the Company's daily production and operation, coordinating the implementation of the resolutions passed by the Board, coordinating the implementation of the annual business plans and investment plans, formulating plans for the internal management bodies, formulating plans for the branches of the Company, establishing the basic management system, formulating the basic constitution, proposing the appointment or dismissal of the Deputy General Manager and Financial Controller of the Company, appointing or dismissing officers other than those to be appointed or dismissed by the Board and performing other duties as delegated by the Articles and the Board.

Despite the explicit requirements on the duties and the authority of the Board and the General Manager under the Articles, the Board has yet to set out clear guidance on the duties of and the authority delegated to the management, which is partly deviated from code provisions D.1.1 and D.1.2. The Board is of the opinion that the management, with the General Manager being the core leader, when assigned the tasks of handling daily operation and management of the Company, shall not prejudice the interests of the Company.

In addition, at the first meeting of the fourth Board meeting held on March 16, 2010, the Board authorized General Manager to (a) determine the insignificant adjustments of the internal management bodies; (b) determine the establishment of branches of the Company; (c) determine the appointment or removal of the principal officers of the internal management bodies and branches (branch companies) of the Company; (d) appoint and change the members of the board of directors and the supervisory committee of the wholly-owned subsidiaries, appoint, change and recommend shareholder representatives, directors, supervisors and the senior management of the controlled subsidiaries and investee subsidiaries; and (e) approve and dispose of the equity investment and equity acquisition or disposal matters in respect of the principal operations of the Company or a single investment of the Company or a total investment less than RMB10,000,000 made in the same investee, including approval of the investment or transaction plans, approval and execution of the necessary documents in the course of plan implementation and so on. If the connected transactions and notifiable transactions under the Listing Rules are involved in the matters, the matters shall be conducted according to the related requirements of connected transactions and notifiable transactions formulated by the Company.

According to the Code, the Board should review the effectiveness of the Company's internal control system at least once every year. The management is responsible for implementing and maintaining the Group's existing internal control system and its effectiveness, and in turn the activities of the management and the effectiveness of the internal control system shall be monitored by the Board and its Audit Committee. In 2010, the Company reviewed the effectiveness of the internal control system and did not identify any significant failings or weaknesses in all material respects. The Company will continue to optimize its internal control system and made improvement of the identified insufficiency, aiming at enhancing the level of the corporate governance gradually. At the Board meeting held on March 29, 2011 the Board was of the opinion that the Group's internal control system was basically effective in 2010 after a discussion, thus providing reasonable protection against the realization of the target of overall control of the Company.

According to the directions given by the Listing Committee (for details, please refer to the press release published by The Stock Exchange of Hong Kong Limited on September 28, 2009 in relation to the Company and certain then Executive Directors), the Company has appointed a compliance adviser for consultation on Listing Rules compliance on an ongoing basis, such appointment is for a term of two years, during which period the compliance adviser shall be accountable to the Audit Committee of the Company. During the reporting period, the Company consulted and adopted the advices and recommendations of the compliance adviser from time to time.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The role, duties and authority of the Audit Committee are available at the Company's website. They mainly include: reviewing financial reports in respect of its completeness, accuracy and integrity; receiving reports from the management and auditors; making enquiries and receiving reasonable explanations to and from the Company's financial department and auditors on the Company's financial position; reviewing issues in respect of the Group's internal control and financial reporting and reporting the same to the Board. The Audit Committee held at least two regular meetings each year, and meetings will also be held at any time as and when necessary.

In 2010, the Audit Committee of the fourth Board comprises three Independent Non-executive Directors, namely Mr. Cheung Yuk Ming, Mr. Zhou Deqiang and Mr. Pan Chongyi. Mr. Cheung Yuk Ming acted as the chief member of the Audit Committee. The term of each member of the committee is the same as his term as a Director.

In 2010, the Audit Committee convened two meetings, and the attendance rate of all members in the meetings was as follows:

Name	Number of meetings attended *(Times)*	Number of meetings held in 2010 *(Times)*	Attendance rate
Cheung Yuk Ming (Chief member)	2	2	100%
Zhou Deqiang	2	2	100%
Pan Chongyi	2	2	100%

The Audit Committee has submitted the minutes of each meeting to the Board. The Audit Committee has sufficient resources to discharge its duties. Its work during 2010 is briefly described as follows:

- review of financial reports for the year ended December 31, 2009 and the six months ended June 30, 2010. Upon discussion with the management, the Company's financial department and external auditors, the Audit Committee agreed on the accounting treatment policy adopted by the Group and considered that the Group has tried its best to ensure the disclosure of financial information is in compliance with appropriate accounting standards and the requirements of the Listing Rules;

- review of auditing arrangements of external auditors and their status report, review of the independence of the external auditors and the effectiveness of their auditing procedures, discuss with the external auditors in relation to the nature and scope of the audit and relevant reporting responsibilities, and examination of issues raised by auditors to the management and the management's response to the same;

- review of the annual review report issued by the Company and the external auditors in respect of connected transactions;

- review of the Company's regulations on financial control and risk management, supervision of the coordination between internal and external auditing and their effectiveness, as well as the efficiency of internal financial reporting procedures and the implementation of internal management;

- discussion with the management on the Company's internal control and the appointment of professional consultant, review on the internal control system in accordance with Listing Rules, provision of advice and recommendations to the Board, and review of the work report and recommendations of the compliance adviser; and

- consideration and approval of remuneration for auditing services and terms of engagement of external auditors, supervision on whether any non-auditing services have been provided by external auditors and giving of advice to the Board on engagement of auditors.

The new Audit Committee recommended to appoint PricewaterhouseCoopers (Certified Public Accountants in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Certified Public Accountants in the PRC) as the Group's international and PRC auditors respectively for Year 2011.

REMUNERATION AND EVALUATION COMMITTEE

The Remuneration Committee shall be composed of at least three Directors of which a majority should be Independent Non-executive Directors. The term of each member of the Remuneration Committee is the same as his term as a Director. One Independent Non-executive Director serves as the chief member of the Remuneration Committee. The role and duties of the Remuneration Committee are available at the Company's website. They mainly include: studying appraisal criteria for Directors and senior management, giving advice and carrying out appraisal according to the Company's actual operation; studying and reviewing remuneration policies and proposals of Directors and senior management, and evaluating its effectiveness; advising the Board on the overall remuneration policies and frameworks of Directors and senior management of the Company, and on the remuneration policy for setting up formal and transparent procedures; monitoring the implementation of the Company's remuneration policies; determining specific remuneration of all Executive Directors and senior management and advising the Board on the remuneration of Non-executive Directors; reviewing and approving performance-linked remuneration in accordance with the corporate goals as from time to time approved by the Board; reviewing and approving the payment of compensation for loss or termination of office or appointment to Executive Directors and senior management to ensure such compensation is determined in accordance with contract terms; reviewing and approving the compensation arrangement for dismissal or removal of Directors for their misconducts to ensure such arrangement is made in accordance with contract terms; ensuring no Director or its associates could determine their own remuneration. The Remuneration Committee shall report to the Board its decisions or recommendations. The remuneration plan of the Company's Directors made by the Remuneration Committee is subject to the approval of the Board, and consideration and approval at the general meeting. The remuneration plan of the Company's senior management should also be approved by the Board.

CORPORATE GOVERNANCE REPORT

On March 16, 2010, upon the decision of the first meeting of the fourth Board, three Independent Non-executive Directors, namely Mr. Cheung Yuk Ming, Mr. Zhou Deqiang, Mr. Pan Chongyi, a Non-executive Director, Mr. Wang Quanhua and an Executive Director, Mr. Cui Zhixiong, were appointed to form the new Remuneration Committee, and Mr. Zhou Deqiang was appointed as the chief member of the committee.

In December 2010, the Remuneration Committee convened a meeting, at which the Company's proposal to adopt the H Share Appreciation Rights Scheme was reviewed and considered. In 2010, the attendance rate of members of the Remuneration Committee in the meetings was as follows:

Name	**Number of meetings attended** *(Times)*	**Number of meetings held in 2010** *(Times)*	**Attendance rate**
Zhou Deqiang (Chief member)	1	1	100%
Pan Chongyi	1	1	100%
Cheung Yuk Ming	1	1	100%
Wang Quanhua	1	1	100%
Cui Zhixiong	1	1	100%

REMUNERATION POLICY OF DIRECTORS

The Board has approved and entered into service contracts with the Directors on behalf of the Company under the authorization given at the general meeting. Pursuant to the contract, the annual fees of each of the Independent Non-executive Directors from 2010 will be RMB120,000 (Inclusive of tax), but the Independent Non-executive Directors are not entitled to bonus. The fees are determined with reference to the prevailing market price and the respective working experience and duties of the Independent Non-executive Directors. The Executive Directors and Non-executive Directors are not entitled to such fees and/or bonus. However, Executive Directors are entitled to the remuneration for their full-time service if they are full-time employees of the Company. Such remuneration includes salaries, benefits, subsidies and retirement benefit scheme contribution as determined in accordance with the laws and regulations of the PRC and the policy guidance issued by the upper regulatory authorities as amended from time to time and their respective work duties, performance and working experience, as well as the discretionary bonus paid to employees based on the performance and financial position of the Company in accordance with the employees' remuneration scheme. The Company also bears the reasonable costs incurred by the Directors during their service in the Company and the Directors are entitled to liability insurance (if any) taken out by the Company for the Directors, Supervisors and senior management. The revised proposal for Directors' remuneration is determined by the Board and the Remuneration Committee according to the authorization given at the general meeting and the applicable laws and regulations. Details of remuneration of each of the Directors are set out in Note 7 to the financial statements.

As disclosed in the Company's announcement dated December 21, 2010, the Board also proposed to adopt the Scheme for certain Directors, senior management and employees of the Company. The adoption of the Scheme shall be subject to the approval by SASAC. The Executive Directors of the Company are among the incentive recipients under the Scheme. If and after SASAC approves the Scheme, the Scheme will be submitted to the Shareholders for approval at a general meeting. Further details of the general meeting for the purpose of considering and approving the Scheme by the Shareholders together with a circular setting out further details of the Scheme will be despatched to the Shareholders as soon as practicable after SASAC has approved the Scheme.

NOMINATION OF DIRECTORS

The Company has not set up a nomination committee. Nomination and election of Directors are currently carried out in accordance with the Articles. At present, the nomination and election procedures of the Directors are as follows: the major promoter shareholders and the Board nominate and recommend candidates of Directors (other than Independent Non-executive Directors) and Independent Non-executive Directors respectively; following the selection of candidates of Directors (including Independent Non-executive Directors) by the Board in accordance with the relevant requirements of the PRC Company Law, the Listing Rules, Chapter 14 of the Articles "Eligibility and obligations of Directors, Supervisors, Managers and other senior management of the Company", the election of proposed Directors will be put forward for approval at the general meeting; each Director serves for a term of 3 years and is subject to re-election upon expiry; written notices of intention of nominations of Director's candidate and of candidate's acceptance for nomination shall be sent to the Company after the date that the notice on the general meeting for the purpose of Directors' election is issued and at least 7 days prior to the date of the meeting; each session of the Board comprises 9 Directors, of which at least one-half of the Directors are external Directors (including at least three Independent Non-executive Directors); directors shall be elected by way of ordinary resolution in the general meeting; in case more than 9 Directors are approved, those who have got the highest votes shall be elected as Directors; any Director who has unexpired terms of office may be removed by way of ordinary resolution at the general meeting provided that the general meeting is conducted in accordance with the relevant provisions of laws and administrative rules.

In accordance with the above procedures, the Board made recommendations to the general meeting regarding the candidates to be elected as Directors (details are set out in the circular of the Company dated January 29, 2010) in January 2010 which had been approved by shareholders at the extraordinary general meeting of the Company held on March 16, 2010.

Members of professional committees under the Board shall be nominated by either the Chairman, more than half of the Independent Non-executive Directors or one-third of all the Directors, and subsequently elected by the Board. Chief members of all committees shall be appointed by the Board. Members of the committees shall satisfy the qualification requirements set out in the working rules of the respective committees. In accordance with the above principles, the Board nominated and appointed members for the new session of the Audit Committee, the Remuneration Committee, the Strategic Committee and the Executive Committee in March 2010.

REMUNERATION OF EXTERNAL AUDITORS

Aggregate remunerations for annual statutory audit services provided by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company, the Company's international and PRC auditors respectively, to the Group for Year 2010 amounted to RMB1,928,000, while those for non-audit services amounted to RMB160,000 respectively.

STRATEGIC COMMITTEE

The Strategic Committee is responsible for studying and advising the Company for its long term development strategies and significant investment decisions, including major issues like significant investment financing plans, significant capital operations and asset operations, which have an impact on the Company's development. Their duties are available at the Company's website. The Strategic Committee of the Company comprises six Directors. The term of each member of the Committee is the same as his term as a Director.

On March 16, 2010, upon the decision of the first meeting of the fourth Board, six Directors, namely Xu Qiang, Cui Zhixiong, Xiao Yinhong, Wang Quanhua, Luo Chaogeng and Sun Yude were appointed to form the new Strategic Committee of the Company, and Director Xu Qiang was appointed as the chief member of the committee.

The Strategic Committee did not convene any meeting in 2010.

EXECUTIVE COMMITTEE

At the meeting of the fourth Board of the Company held on March 16, 2010, it was resolved to set up an executive committee (the "Executive Committee") to be responsible for examining, supervising and implementing the resolutions of the Board; regularly listening to the report on the operation and management of the Company by the General Manager; regularly reporting its works to the Board and making recommendations and plans on important issues which shall be discussed and determined by the Board. Its duties are available at the Company's website.

The Executive Committee comprises all Executive Directors with the Chairman appointed as the chief member of the Executive Committee (chairman). The term of each member of the Committee is the same as his term as a Director. On March 16, 2010, the fourth Board appointed three Executive Directors, namely Xu Qiang, Cui Zhixiong and Xiao Yinhong to form the Executive Committee with Director Xu Qiang appointed as the chief member of the Executive Committee (chairman).

On March 16, 2010, the fourth Board authorized the Executive Committee to approve and dispose of the equity investment and equity acquisition or disposal matters in respect of the principal operations of the Company or a single investment of the Company or a total investment over RMB10,000,000 made in the same investee but within 1% of the total assets of the Group (the Company and subsidiaries), including approval of the investment or transaction plans, approval and execution of the necessary documents in the course of plan implementation and so on. If the connected transactions and notifiable transactions under the Listing Rules are involved in the matters, the matters shall be conducted according to the related requirements of connected transactions and notifiable transactions formulated by the Company.

The Executive Committee did not convene any meeting in 2010.

SUPERVISORY COMMITTEE

In accordance with the PRC Company Law and the Articles, the Supervisory Committee comprises five Supervisors, including two Shareholder Representative Supervisors, one Independent Supervisor and two Staff Representative Supervisors. Other supervisors are all elected, appointed and removed at the general meeting of the Company, except Staff Representative Supervisors are elected, appointed or removed at the staff representative meeting of the Company. The term of each of the Supervisors of the Supervisory Committee of the Company is three years. Biographies of each of the Supervisors are set out on pages 131 to 132.

Supervisory Committee reviews the Company's financial position in accordance with the Articles and supervises the operation management activities of the Board and senior management. The Supervisory Committee is responsible for attending Board meetings, reviewing financial information proposed by the Directors at the general meetings from time to time such as corporate financial affairs and financial statements, and supervising activities of the Board and other senior management for their discharge of duties. In case of conflict of interest between the Company and any of its Directors, the Supervisory Committee shall negotiate or initiate legal proceedings against such Directors on behalf of the Company. Any resolution proposed in any meeting of the Supervisory Committee shall be adopted with approval granted by two-thirds or more of the Supervisors.

Upon election at the extraordinary general meeting held on March 16, 2010, Mr. Yu Yanbing was re-elected as a Supervisor of the Company, Mr. Rao Geping was re-elected as an Independent Supervisor of the Company, Ms. Zeng Yiwei was elected as a Supervisor and Ms. Du Hongying ceased to be a Supervisor. In addition, as decided by the staff representative meeting of the Company, Ms. Li Xiaojun was re-elected as a staff representative Supervisor, Mr. Xiao Wei was appointed as staff representative Supervisor and Ms. Gao Jingping ceased to be a staff representative Supervisor. Ms. Li Xiaojun, Ms. Zeng Yiwei, Mr. Yu Yanbing, Mr. Rao Geping and Mr. Xiao Wei shall form the fourth Supervisory Committee of the Company. On the same day, the fourth Supervisory Committee held its first meeting, and Ms. Li Xiaojun was elected as the Chairperson of the Supervisory Committee.

During 2010, the third Supervisory Committee held one meeting and the fourth Supervisory Committee held a total of three meetings. The Supervisory Committee reviewed the financial information relating to the annual results for the year ended December 31, 2009 and the interim results for the six months ended June 30, 2010, supervised over operation and management activities of the Board and senior management, and discussed matters relating to the election of Supervisors, and made recommendations to the management.

CORPORATE GOVERNANCE REPORT

In 2010, the third Supervisory Committee held one meeting and the fourth Supervisory Committee held a total of three meetings. Attendance of each of the Supervisors of the Supervisory Committee at the Supervisory Committee meetings was as follows:

Name	**Position**	**Number of meetings attended** *(Times)*	**Number of meetings held** *(Times)*	**Attendance rate**
Li Xiaojun	Chairperson of the Supervisory Committee, Staff Representative Supervisor	4	4	100%
Zeng Yiwei	Supervisor	3	3	100%
Yu Yanbin	Supervisor	4 (with 1 attended by another authorised Supervisor on his behalf)	4	100%
Rao Geping	Independent Supervisor	4 (with 1 attended by another authorised Supervisor on his behalf)	4	100%
Xiao Wei	Staff Representative Supervisor	3	3	100%
Du Hongying	Supervisor (Resigned in March 2010)	1 (with 1 attended by another authorised Supervisor on her behalf)	1	100%
Gao Jingping	Staff Representative Supervisor (Resigned in March 2010)	0	1	0%

In 2010, all Supervisors of the Supervisory Committee fully complied with the requirements of the Model Code.

By Order of the Board
Yu Xiaochun
Company Secretary

March 29, 2011

REPORT OF DIRECTORS

The Board of the Company is pleased to present its report together with the audited financial statements of the Group for Year 2010.

GROUP ACTIVITIES

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

The analysis of the Group's financial performance is set out under the section headed "Management Discussion and Analysis of Financial Condition and Results of Operations". No analysis of the Group's revenues and contribution to operating profit by geographical areas is presented, as revenues and results of the Group during Year 2010 were principally derived from the operations of the Group in the PRC.

SHARE CAPITAL STRUCTURE

The issued share capital of the Company as at December 31, 2010 amounted to 1,950,806,393 shares, with a par value of RMB1.00 each. As at December 31, 2010, 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	1,329,098,393	68.13
H Shares	621,708,000	31.87
Total	1,950,806,393	100.00

INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at December 31, 2010, the interests and short positions of any persons (other than Directors, Supervisors or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "Ordinance") are set out as follows:

Name of shareholder	**Number and class of shares** *(Note 1)*	**Capacity**	**Approximate percentage of respective class of share capital**	**Approximate Percentage of total share capital** *(Note 2)*
Platinum Investment Management Limited	22,193,619 H shares of RMB1 each (L)	Investment manager	3.57%	1.14%
	46,099,233 H shares of RMB1 each (L) *(Note 3)*	Trustee (other than a bare trustee)	7.41%	2.36%
GMT Capital Corp.	62,502,000 H shares of RMB1 each (L) *(Note 4)*	Beneficial owner	10.05%	3.20%
Templeton Asset Management Limited	62,402,861 H shares of RMB1 each (L)	Investment manager	10.04%	3.20%
The Hamon Investment Group Pte Limited	43,706,000 H shares of RMB1 each (L) *(Note 5)*	Investment manager	7.03%	2.24%
Platinum International Fund	43,293,433 H shares of RMB1 each (L)	Beneficial owner	6.96%	2.22%
JPMorgan Chase & Co.	42,191,500 H shares of RMB1 each (P) *(Note 6)*	Custodian-corporation/ approved lending agent	6.79%	2.16%
	1,141,000 H shares of RMB1 each (L) *(Note 6)*	Investment manager	0.18%	0.06%
	36,000 H shares of RMB1 each (L) *(Note 6)*	Beneficial owner	0.01%	0.01%
The Bank of New York Mellon Corporation	38,489,498 H shares of RMB1 each (L) *(Note 7)*	Interest of controlled corporation	6.19%	1.97%

REPORT OF DIRECTORS

Name of shareholder	Number and class of shares *(Note 1)*	Capacity	Approximate percentage of respective class of share capital	Approximate Percentage of total share capital *(Note 2)*
Keywise Capital Management (HK) Limited	38,069,000 H shares of RMB1 each (L)	Beneficial owner	6.12%	1.95%
Prudential Plc	31,079,000 H shares of RMB1 each (L) *(Note 8)*	Interest of corporation controlled by the substantial shareholder	5.00%	1.59%
China TravelSky Holding Company	571,484,393 domestic shares of RMB1 each (L)	Beneficial owner	43.00%	29.29%
China Southern Air Holding Company	232,921,000 domestic shares of RMB1 each (L)	Beneficial owner	17.52%	11.94%
	43,849,000 domestic shares of RMB1 each (L) *(Note 9)*	Interest of controlled corporation	3.30%	2.25%
China Eastern Air Holding Company	218,829,000 domestic shares of RMB1 each (L)	Beneficial owner	16.46%	11.22%
	16,770,000 domestic shares of RMB1 each (L) *(Note 10)*	Interest of controlled corporation	1.26%	0.86%
	2,600,000 domestic shares of RMB1 each (L) *(Note 11)*	Interest of controlled corporation	0.20%	0.13%
China National Aviation Holding Company	178,867,000 domestic shares of RMB1 each (L)	Beneficial owner	13.46%	9.17%
	12,480,000 domestic shares of RMB1 each (L) *(Note 12)*	Interest of controlled corporation	0.94%	0.64%

REPORT OF DIRECTORS

Notes:

(1) (L) – Long position; (P) – lending pool.

(2) Percentage of total share capital is based on 1,950,806,393 shares of the total issued share capital of the Company as at December 31, 2010.

(3) 2,293,200 H shares and 43,806,033 H shares of these shares were held by Platinum Investment Management Limited as the trustee of Platinum Asia Fund and Platinum International Fund respectively.

(4) Based on the latest Corporate Substantial Shareholder Notice filed by GMT Capital Corp. on June 18, 2010, the 62,502,000 H shares in which GMT Capital Corp. was deemed to be interested were held through Bay II Resources Partners, LP, Bay Resources Partners, LP, Bay Offshore Resource Partners, Lyxor (such companies were 100% controlled by GMT Capital Corp.) and Thomas E. Claugus.

(5) Based on the latest Corporate Substantial Shareholder Notice filed by The Hamon Investment Group Pte Limited on December 16, 2010, the 43,706,000 H shares in which The Hamon Investment Group Pte Limited was deemed to be interested were held through Hamon Asset Management Limited, Hamon U.S. Investment Advisors Limited and Hamon Investment Management Limited (such companies were 100% controlled by The Hamon Investment Group Pte Limited).

(6) These shares were held by JPMorgan Chase Bank, N.A., J.P.Morgan Asset Management (Taiwan) Limited, JPMorgan Asset Management (Asia) Inc., JPMorgan Asset Management Holdings Inc., J.P. Morgan Whitefriars Inc., J.P. Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation and J.P. Morgan International Inc., which were 100% controlled by JPMorgan Chase & Co.. JPMorgan Chase & Co was deemed to be interested in the shares held by such companies by virtue of the Ordinance.

(7) Based on the latest Corporate Substantial Shareholder Notice filed by The Bank of New York Mellon Corporation on December 8, 2010, the 38,489,498 H shares in which The Bank of New York Mellon Corporation was deemed to be interested were held through The Bank of New York Mellon (such company was 100% controlled by The Bank of New York Mellon Corporation).

(8) 31,079,000 H shares were held by Prudential Plc through its controlled companies. The shares were held by Prudential Asset Management (Hong Kong) Ltd, which was 100% controlled by Prudential Corporation Holdings Ltd, which was 100% controlled by Prudential Holdings Ltd, which was in turn 100% controlled by Prudential Plc.

(9) These shares were held by Xiamen Airlines Company Limited, a subsidiary of China Southern Air Holding Company. China Southern Air Holding Company was deemed to be interested in the shares held by Xiamen Airlines Company Limited by virtue of the Ordinance.

(10) These shares were held by China Eastern Airlines Corporation Limited, a subsidiary of China Eastern Air Holding Company. China Eastern Air Holding Company was deemed to be interested in the shares held by China Eastern Airlines Corporation Limited by virtue of the Ordinance.

(11) These shares were held by China Eastern Airlines Wuhan Company Limited, a subsidiary of China Eastern Air Holding Company. China Eastern Air Holding Company was deemed to be interested in the shares held by China Eastern Airlines Wuhan Company Limited by virtue of the Ordinance

(12) These shares were held by Shenzhen Airlines Company Limited, a controlled corporation of China National Aviation Holding Company. China National Aviation Holding Company was deemed to be interested in the shares held by Shenzhen Airlines Company Limited by virtue of the Ordinance.

(13)Based on the latest Corporate Substantial Shareholder Notice filed by J.P. Morgan Fleming Asset Management Holdings Inc. ("J.P. Morgan Holdings") on April 7, 2003, J.P. Morgan Holdings was a substantial shareholder of the Company being interested in 22,199,000 H shares through its controlled corporation. These shares were held by JF Asset Management Limited, which was 99.99% controlled by J.P. Morgan Fleming Asset Management (Asia) Inc., which was in turn 100% controlled by J.P. Morgan Holdings.

(14) For the latest disclosure of interests filings of the substantial shareholders of the Company's H shares, please refer to the "Disclosure of Interests" section on the website of Hong Kong Exchanges and Clearing Limited ("HKEX") (www.hkexnews.hk).

Save as the above, as at December 31, 2010, no persons (other than Directors, Supervisors or chief executives of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Ordinance.

MOVEMENT IN SHARE CAPITAL

As disclosed in the announcement of the Company dated December 21, 2010, the Board proposed a bonus issue of one new share for every two (2) existing shares held by the shareholders of the Company and no fractional bonus shares will be issued. Based on the Company's existing issued shares in total of 1,950,806,393 shares, upon the distribution of bonus shares, the Company's total shares in issue will increase to 2,926,209,589 shares, of which the number of domestic shares will increase to 1,993,647,589 shares and the H shares will increase to 932,562,000 shares. One resolution to approve the bonus issue and the consequential amendment to the Company's Articles of Association will be put to the AGM and the relevant H/domestic shareholder class meetings to be held in 2011 at appropriate time for approval by shareholders by way of a special resolution.

PUBLIC FLOAT

The Company has maintained the prescribed public float under the Listing Rules, based on the corporate information available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report.

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

As at December 31, 2010, none of the Directors, Supervisors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Ordinance) as recorded in the register required to be kept under Section 352 of the Ordinance, or as otherwise 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 executive of the Company or their respective associates had been granted or had exercised any rights to subscribe the securities of the Company or any of its associated corporations (within the meaning of Part XV of the Ordinance) for the year ended December 31, 2010.

As at December 31, 2010, each of China TravelSky Holding Company, China Southern Air Holding Company, China Eastern Air Holding Limited and China National Aviation Holding Company had interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Ordinance.

As at December 31, 2010,

(a) Mr. Xu Qiang (Chairman of the Company and an executive Director) was an employee of China TravelSky Holding Company;

(b) Mr. Wang Quanhua (a non-executive Director) was an employee of China Southern Air Holding Company;

(c) Mr. Luo Chaogeng (a non-executive Director) was an employee of China Eastern Air Holding Limited; and

(d) Mr. Sun Yude (a non-executive Director) was an employee of China National Aviation Holding Company.

Save as disclosed above, as at December 31, 2010, none of the existing and proposed Directors or Supervisors of the Company was a director, supervisor or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Ordinance.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

All members of the fourth session of the Board and the fourth session of the Supervisory Committee of the Company have entered into service contracts with the Company. The term for the fourth session of the Board and the Supervisory Committee is 3 years, commencing from March 16, 2010 and ending on March 15, 2013 or on the date when the fifth session of the Board or the Supervisory Committee is elected by shareholders. Pursuant to the relevant requirements of the PRC Company Law and the Articles, the respective term of the Directors and Supervisors shall commence from the conclusion of the general meeting at which such Directors and Supervisors are elected until the forming of the next session of the Board and the Supervisory Committee upon election by a general meeting.

For the year ended December 31, 2010, none of the Directors or Supervisors had entered or proposed to enter into a service contract with any member of the Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

Certain members of the fourth session of the Board and the Supervisory Committee are also members of management of various PRC commercial airlines which are shareholders of the Company. The contracts or transactions entered into between the Company or any of its subsidiaries and such airline shareholders have been referred to in the section "Connected Transactions" of this Report of Directors. Save as disclosed in that section, none of the Directors or Supervisors were materially interested, either directly or indirectly in any contract of significance to which the Company or any of its subsidiaries was a party during, or at the end of Year 2010.

REMUNERATION OF DIRECTORS AND SUPERVISORS

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

INTEREST CAPITALIZED

No interest was capitalized for the Group in Year 2010.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during Year 2010 are summarised in Note 13 to the financial statements.

RESERVES

Details of movements in reserves of the Group for Year 2010 are set out in the consolidated statement of changes in equity.

REPORT OF DIRECTORS

DIVIDENDS AND BONUS SHARES

The Board recommends the payment of a final cash dividend amounting to RMB0.157 per share for Year 2010. The Board proposed a bonus issue of one (1) bonus share for every two (2) existing shares held by the shareholders of the Company and no fractional bonus shares will be issued. For details, please refer to the section headed "PROPOSED BONUS ISSUE AND DISTRIBUTION OF A FINAL CASH DIVIDEND FOR 2010" in "Management Discussion and Analysis of Financial Condition and Results of Operations".

EMPLOYEES' RETIREMENT SCHEME

Details of the employees' retirement scheme of the Group are set out in the section headed "Employees" in "Management Discussion and Analysis of Financial Condition and Results of Operations" and Note 7 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

Sociètè Internationale de Tèlècommunications Aeronautiques S.C. ("SITA S.C.") was the largest supplier of the Group for Year 2010 and the total network usage fees paid by the Group to SITA S.C. in Year 2010 accounted for 2.6% of the Group's total operating expenses (excluding depreciation and amortization expenses). During Year 2010, the total amount paid to the five largest suppliers of the Group accounted for 8.9% of the Group's total operating expenses (excluding depreciation and amortization expenses).

Sales to the largest customer of the Group, China Eastern Airlines Corporation Limited, the subsidiary of China Eastern Air Holding Company, accounted for 17.6% of the Group's total revenues for Year 2010. During Year 2010, total sales to the Group's five largest customers accounted for 59.1% of the Group's total revenues. Three of these top five customers were China Southern Airlines Company Limited, China Eastern Airlines Corporation Limited and Air China Limited. Their respective substantial shareholders, namely China Southern Air Holding Company (a substantial shareholder of the Company) and China Eastern Air Holding Company (a substantial shareholder of the Company), hold an aggregate of approximately 36.2% of the issued share capital of the Company as at December 31, 2010. The revenue derived from the above major customers is set out in Note 38 to the financial statements.

Save as disclosed in this report and in Note 38 to the financial statements, none of the Directors, Supervisors and their associates nor any shareholder (which to the knowledge of the Directors hold more than 5% of the Company's issued share capital) had any interest in any of the aforementioned suppliers and customers.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the Company's subsidiaries and associated companies as at December 31, 2010 are set out in Note 1 to the financial statements.

CONNECTED TRANSACTIONS

Impact of amendments to the Listing Rules in June 2010

As the amendments to certain rules regarding connected transactions under the Listing Rules became effective from June 3, 2010, "promoters" were no longer defined as connected persons under the amended rules. As such, the connected persons of the Company under the Listing Rules will, effective from June 3, 2010, exclude the following promoters or their associates, namely Air China Limited, Shenzhen Airlines Company Limited, Shandong Airlines Company Limited, Hainan Airlines Company Limited, Da Xin Hua Airlines Limited, Air Macau Company Limited, Aviation Cares of Southwest Chengdu, Ltd and Cares Chongqing Information Technology Co., Ltd (herebelow referred to as "Promoter Airlines").

Continuing Connected Transactions

During Year 2010, the Group continued to carry out the following transactions, which constitute continuing connected transactions as defined in the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

(a) *The Group (excluding ACCA) provides aviation information technology services and products to a number of airlines ("Airlines")* as follows, which includes:

(A) the associates of the substantial shareholders (including China Southern Airlines Company Limited ("Southern Airlines "), Xiamen Airlines Company Limited ("Xiamen Airlines"), Sichuan Airlines Company Limited ("Sichuan Airlines"), Chongqing Airlines Company Limited, China Eastern Airlines Corporation Limited ("Eastern Airlines"), China Eastern Airlines Wuhan Company Limited ("CEA Wuhan"), China Joy Air Co., Ltd ("Joy Air"), Shanghai Airlines Ltd ("Shanghai Airlines", formerly known as Shanghai Airlines Company Limited); and

(B) a number of promoters and their associates (including Air China Limited ("Air China"), Shandong Airlines Company Limited ("Shandong Airlines"), Shenzhen Airlines Company Limited ("Shenzhen Airlines"), Kunming Airlines Ltd, Henan Airlines Company Limited (formerly known as Kun Peng Airlines Company Limited), Hainan Airlines Company Limited ("Hainan Airlines"), Yunnan Lucky Airlines Company Limited ("Lucky Airlines"), and Da Xin Hua Holding Limited). Pursuant to the section headed "Impact of Amendments to the Listing Rules in June 2010" above, such Promoter Airlines will no longer be considered as connected persons of the Company from June 3, 2010.

REPORT OF DIRECTORS

The Group provided the aviation information technology service and related products, including:

(i) flight control system services which provided, among other services, the consolidated information, flight information, flight control, flight tickets sales, automatic tickets sales and announcement of freight price;

(ii) electronic travel distribution system services which provided, among other services, flight information display, real-time flight reservation, automatic tickets sales, tickets price display and other travel- related services;

(iii) airport passenger processing system services which provided check-in, boarding and load planning services; and

(iv) civil aviation and commercial data network services which provided, among other services, the network transmission services and connection services.

The Airlines are connected persons (as defined under the Listing Rules) of the Company. In accordance with the prescribed prices of Civil Aviation Administration of China ("CAAC") determined through amicable negotiation between both parties, depending on the types of system through which the transactions were processed, the aforesaid Airlines were required to pay service fees to the Group on monthly basis including:

(i) per passenger booking fee for domestic routes ranging from RMB4.5 to RMB6.5 depending on the monthly booking volume and for international and regional routes ranging from RMB6.5 to RMB7;

(ii) fees for each boarding passenger handled by the airport passenger processing system up to maximum allowable price of RMB7 for international and regional routes and up to a maximum of allowable price of RMB4 for domestic routes depending on the types of the route, volume, level of services, etc;

(iii) load balancing fees for each flight handled by the airport passenger processing system up to maximum allowable price of RMB500 depending on the size of the aircraft; and

(iv) fees for using the Company's data network services such as physical identified device (PID) connection fees and maintenance fees depending on type and quantity of equipment.

The above continuing connected transactions were conducted in the ordinary and usual course of business of the Group and were the source of principal operating revenue of the Group. For more details, please refer to the announcements of the Company dated September 19, 2007, December 31, 2008, January 5, 2009, January 21, September 2, November 4, 2009 and March 23, June 2 and November 17, 2010 respectively and circulars of the Company dated October 10, 2007, February 4 and November 13, 2009 and April 1, 2010 respectively.

The respective annual caps and transaction amounts of the above continuing connected transactions for the financial year ended December 31, 2010 were as follows:

Airlines *(connected persons)*	**Agreement date**	**Year 2010 Annual caps** *(RMB'000)*	**2010 Transaction amounts** *(RMB'000)*
Southern Airlines (including Xiamen Airlines, Chongqing Airlines Company Limited)	December 29, 2009	484,553.00	411,726
Sichuan Airlines	November 9, 2009	117,417.30	102,598
Eastern Airlines	June 30, 2007	653,360.00	335,550
Shanghai Airlines	March 12, 2010	150,000.00	125,268
CEA Wuhan	December 31, 2008	25,494.00	17,467
Joy Air	January 5, 2009	6,930.00	1,569
Air China	December 30, 2008	345,207.00	144,571*
Shandong Airlines	December 30, 2008	48,135.00	21,729*
Shenzhen Airlines (including Kun Ming Airlines Co., Ltd. and Henan Airlines Company Limited)	January 4, 2010	185,866.00	72,421*
Hainan Airlines (including Da Xin Hua Holding Limited)	January 20, 2009	253,090.00	88,904*
Lucky Airlines	December 30, 2008	25,047.00	10,656*

* *Pursuant to the section headed "Impact of Amendments to the Listing Rules in June 2010" above, such company was no longer considered as connected persons of the Company since June 3, 2010. Such amounts were the transaction amounts for the period from January to June 2010.*

(b) *Lease of Properties by the Company from China TravelSky Holding Company*

The Company continued to lease the properties in Dongsi, Beijing (as stated in the announcement of the Company dated December 23, 2009) from China TravelSky Holding Company in 2010 as data centers for daily operation. As China TravelSky Holding Company is a substantial shareholder of the Company, China TravelSky Holding Company is a connected person of the Company. Term of the tenancy agreements for the lease of the Dongsi properties was three years from January 1, 2010. The amount of the rentals payable to China TravelSky Holding Company by the Company is fixed. The rental (including property management fee) was RMB4.11 per square meter per day and is paid quarterly. The annual cap of the above continuing connected transaction for Year 2010 was RMB31,350,000.

For Year 2010, total rental paid by the Company to China TravelSky Holding Company under the above tenancy agreements amounted to approximately RMB31,257,410.

REPORT OF DIRECTORS

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

As set out in the announcement of the Company dated November 4, 2009, and the circular of the Company dated November 13, 2009, the Service Companies include:

(A) The following non-wholly owned subsidiaries, being the connected persons under Rule 14A.11(5) of the Listing Rules:

Hainan Civil Aviation Cares Co., Ltd. ("Hainan Cares"), Cares Shenzhen Co., Ltd. ("Shenzhen Cares"), Cares Hubei Co., Ltd. ("Hubei Cares"), Cares Chongqing Information Technology Co., Ltd. ("Chongqing Cares"), Aviation Cares of Yunnan Information Co., Ltd. ("Yunnan Cares"), Civil Aviation Cares of Xiamen Ltd. ("Xiamen Cares"), Civil Aviation Cares of Qingdao Ltd. ("Qingdao Cares"), Civil Aviation Cares Technology of Xi'an Ltd. ("Xi'an Cares") and Civil Aviation Cares Technology of Xinjiang Ltd. ("Xinjiang Cares");

(B) The associates of the substantial shareholders or the associates of promoters of the Company, being connected persons as defined under Rule 14A.11(4) of the Listing Rules:

Shanghai Civil Aviation East China Cares System Integration Co., Ltd. ("Huadong Cares"), Shenyang Civil Aviation of Northeast China Ltd. ("Northeast Cares"), Aviation Cares of Southwest Chengdu,Ltd. ("Xinan Cares"), Shanghai Dongmei Aviation Tourism Online Co., Limited("Dongmei Online") and Guangzhou Airport AirSpan Information Technology Co. Ltd. ("Guangzhou Airport");

These Service Companies are established to distribute products of the Company and to provide better services to the local customers. These Service Companies (i) are established and operate in different regions and maintain the connection points and equipment of their respective networks which are connected to the Company's network and systems. They also act as the regional service centers of the Company's data network services, to provide such services as linking connection points of the network data transmission equipment and terminals, equipment installation and maintenance, technical support and other network services; (ii) provide technological service to the customers of the Company's aviation technology system within the Company's nationwide data network; (iii) provide marketing and distribution services for products of the Company; and (iv) provide technology development service.

The service fees payable by the Company to the Service Companies were determined on the following basis: (i) service fees would be determined in accordance with the pricing schedule prescribed by regulatory authorities (i.e. CAAC) in the event that services were regulated by relevant regulatory authorities; (ii) service fees would be determined through negotiation with reference to government price guideline; (iii) if there was no prescribed pricing schedule or price guideline, or the prescribed pricing schedule or price guideline had been revoked or inapplicable, the service fees would be determined through negotiation between the Company and the Service Companies with references to the prevailing market prices (if any) or previously prescribed pricing schedule or price guideline or on a cost basis.

REPORT OF DIRECTORS

On November 4, 2009, a service framework agreement was entered into between the Company and its 25 subsidiaries and associates (including the aforesaid Service Companies) with a term of 3 years commencing on January 1, 2010. The agreement would be automatically renewed and extended for another three years if no party gave dissenting opinion in writing three months prior to its expiration. The annual cap of the above continuing connected transactions for Year 2010 was RMB120,871,000.

During Year 2010, the aggregated amounts of the transactions between the Company and the Service Companies were as follows:

Service Companies	**Year 2010 Annual caps** *(RMB'000)*	**2010 Transaction amounts** *(RMB'000)*
Hainan Cares	3,672	2,701
Shenzhen Cares	15,257	12,879
Xiamen Cares	3,802	3,157
Xinjiang Cares	4,232	3,675
Hubei Cares	6,229	5,305
Yunnan Cares	4,211	2,520
Xi'an Cares	4,619	4,336
Qingdao Cares	4,840	4,287
Chongqing Cares	2,470	769*
Huadong Cares	37,138	14,786
Northeast Cares	6,611	4,221
Guangzhou Airport	1,000	–
Dongmei Online	280	–
Xinan Cares	26,510	2,487*

* *As described in the section headed "Impact of the Amendments to Listing Rules in June 2010" above, Chongqing Cares and Xinan Cares were no longer considered as connected persons of the Company with effect from June 3, 2010. Such amounts were the transaction amounts for the period from January to June 2010.*

REPORT OF DIRECTORS

(d) *Technology development services provided by Xinan Cares to the Company*

As stated in the announcement of the Company dated August 31, 2009, the Company entered into the Technology Services Agreement with Aviation Cares of Southwest Chengdu, Ltd. ("Xinan Cares") on August 31, 2009 for a term of two years. The Company was provided with software technology services personnel by Xinan Cares and the Company paid to Xinan Cares the monthly service fees (inclusive of fees for technology personnel and venue rentals) calculated at the rate as required in the agreement.

Since Xinan Cares was owned as to 35% by Air China, which is a subsidiary of China National Aviation Holding Company (one of the promoters of the Company), Xinan Cares was an associate of a promoter and therefore a connected person of the Company under Rule 14A.11(4) of the Listing Rules. As stated in the section headed "Amendments to the Listing Rules in June 2010" above, Xinan Cares ceased to be a connected person of the Company since June 3, 2010.

Under the Technology Services Agreement, the annual cap of the transaction between the Company and Xinan Cares for Year 2010 was RMB6,000,000. During the period from January to June 2010, the Company paid Xinan Cares approximately RMB1,850,000 as fees for above technological services.

(e) *Security check information system services provided by Xiamen Cares to the Company*

As stated in the announcement of the Company dated July 29, 2010, the Company entered into the Security Check System Service Agreement (the "Agreement") with Xiamen Cares (a connected person as defined under Rule 14A.11(5) of the Listing Rules) with a term from July 29, 2010 to December 31, 2012. Pursuant to the Agreement, the Company will from time to time subcontract certain works regarding the security check information system of different projects to Xiamen Cares. The services include, among others, the design of the security check operating system, the procurement, supply, planning, installment, testing, inspection, training and/or implementation of software and hardware.

Service fees: The fees to be paid to Xiamen Cares for each project shall be determined and agreed between the parties in writing based on the scale and actual circumstances and after taking into account the costs and income of both parties and market conditions. The schedule and method of payment of the fees shall also be determined and agreed between the parties in writing based on the scale and actual circumstances of each project.

The annual cap of the continuing connected transaction under the Agreement for Year 2010 was RMB13,000,000. The transaction amount of the Agreement for Year 2010 was approximately RMB8,120,000.

(f) *Services provided by ACCA to the Airlines (as specified in item (a) of the section headed "Continuing Connected Transactions" above)*

In March 2009, the Company completed the acquisition of 100% equity interest in ACCA. As a wholly owned subsidiary of the Company, the provision of services by ACCA to the connected persons of the Company is also subject to the relevant requirements under Chapter 14A of the Listing Rules.

(i) The provision of Revenue Accounting Systems Development and Support Services and/or Passenger and Cargo Revenue Accounting and Settlement Services by ACCA to those airlines.

Scope of services includes:

(1) provision of computer system application development and support services including self-developed computer application systems in respect of both international and domestic passengers revenue accounting system, international and domestic cargo revenue accounting system, mail revenue accounting system, airport miscellaneous charges accounting system, data service system, international and domestic clearing and settlement system by ACCA; service fees varied depending on the transaction volume (i.e. the higher the transaction volume, the lower the rate) as expressly stipulated in the agreement, and such fees would be collected on a monthly basis;

(2) provision of data capturing, sales reporting control, sales auditing, prorating, uplift processing, outward and inward billing, coupon matching, accounting, reconciliation and management reporting services for passenger and cargo (as the case may be) revenue accounting and settlement services by ACCA; service fees would be determined with reference to the rates and rules prescribed in the relevant documents of the industrial regulatory authorities, and the pricing of services provided would be expressly stipulated in the relevant agreements based on a percentage rate of the total accounting amount and/or the transaction volume times unit price; the service fees were paid monthly.

REPORT OF DIRECTORS

In Year 2010, the transaction amounts and annual caps of the above continuing connected transactions between ACCA and the below connected persons were as follows:

Airlines *(connected persons)*	**Agreement date**	**Year 2010 Annual caps** *(RMB'000)*	**2010 Transaction amounts** *(RMB'000)*
Southern Airlines	September 22, 2009	40,300.00	35,578
Xiamen Airlines*	December 21, 2007	3,042.00	724
Sichuan Airlines	December 29, 2009	4,038.00	3,211
Eastern Airlines	March 29, 2011	86,365.00	48,626
Shanghai Airlines*	January 29, 2010	14,000.00	8,700
Air China	August 17, 2010	66,702.00	22,624**
Shenzhen Airlines	January 29, 2008	6,592.05	2,857**
Shenzhen Airlines Cargo Co., Ltd.	March 18, 2008	624.00	240**
Shandong Airlines	October 12, 2010	4,163.00	1,694**
Air Macau Company Limited	December 31, 2006	11,435.00	2,572**
Hainan Airlines*	January 6, 2009	9,071.00	3,188**

* *Agreements executed by these companies only relate to passenger and cargo revenue accounting and settlement services.*

** *Pursuant to the section headed "Impact of Amendments to the Listing Rules in June 2010" above, such company was no longer considered as connected persons of the Company since June 3,2010. Such amounts were the transaction amounts for the period from January to June 2010.*

(For details, please refer to the announcements of the Company dated May 26, 2008, and May 12, September 3, September 22, November 4 and December 29, 2009, and March 23 and June 2, 2010 respectively, and the circulars of the Company dated June 16, 2008 and November 13, 2009 respectively.)

(ii) IATA (International Air Transport Association) – BSP Services (Provision of Sales Data Processing and Settlement Service)

Scope of services includes: provision of sales data processing and capital settlement service between the agencies and certain airline companies to IATA in the PRC, Hong Kong, Macau and Taiwan, and supply of software application support, development and maintenance services. Pursuant to the service fee basis defined in the agreement dated March 27, 2008 between ACCA and IATA, service fees were charged on the airlines on the basis of a "Standard Charging Unit" per processing transaction. Transactions are defined in Renminbi for transactions in the PRC, in Hong Kong Dollars for Hong Kong, Macau and in United Stated Dollars for other territories, subject to exchange rate fluctuation which will be adjusted in accordance with the terms of the agreement.

As stated in the announcement of the Company dated May 26, 2008 and the circular of the Company dated June 16, 2008, the annual cap in the above continuing connected transaction for Year 2010 was RMB98,103,000.

In 2010, the total transaction amount under the above agreement between ACCA and IATA was approximately RMB74,209,000, which included the transaction amount of approximately RMB37,096,000 between ACCA and the connected persons (as defined under the Listing Rules) of the Company (Southern Airlines, Eastern Airlines, Air China, Xiamen Airlines, Hainan Airlines, Shandong Airlines, Sichuan Airlines, Shanghai Airlines, Shenzhen Airlines and Air Macau Company Limited) according to the statistics of ACCA.

As stated in the section headed "Impact of Amendments to the Listing Rules in June 2010", under the agreement, Air China, Hainan Airlines, Shandong Airlines, Shenzhen Airlines and Air Macau Company Limited ceased to be a connected person of the Company since June 3, 2010. From 2011, the Company's continuing connected transactions with ACCA under the agreement will only include those transactions between ACCA and Southern Airlines, Xiamen Airlines, Sichuan Airlines, Eastern Airlines and Shanghai Airlines. As stated in the announcement of the Company dated December 1, 2010, the annual caps of the transactions contemplated under the agreement for the period from 2011 to 2013 were disclosed.

(iii) Domestic Mail Revenue Accounting and Settlement

As stated in the announcement of the Company dated May 12, 2009, during the period from September to December 2008, ACCA entered into an agreement with each party thereto, for a term from January 1, 2009 to December 31, 2016.

The agreement entered into and signed by the following parties on dates set forth below:

Southern Airlines: November 5, 2008;
Xiamen Airlines: October 23, 2008;
Sichuan Airlines: September 10, 2008;
Eastern Airlines: December 11, 2008;
Shanghai Airlines: September 11, 2008;
Hainan Airlines: December 4, 2008;
Shandong Airlines: September 3, 2008;
Air China (signed by its subsidiary Air China Cargo Co., Ltd.): September 21, 2008;
Shenzhen Airlines (signed by its subsidiary Shenzhen Airlines Cargo Co., Ltd.): December 2, 2008.

Scope of services under the agreement includes: provision of stock control, sales control, sales audit, uplift revenue proration, accounting processing, sales and uplift matching, clearing and settlement services by ACCA to the airlines. The system service fee was charged on a monthly basis. The service fee was based on the rate as set out in the agreement in which ACCA received payment of 1.5% handling charges from the airlines, and such fee was charged by reference to the relevant documents issued by the industry regulatory authorities.

REPORT OF DIRECTORS

The annual cap in the above continuing connected transactions for Year 2010 was RMB13,000,000. The domestic mail revenue accounting and settlement transaction amount for Year 2010 was approximately RMB9,030,000.

In the opinion of the Independent Non-executive Directors of the Company, the above items (a) to (f) of the continuing connected transactions:

(i) were in the usual and ordinary course of business of the Group;

(ii) were conducted on normal commercial terms, or where there is no available comparison, on terms that are no less favorable than those available to or from (as it is applicable) independent third parties;

(iii) were conducted on the terms of the relevant agreement governing those transactions, which are fair and reasonable and in the interest of the shareholders of the Company as a whole; and

(iv) did not exceed the annual cap amounts disclosed in the previous announcements and circulars during the financial year ended December 31, 2010.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the above items (a) to (f) of the continuing connected transactions disclosed by the Group in accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

One-off connected transaction:

Subcontract Agreement entered into with Qingdao Cares for the construction of departure system

As stated in the announcement of the Company dated July 29, 2010, the Company entered into the Subcontract Agreement in respect of the sub-project for departure system of the weak current system for the terminals of Hefei Airport with Qingdao Cares (being a connected person of the Company under Rule 14A.11(4) of the Listing Rules) for a subcontract sum of RMB11,271,727, which was agreed upon based on, among others, market conditions. The works under the Subcontract Agreement will be completed on or about June 30, 2011.

The Directors confirm that the above transactions are connected transactions or continuing connected transactions of the Company (some of them are also the related party transactions as set out in Note 38(2) to the financial statements) which are the connected transactions and continuing connected transactions under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

TRUST DEPOSITS AND IRRECOVERABLE OVERDUE TIME DEPOSITS

As at December 31, 2010, the Group did not have any trust deposits or irrecoverable overdue time deposits. All of the Group's cash deposits are deposited with commercial banks and are in compliance with applicable laws and regulations.

TAX RELIEF AND EXEMPTION

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended December 31, 2010, the Company and any of its subsidiaries did not purchase, sell or redeem any of its securities.

AUDIT COMMITTEE AND COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Audit Committee has reviewed the accounting policy and practice adopted by the Group and has also discussed certain other matters relating to audit, internal control and financial reporting including the review of the audited consolidated financial statements of the Group for the year ended December 31, 2010. Details of the Company's compliance with the requirements of the code provisions in the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules for Year 2010 are set out in the "Corporate Governance Report" contained in this annual report.

PRE-EMPTIVE RIGHTS

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

MATERIAL LITIGATION

The Group was not involved in any material litigation or dispute in Year 2010.

REPORT OF DIRECTORS

AUDITORS

PricewaterhouseCoopers (Certified Public Accountants in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Certified Public Accountants in the PRC) are the Company's international and PRC auditors respectively for Year 2010.

A resolution relating to the appointment of PricewaterhouseCoopers (Certified Public Accountants in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (Certified Public Accountants in the PRC) as the Company's International and PRC auditors for the year ending December 31, 2011 respectively will be proposed at the Year 2010 annual general meeting of the Company.

By order of the Board
Xu Qiang
Chairman

March 29, 2011

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the year ended December 31, 2010, members of the fourth Supervisory Committee of the Company have diligently performed their duties, during their tenure, in ensuring that the Company has observed and complied with the Listing Rules, the laws and regulations of the PRC, the Articles of Association of the Company and other relevant rules and regulations to protect the interests of the Company and its shareholders.

According to the Articles of Association of the Company, the Supervisory Committee of the Company comprises five Supervisors (among which the number of staff representative Supervisors should be more than one-third of the number of members of the Supervisory Committee) and one independent Supervisor. Each Supervisor serves a term of 3 years. (The list of Supervisors is set out in the section headed "Corporate Information" and the biographies of Supervisors are set out on pages 131 to 132).

The third Supervisory Committee of the Company convened one meeting during Year 2010. The fourth Supervisory Committee was established in March 2010, which convened three meetings during Year 2010. The fourth Supervisory Committee reviewed the Company's financial statements for Year 2009 and interim financial statements for Year 2010, and attended meetings of the board of directors (the ''Board'') and undertook the responsibility to monitor the policies and decisions made by the Board as to whether they were in compliance with the Listing Rules, the relevant laws and regulations of the PRC, the Articles of Association of the Company, and the interests of the Company and shareholders, and offered proper suggestions to the Board and the management. For the scope of work of the Supervisory Committee, please refer to the section headed "Supervisory Committee" in the Corporate Governance Report.

On March 30, 2011, the fourth Supervisory Committee of the Company reviewed the Company's financial statements for Year 2010 which were audited by PricewaterhouseCoopers and prepared in accordance with International Financial Reporting Standards, and considered that the financial statements gave a true and fair view of the financial position and operation results of the Company and in compliance with the regulations applicable to the Company. The fourth Supervisory Committee confirmed that the Company had not been involved in any material litigation or arbitration, and there were no litigations or claims of material importance pending or threatened by or against the Company during Year 2010.

The fourth Supervisory Committee considered that the Board and the senior management of the Company were committed to act honestly and to perform their duties diligently during Year 2010, such that the best interests of the Company and the shareholders were protected. The Supervisory Committee considered that the report of the Board for the year ended December 31, 2010 reflected the actual operational circumstances of the Company. The Supervisory Committee has great confidence in the Company's future prospects and development.

By Order of the Supervisory Committee
Li Xiaojun
Chairperson of the Supervisory Committee

March 29, 2011

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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TO THE SHAREHOLDERS OF TRAVELSKY TECHNOLOGY LIMITED
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of TravelSky Technology Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as, the "Group") set out on pages 54 to 119, which comprise the consolidated and company balance sheets as of December 31, 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as of December 31, 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 29, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts expressed in thousands of Renminbi ("RMB"), except per share data)

	Note	Year ended December 31, 2010	2009
Revenues			
Aviation information technology services		**2,082,670**	1,808,335
Accounting, settlement and clearing services		**296,317**	249,983
Data network and others		**675,416**	561,206
Total revenues	*5*	**3,054,403**	2,619,524
Operating expenses			
Business taxes and other surcharges		**(109,132)**	(92,170)
Depreciation and amortisation		**(400,202)**	(340,660)
Network usage fees		**(73,720)**	(81,114)
Personnel expenses		**(616,563)**	(487,304)
Operating lease payments		**(53,529)**	(73,172)
Technical support and maintenance fees		**(160,534)**	(153,528)
Commission and promotion expenses		**(354,807)**	(273,448)
Other operating expenses		**(294,776)**	(319,882)
Total operating expenses		**(2,063,263)**	(1,821,278)
Operating profit		**991,140**	798,246
Financial income, net		**34,612**	84,313
Share of results of associated companies		**24,390**	21,090
Profit before taxation	*6*	**1,050,142**	903,649
Taxation	*10*	**(130,830)**	(109,167)
Profit after taxation		**919,312**	794,482
Other comprehensive income			
Currency translation differences		**(1,104)**	342
Other comprehensive income, net of tax		**(1,104)**	342
Total comprehensive income		**918,208**	794,824
Profit after taxation attributable to			
Owner of the parent		**896,882**	775,900
Non-controlling interests		**22,430**	18,582
		919,312	794,482
Total comprehensive income attributable to			
Owner of the parent		**895,778**	776,242
Non-controlling interests		**22,430**	18,582
		918,208	794,824
Earnings per share for profit attributable to Owner of the parent			
Basic and diluted (RMB)	*12*	**0.46**	0.40
Cash Dividends	*11*	**306,277**	261,408

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

CONSOLIDATED BALANCE SHEET

(Amounts expressed in thousands of Renminbi)

	Note	As at December 31, 2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment, net	*13*	**1,058,531**	891,985
Lease prepayment for land use right, net	*14*	**2,032,855**	109,236
Intangible assets, net	*15*	**104,413**	82,559
Investments in associated companies	*17*	**130,855**	123,835
Deferred income tax assets	*19*	**11,085**	10,006
Other long-term assets	*20*	**4,570**	2,786
		3,342,309	1,220,407
Current assets			
Inventories	*21*	**7,948**	8,095
Accounts receivable, net	*22*	**226,757**	185,550
Due from related parties, net	*23, 38(3)*	**1,384,156**	1,362,615
Due from associated companies	*25*	**17,000**	13,010
Income tax receivable		**49,120**	35,212
Prepayments and other current assets	*26*	**216,089**	343,717
Short-term bank deposits	*27*	**1,738,834**	2,302,954
Cash and cash equivalents	*28*	**899,144**	1,555,723
		4,539,048	5,806,876
Total assets		**7,881,357**	7,027,283
EQUITY			
Capital and reserves attributable to Owner of the parent			
Paid-In capital	*31*	**1,950,806**	1,950,806
Reserves	*32*	**2,577,213**	2,367,208
Retained earnings	*33*		
– Proposed final cash dividend	*11*	**306,277**	261,408
– Others		**1,849,077**	1,469,581
		6,683,373	6,049,003
Non-controlling interests		**124,472**	109,664
Total equity		**6,807,845**	6,158,667
LIABILITIES			
Non-Current liabilities			
Deferred income tax liabilities	*19*	**49**	131
Current liabilities			
Accounts payable and accrual liabilities	*29*	**911,441**	768,529
Due to related parties	*30*	**121,065**	92,550
Income tax payable		**7,305**	4,419
Deferred revenue		**33,652**	2,987
		1,073,463	868,485
Total liabilities		**1,073,512**	868,616
Total equity and liabilities		**7,881,357**	7,027,283
Net current assets		**3,465,585**	4,938,391
Total assets less current liabilities		**6,807,894**	6,158,798

Approved by the Board of Directors on March 29, 2011.

Xu Qiang
Chairman

Xiao Yinhong
Director

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

BALANCE SHEET

(Amounts expressed in thousands of Renminbi)

	Note	As at December 31, 2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment, net	*13*	**899,447**	722,983
Lease prepayment for land use right, net	*14*	**2,014,349**	90,326
Intangible assets, net	*15*	**101,673**	77,512
Investments in subsidiaries	*16*	**403,057**	399,986
Investments in associated companies	*17*	**27,290**	27,290
Deferred income tax assets	*19*	**10,234**	8,465
Other long-term assets	*20*	**56,480**	2,698
		3,512,530	1,329,260
Current assets			
Accounts receivable, net	*22*	**178,853**	138,727
Due from related parties, net	*23, 38(3)*	**1,113,243**	1,193,564
Due from subsidiaries, net	*24*	**36,562**	20,280
Due from associated companies	*25*	**16,726**	10,478
Income tax receivable		**48,959**	29,094
Prepayments and other current assets	*26*	**38,017**	195,770
Short-term bank deposits	*27*	**1,159,037**	1,989,038
Cash and cash equivalents	*28*	**433,707**	968,193
		3,025,104	4,545,144
Total assets		**6,537,634**	5,874,404
EQUITY			
Capital and reserves attributable to Owner of the parent			
Paid-in capital	*31*	**1,950,806**	1,950,806
Reserves	*32*	**2,209,184**	1,998,075
Retained earnings	*33*		
– Proposed final cash dividend	*11*	**306,277**	261,408
– Others		**1,304,165**	1,057,325
Total equity		**5,770,432**	5,267,614
LIABILITIES			
Current liabilities			
Accounts payable and accrual liabilities	*29*	**595,497**	509,281
Due to related parties	*30*	**116,519**	73,519
Due to subsidiaries		**55,186**	23,990
		767,202	606,790
Total equity and liabilities		**6,537,634**	5,874,404
Net current assets		**2,257,902**	3,938,354
Total assets less current liabilities		**5,770,432**	5,267,614

Approved by the Board of Directors on March 29, 2011.

Xu Qiang
Chairman

Xiao Yinhong
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts expressed in thousands of Renminbi)

	Note	Attributable to owner of the parent Paid-In capital	Reserves	Retained earnings	Non-controlling interests	Total
Balance at January 1, 2009		1,776,315	2,171,729	1,489,140	98,810	5,535,994
Profit for the year		–	–	775,900	18,582	794,482
Other comprehensive income:						
Currency translation differences	32	–	342	–	–	342
Total comprehensive income		–	342	775,900	18,582	794,824
Issuance of shares for acquisition of Property		36,992	164,449	–	–	201,441
Issuance of shares for acquisition of ACCA		137,499	(137,499)	–	–	–
Transaction with non-controlling interest		–	(3,014)	–	(4,540)	(7,554)
Dividend relating to year 2008		–	–	(362,850)	–	(362,850)
Dividends payable to non-controlling shareholders of subsidiaries		–	–	–	(3,188)	(3,188)
Appropriation to reserves	32,33	–	171,201	(171,201)	–	–
Balance at December 31, 2009		1,950,806	2,367,208	1,730,989	109,664	6,158,667

	Note	Attributable to owner of the parent Paid-In capital	Reserves	Retained earnings	Non-controlling interests	Total
Balance at January 1, 2010		**1,950,806**	**2,367,208**	**1,730,989**	**109,664**	**6,158,667**
Profit for the year		**–**	**–**	**896,882**	**22,430**	**919,312**
Other comprehensive income:						
Currency translation differences	32	**–**	**(1,104)**	**–**	**–**	**(1,104)**
Total comprehensive income		**–**	**(1,104)**	**896,882**	**22,430**	**918,208**
Dividend relating to year 2009	11	**–**	**–**	**(261,408)**	**–**	**(261,408)**
Dividends payable to non-controlling shareholders of subsidiaries		**–**	**–**	**–**	**(7,622)**	**(7,622)**
Appropriation to reserves	32,33	**–**	**211,109**	**(211,109)**	**–**	**–**
Balance at December 31, 2010		**1,950,806**	**2,577,213**	**2,155,354**	**124,472**	**6,807,845**

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

CONSOLIDATED CASH FLOW STATEMENT

(Amounts expressed in thousands of Renminbi)

	Note	Year ended December 31, 2010	2009
Cash flows from operating activities			
Cash generated from operations	*34*	**1,446,396**	810,301
Refund of enterprise income tax		**41,599**	82,511
Enterprise income tax paid		**(184,612)**	(192,750)
Net cash generated from operating activities		**1,303,383**	700,062
Cash flows from investing activities			
Purchases of property, plant, equipment, intangible assets and land user right		**(2,344,663)**	(258,815)
Maturities of short-term bank deposits		**2,520,433**	3,059,728
Placements of short-term bank deposits		**(1,956,313)**	(3,037,954)
Interest received		**50,830**	85,925
Cash paid to acquire the non-controlling interest of a subsidiary		**–**	(7,554)
Dividends received from associated companies		**14,670**	920
Proceeds from disposal of property, plant and equipment		**403**	310
Net cash used in investing activities		**(1,714,640)**	(157,440)
Cash flows from financing activities			
Dividend paid to group shareholders		**(235,722)**	(309,364)
Dividend paid to non-controlling shareholders of subsidiaries		**(7,622)**	(3,188)
Net cash used in financing activities		**(243,344)**	(312,552)
Effect of foreign exchange rate changes on cash and cash equivalents		**(1,978)**	(820)
Net increase (decrease) in cash and cash equivalents		**(656,579)**	229,250
Cash and cash equivalents at beginning of the year		**1,555,723**	1,326,473
Cash and cash equivalents at end of the year	*28*	**899,144**	1,555,723

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 7 Yu Min Street, Houshayu Town, Shunyi District, Beijing 101308, PRC.

As at December 31, 2010, 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, TravelSky Technology (Japan) Limited, TravelSky Technology (Europe) GmbH and TravelSky Technology (USA) Ltd. which are limited liability companies incorporated and operated in Hong Kong, Singapore, Korea, Japan, Europe and the United States respectively.

Name	Date of incorporation	Percentage of equity interest held		Issued and fully paid capital	Principal activities
		Direct	Indirect	*RMB*	
Subsidiaries					
Hainan Civil Aviation Cares Co., Ltd. ("Hainan Cares")	March 2, 1994	64.78%	–	6,615,000	Provision of electronic travel distribution and cargo management services; and sale and installation of the related information systems
Cares Shenzhen Co., Ltd. ("Shenzhen Cares")	April 14, 1995	61.47%	–	11,000,000	Provision of electronic travel distribution and cargo management services; and sale and installation of the related information systems
Cares Hubei Co., Ltd. ("Hubei Cares")	July 25, 1997	50%	12.5%	5,000,000	Provision of electronic travel distribution, airport passenger processing and cargo management services; and sale and installation of the related information systems

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of 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 Chongqing Information Technology Co., Ltd. ("Chongqing Cares")	December 1, 1998	51%	–	9,800,000	Provision of electronic travel distribution, airport passenger processing and cargo management services; and sale and installation of the related information systems
Aviation Cares of Yunnan Information Co., Ltd. ("Yunnan Cares")	June 15, 2000	51%	–	2,000,000	Computer hardware and software development and data network services
InfoSky Technology Co., Ltd. ("InfoSky")	September 20, 2000	51%	49%	23,149,285	Provision of cargo management services and related software and technology development; and provision of technical support, training and consulting services
TravelSky Technology (Hong Kong) Limited ("Hong Kong Company")	December 13, 2000	100%	–	11,385,233	Commercial services
Civil Aviation Cares of Xiamen Ltd. ("Xiamen Cares")	September 14, 2001	51%	–	10,000,000	Computer hardware and software development and data network services
Civil Aviation Cares of Qingdao Ltd. ("Qingdao Cares")	January 11, 2002	51%	–	9,990,000	Computer hardware and software development and data network services
Civil Aviation Cares Technology of Xi'an Ltd. ("Xi'an Cares")	July 9, 2002	51%	–	5,000,000	Computer hardware and software development and data network services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of 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	Principal activities
		Direct	Indirect	*RMB*	
Subsidiaries (continued)					
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
TravelSky Technology (Singapore) Limited ("Singapore Company")	October 21, 2005	100%	–	3,553,028	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
Shanghai TravelSky Information Technology Limited ("Shanghai Company")	July 1, 2008	100%	–	4,000,000	Computer hardware and software development and data network services
Guangzhou TravelSky Information Technology Limited ("Guangzhou Company")	September 28, 2008	100%	–	4,000,000	Computer hardware and software development and data network services
Accounting Centre of China Aviation Limited Company ("ACCA")	October 26, 2007	100%	–	759,785,000	Accounting, settlement and clearing services, and related information system development and support services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of 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)					
Beijing Asia Technology Development Company Limited ("ATDC")	October 30, 2007	–	100%	16,121,600	Provision of information system development and related services
Beijing HangYuan Air Service Limited Company ("BHYC")	October 31, 2007	–	100%	1,500,000	Provision of booking services for travellings and hotels
TravelSky Technology (Europe) GmbH ("Europe Company")	March 23, 2009	100%	–	4,680,000	Technology services and technology support
TravelSky Technology (Beijing) Real Estate Limited ("Real Estate Company")	August 28, 2009	100%	–	10,000,000	Real estate development, sales of commercial and residential building, professional contracting, labor subcontracting and investment management
TravelSky Technology (USA) Ltd. ("USA Company")	September 8, 2009	100%	–	3,413,600	Technology services and technology support

The Company and its subsidiaries are hereinafter collectively referred to as the "Group".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of 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
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%	–	10,000,000	Computer hardware and software development and data network services
Yunnan TravelSky Airport Technology Limited ("Yunnan Konggang")	April 1, 2003	40%	–	15,000,000	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
Shanghai Dongmei Aviation Tourism Online Co., Limited ("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
Hebei TravelSky Airport Technology Limited ("Hebei Cares")	April 5, 2007	50%	–	3,000,000	Computer hardware and software development and technical consulting services
Guangzhou Airport AirSpan Information Technology Co. Ltd. ("Guangzhou Cares")	December 24, 2007	20%	–	20,000,000	Computer hardware and software development and technical consulting services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. BASIS OF PREPARATION

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 its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the group*

- IAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. There has been no impact of IAS 17 (amendment) to the Group.

(b) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning January 1, 2010 and have not been early adopted.*

- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the revised standard from January 1, 2011. When the revised standard is applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates. The group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

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 December 31.

(i) Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as expense in the year in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

(ii) 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 Group uses the acquisition method of accounting to account for business combinations by the Group other than the common control combination (Note 3(a)(i)). The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

(ii) Subsidiaries (continued)

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

(iii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

(iv) Associated companies

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise 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 arising in investments in companies are recognised in the statement of comprehensive income.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses (Note 3(g)). 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. Except for Hong Kong Company, Singapore Company, Korea Company, Japan Company, Europe Company and USA Company, the functional currency of the Company’s subsidiaries is also Renminbi.

(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 statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses are presented in the statement of comprehensive income within ‘finance income or cost’.

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 other comprehensive income.

Translation differences 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 other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 statement of comprehensive income 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 in other comprehensive income.

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 other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the statement of comprehensive income as part of the gain or loss on sale.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Property, plant and equipment *(continued)*

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	20-30 years
Computer systems and software	3-8 years
Motor vehicles	6 years
Furniture, fixtures and other equipment	4-11 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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3(g)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

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.

(d) Intangible assets

Intangible assets mainly represent purchased computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight line basis over 3-5 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Lease prepayments for land use rights

Lease prepayments for land use rights represent purchase cost of land use rights in the PRC and are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land in the PRC. Amortisation of lease prepayments for land use rights is calculated on a straight-line basis over the period of the lease for 40-50 years.

(f) Research and development costs

Expenditures for research and development are charged against income in the period incurred except for software development costs which comply strictly with the following criteria:

- 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, 2010, no development costs were capitalized as they did not meet all the criteria listed above (2009: nil).

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Impairment of investments in subsidiaries, associates and non-financial 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 are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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.

(h) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at their initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(i) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Inventories

Inventories, which principally comprise equipment for sale, spare parts and consumable items, are carried at lower of cost and net realizable value. Cost is determined based on the first-in, first-out ("FIFO") method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

(k) Accounts receivable and other receivables

Accounts receivable and other receivables are recognised 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 recognised in the statement of comprehensive income. 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 expenses in the statement of comprehensive income.

(l) Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(m) Accounts payables and other payables

Accounts payables and other payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Taxation

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income taxation

Deferred income tax is recognised, 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. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. 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 income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(iii) Other tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Employee benefits

(i) Pension

The full-time employees of the Group are covered by government-sponsored pension plan under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans.

Starting from January 1, 2007, the Company implemented an additional supplementary pension scheme, which is funded through the insurance company.

Under these plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(ii) Other employee benefits

All Chinese employees of the Group participate in employee social security plans, including 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.

(p) Provisions

A provision is recognised 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 recognised 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 recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) Provisions *(continued)*

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount 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 recognised as interest expense.

(q) 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 recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- Revenue for aviation information technology services, data network services and accounting supports, settlement and clearing services are recognised when the services are rendered;

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

- Revenue for equipment installation project and non-proprietary customer's information system development project are recognised 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 recognised only to the extent of expenses recognised 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 recognised on a time-proportion basis, taking into account the principal amounts outstanding and the applicable interest rates; and

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) Dividend distribution

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

(s) 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 ordinary 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.

(t) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the general manager of the Company.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the Group to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an on-going basis, the Group 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.

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

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) Useful life and residual value 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.

(b) 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 fixed 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.

(c) Income taxes and deferred 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.

(d) Services fees

The aviation information technology services fees are subject to discussion with airlines. The departure technology support fees are subject to discussion with airports. In certain cases, in situation where final agreement has not been reached, management makes estimates of the fees with reference to the status of negotiation and taking into accounts of historical experiences and industry performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

5. REVENUES

Revenues primarily comprise the service fees earned by the Group for the provision of the Group's aviation information technology services, accounting, settlement and clearing services and related data network services. A major 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:

	2010 RMB'000	2009 RMB'000
After charging:		
Depreciation	**290,533**	296,134
Amortization of intangible assets	**61,588**	35,994
Amortization of leasehold improvements	**4,400**	6,025
Amortization of lease prepayments for land use right	**43,681**	2,507
Loss on disposal of property, plant and equipment	**678**	546
(Reversal of)/Provision for impairment of receivables	**(5,132)**	29,418
Provision for impairment of property, plant and equipment	**–**	20,748
Cost of equipment sold	**53,094**	45,409
Retirement benefits	**71,040**	60,976
Auditors' remuneration	**2,402**	2,371
Contribution to housing benefits	**65,131**	27,347
Exchange loss	**9,289**	1,162
Research and development expenses	**330,125**	292,162
After crediting:		
Interest income	**(38,620)**	(81,188)
Exchange gain	**(5,281)**	(4,287)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2010 (tax inclusive):

	Year ended December 31, 2010					
Name of Director and Supervisor	Remuneration for Director RMB'000	Bonus for Director RMB'000	Salary of employee, Allowances and Benefits (employer's contribution inclusive) RMB'000	Employees' Discretionary bonuses RMB'000	Employer's contribution to pension scheme for employee RMB'000	Total RMB'000
Executive directors						
Mr. Xu Qiang (Chairman) (i)	–	–	272	372	49	693
Mr. Cui Zhixiong (i)	–	–	272	372	50	694
Mr. Xiao Yinhong (i)	–	–	272	367	48	687
Non-Executive Directors						
Mr. Wang Quanhua*	–	–	–	–	–	–
Mr. Luo Chaogeng*	–	–	–	–	–	–
Mr. Cao Guangfu* (iv)	–	–	–	–	–	–
Mr. Sun Yude* (iii)	–	–	–	–	–	–
Independent Non-Executive directors						
Mr. Yick Wing Fat, Simon (iv)	25	–	–	–	–	25
Mr. Chua Keng Kim (iv)	25	–	–	–	–	25
Mr. Yuan Yaohui (iv)	25	–	–	–	–	25
Mr. Cheung Yuk Ming (iii)	95	–	–	–	–	95
Mr. Zhou Deqiang (iii)	95	–	–	–	–	95
Mr. Pan Chongyi (iii)	95	–	–	–	–	95
Supervisors						
Ms. Li Xiaojun (Chairman, Staff Representative Supervisor)	–	–	243	323	48	614
Ms. Du Hongying* (iv)	–	–	–	–	–	–
Mr. Yu Yanbin*	–	–	–	–	–	–
Ms. Gao Jingping (Staff Representative Supervisor) (iv)	–	–	196	–	45	241
Mr. Rao Geping (Independent Supervisor)	58	–	–	–	–	58
Mr. Zeng Yiwei* (iii)	–	–	–	–	–	–
Mr. Xiao Wei (Staff Representative Supervisor) (iii)	–	–	246	164	42	452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2009 (tax inclusive):

	Year ended December 31, 2009					
Name of Director and Supervisor	Remuneration for Director RMB'000	Bonus for Director RMB'000	Salary of employee, Allowances and Benefits (employer's contribution inclusive) RMB'000	Employees' Discretionary bonuses RMB'000	Employer's contribution to pension scheme for employee RMB'000	Total RMB'000
Executive directors						
Xu Qiang (Chairman) (i)	–	–	261	–	40	301
Cui Zhixiong (i)	–	–	261	–	51	312
Xiao Yinhong (i)	–	–	233	321	45	599
Zhu Xiaoxing (ii)	–	–	222	277	47	546
Non-Executive Directors						
Wang Quanhua *	–	–	–	–	–	–
Luo Chaogeng *	–	–	–	–	–	–
Cao Guangfu*(iv)	–	–	–	–	–	–
Rong Gang(ii)	–	–	233	–	48	281
Sun Yongtao(ii)	–	–	233	–	48	281
Liu Dejun*(ii)	–	–	–	–	–	–
Xia Yi*(ii)	–	–	–	–	–	–
Song Jian*(ii)	–	–	–	–	–	–
Gong Guokui*(ii)	–	–	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

	Year ended December 31, 2009					
Name of Director and Supervisor	Remuneration for Director RMB'000	Bonus for Director RMB'000	Salary of employee, Allowances and Benefits (employer's contribution inclusive) RMB'000	Employees' Discretionary bonuses RMB'000	Employer's contribution to pension scheme for employee RMB'000	Total RMB'000
Independent Non-Executive directors						
Yick Wing Fat, Simon (iv)	120	–	–	–	–	120
Chua Keng Kim (iv)	120	–	–	–	–	120
Yuan Yaohui (iv)	120	–	–	–	–	120
Supervisors						
Li Xiaojun *(Chairman)*	–	–	233	–	48	281
Du Hongying *(iv)	–	–	–	–	–	–
Jing Gongbin *(ii)	–	–	–	–	–	–
Zhang Yakun *(ii)	–	–	–	–	–	–
Yu Yanbin *	–	–	–	–	–	–
Gao Jingping (Staff Representative Supervisor) (iv)	–	–	193	260	45	498
Wang Xiaomin (Staff Representative Supervisor) (ii)	–	–	326	58	41	425
Zhang Xin (Staff Representative Supervisor) (ii)	–	–	192	37	34	263
Rao Geping (Independent Supervisor)	50	–	–	–	–	50

* These directors and supervisors are employees of the shareholders of the Company or their subsidiaries, and obtain emoluments from them. No appropriation has been made as the directors of the Company considered it is impracticable to apportion this amount between their services to the Group and the parent of the Company or their subsidiaries.

(i) Appointed on March 3, 2009
(ii) Resigned on March 3, 2009
(iii) Appointed on March 16, 2010
(iv) Resigned on March 16, 2010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 (2009: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2009: four) individuals during the year are as follows:

	2010 RMB'000	2009 RMB'000
Basic salaries and allowances	486	1,150
Bonuses	646	657
Retirement benefits	96	177
	1,228	1,984

The annual emoluments paid during the year ended December 31, 2010 to each of the directors and the five highest paid employees fell within the band from RMB nil to RMB1 million (2009: from RMB nil to RMB1 million).

During the year ended December 31, 2010, no director and the five highest paid employees had waived or agreed to waive any emolument (2009: nil). No emolument was paid to any of the directors and the five highest paid employees as an inducement to join or upon joining the Company or as compensation for loss of office (2009: nil).

8. RETIREMENT BENEFITS

All the full time employees of the Group are covered by 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 subject to certain ceiling for the year ended December 31, 2010 (2009: 20%). The contributions to the pension scheme made by the Group for the year ended December 31, 2010 amounted to approximately RMB46.8 million (2009: RMB41.9 million). This amount was recorded in personnel expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

8. RETIREMENT BENEFITS *(continued)*

In addition, starting from January 1, 2007, a supplementary defined contribution pension plan managed by an insurance company was established. The annual contributions to this plan made by the Group for the year ended December 31, 2010 amounted to approximately RMB24.2 million (2009: RMB19.1 million). These amounts were recorded in personnel expenses.

Under these schemes, the Group has no obligation for post-retirement benefits beyond the annual contributions made.

As at December 31, 2010, no forfeited contributions were available to reduce its contributions to the defined contribution retirement schemes operated by the Group in future years (2009: Nil).

9. HOUSING BENEFITS

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 this state-sponsored housing fund equivalent to a certain percentage of each employee's salary. The contributions made by the Group to the housing fund for the year ended December 31, 2010 amounted to approximately RMB29.4 million (2009: RMB27.3 million). This amount was recorded in personnel expenses.

In 2010, the Group obtained the approval from the relevant government authorized to establish a supplementary housing benefit scheme for their employees. This supplementary housing benefit scheme will provide supplemental housing benefits to existing employees who have met certain pre-requisite criteria.

Pursuant to the supplementary housing benefit scheme, the Group agrees to pay a one time lump sum housing allowances, totaling RMB35.8 million to certain eligible employees for their past services. Such one time housing allowance was recorded in personnel expenses in the current year.

Pursuant to the supplementary housing benefit scheme, the Group will also implement monthly housing subsidies for certain eligible employees in the following years. The monthly housing subsidies payment will be charged to the income statement as incurred.

As of December 31, 2010, the total number of employees of the Group was 4,324 (2009: 4,097).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

10. TAXATION

Income Tax

	2010 RMB'000	2009 RMB'000
Current tax:		
PRC enterprise income tax expenses	**131,808**	112,333
Overseas income tax expenses	**183**	80
Deferred tax	**(1,161)**	(3,246)
	130,830	109,167

Taxation of the Group except for Hong Kong Company, Singapore Company, Japan Company, Korea Company, Europe Company and USA 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. Taxation on overseas profit has been calculated on the assessable profit for the year at the rates of taxation prevailing in the locations in which the Group operates.

Starting from January 1, 2008, the Corporate Income Tax Law of the People's Republic of China ("new CIT law") unified the income tax rate of enterprises in China to 25%.

Enterprises recognised as "High and New Technology Enterprises" are entitled to a favorable statutory tax rate of 15% under the new CIT Law. In December 2008, the Company was approved and certified by relevant authorities as a "High and New Technology Enterprise" under the new CIT Law, and was entitled to the preferential tax rate of 15% from 2008 to 2010.

In addition to the recognised "High and New Technology Enterprise" enjoying a preferential income tax rate of 15%, the Company being approved and certified by relevant authorities as an "Important Software Enterprise" could further enjoy a preferential income tax rate of 10%. According to the relevant regulations, the differences that resulted from the enterprise income tax paid at the rate of 15% over this preferential income tax rate of 10% should be paid to the Company subsequently.

The Company obtained its "Important Software Enterprise" approval for Year 2009 and Year 2010, and accordingly, the income tax rate was further reduced to 10% for 2009 and 2010.

The "Important Software Enterprise" status is subject to an annual assessment and approval.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

10. TAXATION *(continued)*

Income Tax *(continued)*

The Company's subsidiaries in PRC are entitled to different tax rates, ranging from 15% to 25% under the new CIT Law.

In 2010 and 2009, 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:

	2010 **RMB'000**	2009 RMB'000
Profit before taxation	**1,050,142**	903,649
Weighted average statutory tax rate	**25%**	25%
Tax calculated at domestic tax rates applicable to profits in the respective countries	**265,966**	227,988
Non-deductible expense	**9,201**	7,770
Effect of preferential tax rates	**(144,337)**	(126,591)
Tax charge	**130,830**	109,167

Business Taxes

The Group is subject to business taxes on its service revenues:

Aviation information technology service and data network services	3%
Technical support services	5%
Accounting, settlement and clearing services	5%

Value-Added Tax ("VAT")

The Group's sales of equipment and software in PRC are subject to Value Added Tax (VAT). The Company and some of its subsidiaries including InfoSky, Shenzhen Cares, Hubei Cares, Chongqing Cares, Xiamen Cares, Qingdao Cares, Xi'an Cares, and Xinjiang Cares 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 3% 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

11. DIVIDENDS DISTRIBUTION

The equity holders approved the distribution of a final dividend of RMB261.4 million (RMB0.134 per share) for Year 2009 in the annual general meeting of the Company held on June 25, 2010. The amount was accounted for in shareholders' equity as an appropriation of retained earnings for the year ended December 31, 2010.

As at March 29, 2011, the Board recommended the distribution of a final cash dividend of RMB306.3 million for Year 2010 (RMB0.157 per share). The proposed final 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, 2011.

On December 21, 2010, the Board recommended a bonus issue of 975,403,196 new ordinary shares to its shareholders on the basis of one new ordinary share for every two ordinary shares held, by conversion of reserves and retained earnings into paid-in capital. This proposal is also subject to shareholders' approval and relevant regulatory approvals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following:

	2010	2009
Earnings (RMB'000)		
Earnings for the purpose of calculating the basic and dilutive earnings per share	**896,882**	775,900
Numbers of shares ('000)		
Weighted average number of ordinary shares in issue (Note)	**1,950,806**	1,944,641
Earnings per share (RMB)		
Basic and dilutive	**0.46**	0.40

Note: As set out in the circular of the Company dated June 16, 2008, and the announcements dated May 26, 2008 and July 31, 2008, the Company acquired from China TravelSky Holding Company ("CTHC") entire equity interest in Accounting Centre of China Aviation Limited Company ("ACCA") and a property located in Dongxing Li, Chaoyang District, Beijing, PRC ("Property"). ACCA is principally engaged in the provision of accounting, settlement and clearing services, and related information system development and support services to commercial airlines and other aviation companies. The acquisition was completed on March 3, 2009 and the consideration was satisfied by the issue and allotment of 174,491,393 new domestic shares of the Company to CTHC (137,499,218 shares for the acquisition of ACCA, and 36,992,175 shares for the acquisition of the Property).

As both the Company and ACCA are under common control of CTHC before and after the acquisition, the acquisition of ACCA is accounted for as a common control business combination. The Company adopts merger accounting for common control combination.

The number of shares in issue for the year ended December 31, 2009 has been adjusted for the 137,499,218 share issued to CTHC on March 3, 2009 for the acquisition of ACCA as if these shares were issued on January 1, 2009.

There were no potential dilutive ordinary shares outstanding during the year ended December 31, 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 improvements RMB'000	Total RMB'000
Cost							
As at January 1, 2009	231,533	2,291,496	56,033	81,084	–	22,846	2,682,992
Purchases	115,878	59,259	4,814	24,221	2,165	4,966	211,303
Disposals/write off	–	(23,296)	(2,252)	(4,377)	–	–	(29,925)
As at December 31, 2009	347,411	2,327,459	58,595	100,928	2,165	27,812	2,864,370
Purchases	**89,229**	**352,746**	**2,341**	**5,395**	**4,606**	**8,243**	**462,560**
Disposals/write off	**–**	**(24,901)**	**(3,791)**	**(1,201)**	**–**	**–**	**(29,893)**
As at December 31, 2010	**436,640**	**2,655,304**	**57,145**	**105,122**	**6,771**	**36,055**	**3,297,037**
Accumulated depreciation							
As at January 1, 2009	(66,864)	(1,493,762)	(36,139)	(66,046)	–	(15,736)	(1,678,547)
Charge for the year	(15,353)	(258,622)	(5,742)	(16,417)	–	(6,025)	(302,159)
Disposals/write off	–	22,692	2,175	4,202	–	–	29,069
As at December 31, 2009	(82,217)	(1,729,692)	(39,706)	(78,261)	–	(21,761)	(1,951,637)
Charge for the year	**(17,662)**	**(250,312)**	**(5,941)**	**(16,618)**	**–**	**(4,400)**	**(294,933)**
Disposals/write off	**–**	**24,145**	**3,601**	**1,066**	**–**	**–**	**28,812**
As at December 31, 2010	**(99,879)**	**(1,955,859)**	**(42,046)**	**(93,813)**	**–**	**(26,161)**	**(2,217,758)**
Provision							
As at December 31, 2009	–	(20,748)	–	–	–	–	(20,748)
Charge for the year	–	–	–	–	–	–	–
As at December 31, 2010	**–**	**(20,748)**	**–**	**–**	**–**	**–**	**(20,748)**
Net book value							
As at December 31, 2009	265,194	577,019	18,889	22,667	2,165	6,051	891,985
As at December 31, 2010	**336,761**	**678,697**	**15,099**	**11,309**	**6,771**	**9,894**	**1,058,531**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Company:

	Buildings RMB'000	Computer systems and software RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Leasehold Improvements RMB'000	Total RMB'000
Cost						
As at January 1, 2009	66,483	2,124,878	29,441	37,479	20,695	2,278,976
Purchases	115,374	49,537	3,698	22,039	4,889	195,537
Disposals/write off	–	(21,454)	(82)	–	–	(21,536)
As at December 31, 2009	181,857	2,152,961	33,057	59,518	25,584	2,452,977
Purchases	**89,205**	**342,954**	**249**	**2,578**	**8,235**	**443,221**
Disposals/write off	**–**	**–**	**–**	**–**	**–**	**–**
As at December 31, 2010	**271,062**	**2,495,915**	**33,306**	**62,096**	**33,819**	**2,896,198**
Accumulated depreciation						
As at January 1, 2009	(10,130)	(1,381,801)	(16,855)	(34,336)	(13,903)	(1,457,025)
Charge for the year	(8,685)	(242,805)	(3,459)	(12,506)	(5,765)	(273,220)
Disposals/write off	–	20,926	73	–	–	20,999
As at December 31, 2009	(18,815)	(1,603,680)	(20,241)	(46,842)	(19,668)	(1,709,246)
Charge for the year	**(11,115)**	**(234,585)**	**(3,794)**	**(12,946)**	**(4,317)**	**(266,757)**
Disposals/write off	**–**	**–**	**–**	**–**	**–**	**–**
As at December 31, 2010	**(29,930)**	**(1,838,265)**	**(24,035)**	**(59,788)**	**(23,985)**	**(1,976,003)**
Provision						
As at December 31, 2009	–	(20,748)	–	–	–	(20,748)
Charge for the year	–	–	–	–	–	–
As at December 31, 2010	**–**	**(20,748)**	**–**	**–**	**–**	**(20,748)**
Net book value						
As at December 31, 2009	163,042	528,533	12,816	12,676	5,916	722,983
As at December 31, 2010	**241,132**	**636,902**	**9,271**	**2,308**	**9,834**	**899,447**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

14. LEASE PREPAYMENT FOR LAND USE RIGHT, NET

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost				
As at January 1	**112,618**	20,189	**92,427**	–
Additions	**1,967,300**	92,429	**1,967,300**	92,427
As at December 31	**2,079,918**	112,618	**2,059,727**	92,427
Accumulated amortisation				
As at January 1	**(3,382)**	(875)	**(2,101)**	–
Additions	**(43,681)**	(2,507)	**(43,277)**	(2,101)
As at December 31	**(47,063)**	(3,382)	**(45,378)**	(2,101)
Net book value				
As at December 31	**2,032,855**	109,236	**2,014,349**	90,326

As set out in the Company's announcement dated January 26, 2010 and the circular dated March 2, 2010, the Company made a successful bid for the land use right of the lands namely 08, 09, 19 and 21 blocks at Xincheng 19 Street, Shunyi District, Beijing at a transfer price of RMB1.91 billion at an open auction held on January 14, 2010. The Company intends to build a new operating centre comprising a data centre and the headquarter office building of the Company.

Land in PRC mainland is state-owned or collectively-owned and no individual land ownership right exists. Lease prepayments for land use rights represent the Group's interests in lands which is held on lease with a term of 40 to 50 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

15. INTANGIBLE ASSETS, NET

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost				
As at January 1	**182,804**	81,321	**163,567**	62,593
Additions	**83,442**	101,483	**83,262**	100,974
Disposals/write off	**–**	–	**–**	–
As at December 31	**266,246**	182,804	**246,829**	163,567
Accumulated amortization				
As at January 1	**(100,245)**	(64,251)	**(86,055)**	(52,464)
Amortization for the year	**(61,588)**	(35,994)	**(59,101)**	(33,591)
Disposals/write off	**–**	–	**–**	–
As at December 31	**(161,833)**	(100,245)	**(145,156)**	(86,055)
Net book value				
As at December 31	**104,413**	82,559	**101,673**	77,512

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

16. INVESTMENTS IN SUBSIDIARIES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Investments, at cost:	**–**	–	**403,057**	399,986

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

17. INVESTMENTS IN ASSOCIATED COMPANIES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year	**123,835**	103,665	**27,290**	27,290
Share of profit	**24,390**	21,090	**–**	–
Dividend receivable from associated companies	**(17,370)**	(920)	**–**	–
End of the year	**130,855**	123,835	**27,290**	27,290

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

The Group's interests in its principal associates, all of which are unlisted, were as follows:

	Total assets	**Total liabilities**	**Revenues**	**Profit attributable to equity holders**
	RMB'000	RMB'000	RMB'000	RMB'000
2009	177,399	53,564	392,363	21,090
2010	**200,915**	**70,060**	**559,729**	**24,390**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

18. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Assets as per balance sheet:				
Accounts receivable *(Note 22)*	**226,757**	185,550	**178,853**	138,727
Due from related parties *(Note 23)*	**1,384,156**	1,362,615	**1,113,243**	1,193,564
Due from subsidiaries, net *(Note 24)*	**–**	–	**36,562**	20,280
Due from associated companies *(Note 25)*	**17,000**	13,010	**16,726**	10,478
Interest receivable and other current assets *(Note 26)*	**201,539**	233,003	**26,590**	87,548
Short-term bank deposits *(Note 27)*	**1,738,834**	2,302,954	**1,159,037**	1,989,038
Cash and cash equivalents *(Note 28)*	**899,144**	1,555,723	**433,707**	968,193
Total	**4,467,430**	5,652,855	**2,964,718**	4,407,828

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Liabilities as per balance sheet:				
Accounts payable and other liabilities *(Note 29)*	**885,742**	746,346	**578,278**	490,434
Due to related parties *(Note 30)*	**121,065**	92,550	**116,519**	73,519
Due to subsidiaries	**–**	–	**55,186**	23,990
Total	**1,006,807**	838,896	**749,983**	587,943

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. DEFERRED INCOME TAX

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets:				
– Deferred tax assets to be recovered after more than 12 months	**8,216**	6,896	**8,187**	6,772
– Deferred tax assets to be recovered within 12 months	**2,869**	3,110	**2,047**	1,693
	11,085	10,006	**10,234**	8,465
Deferred tax liabilities:				
– Deferred tax liabilities to be settled within 12 months	**(49)**	(131)	**–**	–
	(49)	(131)	**–**	–

The net movement on the deferred income tax accounts is as follow:

The Group:

	Depreciation and Amortization	**Accrual, Provision and Others**	**Total**
	RMB'000	RMB'000	RMB'000
As at January 1, 2009	6,064	566	6,630
Recognised in the statement of comprehensive income	2,460	785	3,245
As at December 31, 2009	8,524	1,351	9,875
Recognised in the statement of comprehensive income	(4,045)	5,206	1,161
As at December 31, 2010	**4,479**	**6,557**	**11,036**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

19. DEFERRED INCOME TAX *(continued)*

The Company:

	Depreciation and Amortization RMB'000	Accrual, Provision and Others RMB'000	Total RMB'000
As at January 1, 2009	5,974	–	5,974
Recognised in the statement of comprehensive income	2,491	–	2,491
As at December 31, 2009	8,465	–	8,465
Recognised in the statement of comprehensive income	(3,996)	5,765	1,769
As at December 31, 2010	**4,469**	**5,765**	**10,234**

20. OTHER LONG-TERM ASSETS

The Company prepaid RMB50,000,000 and RMB2,000,000 to set up two subsidiaries in 2010.

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

21. INVENTORIES

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Equipment for sale	**6,632**	5,204	**–**	–
Spare parts	**146**	6	**–**	–
Others	**1,276**	2,991	**–**	–
Total	**8,054**	8,201	**–**	–
Provision for impairment of inventories (Equipment for sale)	**(106)**	(106)	**–**	–
	7,948	8,095	**–**	–

No inventories have been pledged as security for borrowings by the Group or the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. ACCOUNTS RECEIVABLE, NET

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts receivable	**262,712**	227,476	**212,320**	175,854
Provision for impairment of receivables	**(35,955)**	(41,926)	**(33,467)**	(37,127)
Accounts receivable, net	**226,757**	185,550	**178,853**	138,727

The carrying amounts of the Group's accounts receivable approximated its fair value as at December 31, 2010 because of the short-term maturities of these receivables.

The maximum exposure to credit risk at the reporting date is the fair value of accounts receivable. The Group does not hold any collateral as security.

As of December 31, 2010 and 2009, the ageing analysis of the accounts receivable was as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**206,499**	154,690	**168,633**	118,493
Over 6 months but within 1 year	**19,542**	33,947	**10,657**	26,920
Over 1 year but within 2 years	**11,666**	22,305	**9,433**	18,939
Over 2 years but within 3 years	**20,347**	9,469	**18,939**	9,290
Over 3 years	**4,658**	7,065	**4,658**	2,212
Accounts receivable	**262,712**	227,476	**212,320**	175,854
Provision for impairment of receivables	**(35,955)**	(41,926)	**(33,467)**	(37,127)
Accounts receivable, net	**226,757**	185,550	**178,853**	138,727

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. ACCOUNTS RECEIVABLE, NET *(continued)*

As of December 31, 2010, accounts receivable of RMB12.4 million (2009: RMB8.9 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these accounts receivable is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Over 6 months but within 1 year	**8,827**	5,994	**–**	–
Over 1 year but within 2 years	**2,356**	2,835	**–**	–
Over 2 years but within 3 years	**1,169**	105	**–**	–
	12,352	8,934	**–**	–

As of December 31, 2010, accounts receivable of RMB43.9 million (2009: RMB63.9 million) were impaired. The amount of the provision was RMB36.0 million as of December 31, 2010 (2009: RMB41.9 million). It was assessed that a portion of the receivables is expected to be recovered. The ageing analysis of these receivables is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Over 6 months but within 1 year	**10,715**	27,953	**10,657**	26,920
Over 1 year but within 2 years	**9,310**	19,470	**9,433**	18,939
Over 2 years but within 3 years	**19,178**	9,364	**18,939**	9,290
Over 3 years	**4,658**	7,065	**4,658**	2,212
	43,861	63,852	**43,687**	57,361

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

22. ACCOUNTS RECEIVABLE, NET *(continued)*

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Balance at beginning of year	**41,926**	12,651	**37,127**	9,625
(Reversal)/Provision	**(5,137)**	29,275	**(3,660)**	27,502
Write-off	**(834)**	–	**–**	–
Balance at end of year	**35,955**	41,926	**33,467**	37,127

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**150,391**	136,397	**102,022**	100,368
HKD denominated	**27,038**	17,587	**27,038**	11,485
USD denominated	**80,185**	70,267	**79,037**	60,862
Others	**5,098**	3,225	**4,223**	3,139
	262,712	227,476	**212,320**	175,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

23. DUE FROM RELATED PARTIES, NET

	The Group		**The Company**	
	2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
Within 6 months	**1,070,512**	1,151,939	**804,675**	990,077
Over 6 months but within 1 year	**303,662**	209,145	**299,029**	202,919
Over 1 year but within 2 years	**9,804**	904	**9,479**	60
Over 2 years but within 3 years	**60**	590	**60**	508
Over 3 years	**118**	37	**–**	–
Due from related parties	**1,384,156**	1,362,615	**1,113,243**	1,193,564
Provision for impairment of receivables	**–**	–	**–**	–
Due from related parties, net	**1,384,156**	1,362,615	**1,113,243**	1,193,564

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

As of December 31, 2009, notes receivable of RMB241.7 million was included in the above balances. The notes has been collected in 2010.

As of December 31, 2010, notes receivable of RMB125.2 million was included in the above balances.

As of December 31, 2010, due from related parties of RMB313.6 million (2009: RMB210.7 million) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	The Group		**The Company**	
	2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
Over 6 months but within 1 year	**303,662**	209,145	**299,029**	202,919
Over 1 year but within 2 years	**9,804**	904	**9,479**	60
Over 2 years but within 3 years	**60**	590	**60**	508
Over 3 years	**118**	37	**–**	–
	313,644	210,676	**308,568**	203,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

24. DUE FROM SUBSIDIARIES, NET

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**–**	–	**17,580**	8,596
Over 6 months but within 1 year	**–**	–	**4,267**	2,820
Over 1 year but within 2 years	**–**	–	**10,662**	4,261
Over 2 years but within 3 years	**–**	–	**451**	577
Over 3 years	**–**	–	**11,413**	11,837
Total	**–**	–	**44,373**	28,091
Provision for impairment of receivables	**–**	–	**(7,811)**	(7,811)
Due from subsidiaries, net	**–**	–	**36,562**	20,280

These balances are trade related, interest free, unsecured and generally repayable on demand.

25. DUE FROM ASSOCIATED COMPANIES

These balances are mainly trade related, interest fee, unsecured and generally repayable within one year.

26. PREPAYMENTS AND OTHER CURRENT ASSETS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advance payments	**14,550**	110,714	**11,427**	108,222
Interest receivable	**5,514**	17,724	**5,413**	17,677
Prepaid expenses	**1,865**	6,267	**1,865**	6,267
Other receivables (i)	**163,498**	123,568	**–**	–
Other current assets	**30,662**	85,444	**19,312**	63,604
Total	**216,089**	343,717	**38,017**	195,770

(i) Other receivables represent the payment made on behalf of the customer airlines, which are part of ACCA's settlement and clearing services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

27. SHORT-TERM BANK DEPOSITS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**1,736,900**	2,300,900	**1,159,000**	1,989,000
HKD denominated	**37**	38	**37**	38
Others	**1,897**	2,016	**–**	–
	1,738,834	2,302,954	**1,159,037**	1,989,038

The annual interest rate on short-term bank deposits ranges from 1.98% to 2.75% (2009: 1.98% to 2.25%) and these deposits have a maturity period ranging from 6 to 12 months (2009: 6 to 12 months).

28. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash				
RMB	**539**	363	**448**	113
Others	**55**	75	**–**	–
	594	438	**448**	113
Demand deposits				
RMB	**867,279**	1,469,365	**430,136**	924,752
USD denominated	**16,895**	64,018	**3,123**	37,243
HKD denominated	**4,908**	15,351	**–**	6,085
Others	**9,468**	6,551	**–**	–
	898,550	1,555,285	**433,259**	968,080
Total cash and cash equivalents	**899,144**	1,555,723	**433,707**	968,193

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

29. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accounts payable	**77,484**	78,234	**64,270**	57,095
Accrued departure technology support fees	**284,808**	254,600	**284,808**	254,600
Accrued technical support fees	**24,099**	24,143	**24,099**	21,638
Accrued network usage fees	**19,924**	42,466	**19,924**	42,466
Accrued bonuses and staff cost	**116,237**	35,715	**113,241**	34,004
Other taxes payable (i)	**25,699**	22,183	**17,219**	18,847
Other payables (ii)	**270,738**	217,373	**–**	–
Other liabilities	**92,452**	93,815	**71,936**	80,631
Total	**911,441**	768,529	**595,497**	509,281

At December 31, 2010, approximately RMB52.8 million of the above balances were denominated in US dollars (2009: RMB83.3 million).

The ageing analysis of accounts payable and accrued liabilities are as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**42,156**	29,226	**34,595**	14,310
Over 6 months but within 1 year	**4,431**	2,823	**4,080**	984
Over 1 year but within 2 years	**2,474**	10,342	**506**	6,264
Over 2 years but within 3 years	**9,326**	24,649	**6,264**	24,649
Over 3 years	**19,097**	11,194	**18,825**	10,888
Total accounts payable	**77,484**	78,234	**64,270**	57,095
Accrued liabilities and other liabilities	**833,957**	690,295	**531,227**	452,186
Total	**911,441**	768,529	**595,497**	509,281

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

29. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES *(continued)*

(i) Other taxes payables

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Business tax payable	**13,099**	13,274	**7,532**	11,026
VAT payable/(receivable)	**3,063**	(896)	**2,759**	(451)
Other	**9,537**	9,805	**6,928**	8,272
Total	**25,699**	22,183	**17,219**	18,847

(ii) Other payables represent the amount collected on behalf of the customer airlines, which are part of ACCA's settlement and clearing services.

30. DUE TO RELATED PARTIES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**15,747**	9,546	**12,927**	–
Over 6 months but within 1 year	**76,579**	53,732	**76,579**	53,634
Over 1 year but within 2 years	**12,730**	3,491	**11,980**	3,470
Over 2 years but within 3 years	**3,470**	–	**3,470**	–
Over 3 years	**12,539**	25,781	**11,563**	16,415
Total	**121,065**	92,550	**116,519**	73,519

These balances comprised mainly dividend payables and service fee payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

31. PAID-IN CAPITAL

As of December 31, 2010, all issued shares are registered and fully paid, divided into 1,950,806,393 shares (2009: 1,950,806,393 shares) of RMB1.00 each, comprised of 1,329,098,393 Domestic Shares and 621,708,000 H Shares (2009: 1,329,098,393 Domestic Shares and 621,708,000H Shares).

	2010 Number of shares '000	2010 Amount RMB'000
Authorized:		
Domestic Shares of RMB1 each	1,329,098	1,329,098
H Shares of RMB1 each	621,708	621,708
Total shares of RMB1 each	1,950,806	1,950,806
Issued and fully paid:		
Domestic Shares of RMB1 each	1,329,098	1,329,098
H Shares of RMB1 each	621,708	621,708
Total shares of RMB1 each	1,950,806	1,950,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. RESERVES

The Group:

	Capital Surplus (Share Premium) RMB'000	Statutory Surplus Reserve Fund RMB'000	Merger Reserve (i) RMB'000	Discretionary Surplus Reserve Fund RMB'000	Currency Translation Differences RMB'000	Total RMB'000
Balance as at January 1, 2009	306,799	575,442	697,496	596,781	(4,789)	2,171,729
Issuance of shares for the acquisition of Property	164,449	–	–	–	–	164,449
Issuance of shares for the acquisition of ACCA	190,684	–	(328,183)	–	–	(137,499)
Transaction with non-controlling	(3,014)	–	–	–	–	(3,014)
Transfer from retained earnings	–	67,234	–	103,967	–	171,201
Currency translation differences	–	–	–	–	342	342
Balance as at December 31, 2009	658,918	642,676	369,313	700,748	(4,447)	2,367,208
Transfer from retained earnings	–	80,700	–	130,409	–	211,109
Currency translation differences	–	–	–	–	(1,104)	(1,104)
Balance as at December 31, 2010	**658,918**	**723,376**	**369,313**	**831,157**	**(5,551)**	**2,577,213**

(i) Merger reserve represents the difference between the carrying value of the acquired subsidiary – ACCA and the fair value of the domestic shares issued for the acquisition of ACCA at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

32. RESERVES *(continued)*

The Company:

	Capital Surplus (Share Premium) RMB'000	Statutory Surplus Reserve Fund RMB'000	Discretionary Surplus Reserve Fund RMB'000	Total RMB'000
Balance as at January 1, 2009	306,799	568,161	596,781	1,471,741
Issuance of shares for the acquisition of Property	164,449	–	–	164,449
Issuance of shares for the acquisition of ACCA	190,684	–	–	190,684
Transfer from retained earnings	–	67,234	103,967	171,201
Balance as at December 31, 2009	661,932	635,395	700,748	1,998,075
Transfer from retained earnings	–	80,700	130,409	211,109
Balance as at December 31, 2010	**661,932**	**716,095**	**831,157**	**2,209,184**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

33. APPROPRIATIONS AND DISTRIBUTION OF PROFIT

In the year ended December 31, 2010, according to the Company Law of PRC, related regulations, and the Articles of Association of the Company, the distributable net profit after taxation and non-controlling interest is distributed in the following order:

(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;

(iv) distribution of dividends for ordinary shares to equity holders.

The Company is required to allocate at least 10% of its net profit to statutory surplus reserve fund until the cumulative amount reach 50% of the paid in capital under the Company Law of PRC.

The appropriation of 20% of its net profit to the discretionary surplus reserve fund for the year ended December 31, 2009 was approved in the annual general meeting held on June 25, 2010. The amount was accounted for in shareholder's equity as a distribution of retained earnings in the year ended December 31, 2010.

The proposed appropriation of 10% of its net profit amount to RMB76.4 million to the discretionary surplus reserve fund for the year ended December 31, 2010 is subject to shareholders' approval at the forthcoming annual general meeting in 2011. Therefore, the amount upon approval will be recorded in the Group's financial statements for year ending December 31, 2011.

After the appropriations mentioned above, the retained earnings available for dividend distribution as at December 31, 2010 was approximately RMB1,572.8 million (2009: RMB1,220.1 million).

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB764.2 million (2009: RMB652.0 million) for the year ended December 31, 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

34. CASH GENERATED FROM OPERATING ACTIVITIES

	2010 RMB'000	2009 RMB'000
Profit before taxation	1,050,142	903,649
Adjustments for:		
Depreciation and amortization	400,202	340,660
Loss on disposal of property, plant and equipment	678	546
Interest income	(38,620)	(81,188)
(Reversal of)/provision for impairment of receivables	(5,132)	29,418
Provision for impairment of property, plant and equipment	–	20,748
Share of results from associated companies	(24,390)	(21,090)
Foreign exchange loss	9,289	1,162
Decrease (increase) in current assets:		
Accounts receivable	(35,236)	(50,425)
Inventories	147	1,782
Prepayments and other current assets	(70,185)	14,136
Due from related parties/associated companies	(25,531)	(424,310)
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	102,487	83,773
Deferred revenue	30,665	(197)
Due to related parties	51,880	(8,363)
Cash generated from operations	1,446,396	810,301

35. FINANCIAL RISK MANAGEMENT

• Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Financial risk management is carried out by the Group's finance department, following the overall directions determined by the Board of Directors. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

(i) Foreign currency risk

The functional currency of the Company and most of the subsidiaries is RMB. Majority of transactions are conducted in RMB except for certain commercial transactions with foreign airlines and purchases of machinery and equipment from overseas suppliers. The Group manages the foreign exchange risks by performing regular reviews of the Group's net foreign exchange exposure.

The Group's exposure to foreign exchange risk relates principally to its accounts receivables, cash and cash equivalents, short-term bank deposits and accounts payables denominated in foreign currencies. Analysis of these assets and liabilities by currency are disclosed in Notes 22, 28, 27, and 29 respectively.

As at December 31, 2010, if RMB had strengthened/weakened by 5% against US$ and HK$ with all other variables held constant, which were considered reasonably possible at each of the dates by management, the profit for the year would have been approximately RMB6.7 million lower/higher, mainly as a result of foreign exchange differences on translation of US$ and HK$ denominated accounts receivables, cash and cash equivalents, short-term bank deposits and accounts payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

35. FINANCIAL RISK MANAGEMENT *(continued)*

- **Financial risk factors** *(continued)*

(ii) Interest rate risk

The Group's interest-bearing assets are mainly represented by cash and cash equivalents and bank deposits. Interest income is approximately RMB38.6 million (2009: RMB81.2 million). Apart from this, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates and maturities of the Group's short-term bank deposits are disclosed in Notes 27.

The Group has no significant borrowing or non-current liabilities at December 31, 2010 and therefore do not have significant exposure to changes in interest rates.

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, short-term deposits, accounts receivables, and due from related parties. The carrying amounts of these current assets represent the Group's maximum exposure to credit risk in relation to financial assets.

As a substantial portion of these revenues was generated from the shareholders of the Company, the amount due from related parties balances are trade related, and the counterparties mainly comprise the domestic airlines. Most of these domestic airlines are stated-owned enterprises with good repayment history. There was no material default of the balances in the past. Approximately 62% (2009: 61%) of the total amount due from related parties was due from the top 3 customers of the Group: China Southern Airlines Company Limited, China Eastern Airlines Corporation Limited, and Air China Limited.

The Group has policies to ensure that the bank balances are placed with the banks with good reputation and credit quality. The Group also performs evaluation of credit quality of the banks periodically. Approximately 64% (2009: 53%) of the total bank balances were concentrated with 4 stated-owned banks as at December 31, 2010.

35. FINANCIAL RISK MANAGEMENT *(continued)*

- **Financial risk factors** *(continued)*

  (iv) Liquidity risk

  The Group maintains cash and bank deposits to hedge its liquidity risks. At December 31, 2010, approximately 33% of the Group's total assets are in cash and cash equivalents, or short-term deposits (2009: 55%). Directors believe the Group has sufficient cash balances to meet its daily operations requirements and has no significant exposure to liquidity risk.

- **Capital risk management**

  The Group's objective is to maintain an optimal capital structure and reduce the cost of capital.

  The Group reviews and manages its capital structure actively and regularly to ensure optimal capital structure and shareholder returns, taking into account the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

- **Fair value estimation**

  The Group's financial instruments mainly consist of cash and cash equivalents, short-term bank deposits, accounts receivables, prepayments, due from associated and related parties, accounts payables, and due to related parties.

  The carrying amounts of the Group's financial instruments approximated their fair values as at December 31, 2010 because of the short-term maturities of these instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

36. 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 the Group's general manager. The information reviewed by the general manager is identical to the information presented in the statement of comprehensive income. No segment income statement has been prepared by the Group for the year ended December 31, 2010 and 2009. 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.

Certain customers accounted for greater than 10% of the Group's total revenues, please refer to Note 38 for details.

37. COMMITMENTS

(a) Capital commitments

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

	2010 **RMB'000**	2009 RMB'000
Authorized and contracted for		
– Computer System	**3,974**	18,672
– Building	**39,182**	7,497
Authorized but not contracted for		
– Computer System and others	**531,228**	729,800
– Land use right and building	**518,232**	2,487,800
Total	**1,092,616**	3,243,769

The above capital commitments primarily relate to the development of the new generation aviation passenger service system and the construction of new operating centre in Beijing.

At December 31, 2010, no balance was denominated in US dollars (2009: nil).

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

37. COMMITMENTS *(continued)*

(b) Operating lease commitments

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

	2010	2009
	RMB'000	RMB'000
Within one year	**55,917**	28,406
Later than one year but not later than five years	**48,072**	23,397
Total	**103,989**	51,803

(c) Equipment maintenance fee commitments

As at December 31, 2010, the Group had equipment maintenance fee commitments of approximately RMB26.6 million (2009: RMB9.0 million).

38. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

38. RELATED PARTY TRANSACTIONS *(continued)*

(1) Related parties

The major related parties of the Company and the Group are as follows:

Name	Relationship with the Company
CTHC	Shareholder of the Company, ultimate holding 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 Corporation Limited	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 Airlines Wuhan Company Limited	Shareholder of the Company
Hainan Airlines Company Limited	Shareholder of the Company
Shenzhen Airlines Company Limited	Shareholder of the Company
Shanghai Airlines Company Limited	Subsidiary of a shareholder of the Company

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

38. 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, data network and accounting, settlement and clearing services.

The pricing 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		**2010** **RMB'000**	2009 RMB'000
China Southern Airlines Company Limited	(a)	**452,246**	400,703
China Eastern Airlines Corporation Limited	(b)	**537,452**	481,335
Air China Limited	(c)	**505,491**	461,595
Hainan Airlines Company Limited		**203,896**	188,140

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

b. Included the transaction amount of its subsidiaries, China Eastern Airlines Wuhan Company Limited and Shanghai Airlines Company Limited.

c. Included the transaction amount of its subsidiary, Shenzhen Airlines Company Limited and Kunpeng Airlines 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, 2010, operating lease rentals for lease of properties from CTHC amounted to RMB31.3 million (2009: RMB23.4 million). The pricing of operating lease rentals for buildings is based on agreed rates with CTHC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

38. RELATED PARTY TRANSACTIONS *(continued)*

(3) Balances with related parties

Balances due from the related parties mainly comprised:

Name		The Group		The Company	
		2010	2009	**2010**	2009
		RMB'000	RMB'000	**RMB'000**	RMB'000
– Trade related balances (i)					
China Southern Airlines Company Limited	(a)	**322,384**	269,295	**320,456**	266,800
China Eastern Airlines Corporation Limited	(b)	**276,063**	464,947	**271,709**	463,181
Air China Limited	(c)	**262,471**	235,512	**261,416**	231,220
Hainan Airlines Company Limited		**164,084**	126,629	**154,941**	120,311
– Other balances (ii)					
China Southern Airlines Company Limited	(a)	**27,684**	11,886	**–**	–
China Eastern Airlines Corporation Limited	(b)	**73,287**	31,981	**–**	–
Air China Limited	(c)	**141,224**	109,003	**–**	–

The balances with related parties were unsecured, non-interest bearing and generally repayable within six months.

(i) The trade related balances with related parties primarily arose from the above related party transactions.

(ii) The other balances represented the payment made on behalf of related parties, which are part of the ACCA's settlement and clearing services business.

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

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

c. Included the transaction balance of its subsidiary, Shenzhen Airlines Company Limited and Kunpeng Airlines Company Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

38. RELATED PARTY TRANSACTIONS *(continued)*

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

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank balances	**1,695,895**	2,048,643	**969,833**	1,537,875

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.

39. ULTIMATE HOLDING COMPANY

The Directors regard CTHC established in the PRC as the ultimate holding company.

40. APPROVAL OF FIANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on March 29, 2011.

SUPPLEMENTARY INFORMATION FROM THE MANAGEMENT

FIVE YEAR FINANCIAL SUMMARY

For the year ended December 31, 2010

(Amounts expressed in thousands of Renminbi ("RMB"), except per share data)

	Year ended December 31,				
	2006	2007	2008	2009	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
	(restated)	(restated)	(restated)		
Revenues	1,948,831	2,256,588	2,271,237	2,619,524	**3,054,403**
Profit before taxation	724,382	821,445	722,741	903,649	**1,050,142**
Profit attributable to owner of the parent	580,810	694,887	637,974	775,900	**896,882**
Earnings before interests, tax, depreciation and amortization	901,941	1,003,670	963,449	1,163,121	**1,411,724**
Earnings per share (Basic and diluted) *(RMB)*	0.30	0.36	0.33	0.40	**0.46**

	As at December 31,				
	2006	2007	2008	2009	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
	(restated)	(restated)	(restated)		
Total assets	5,450,540	6,055,922	6,295,531	7,027,283	**7,881,357**
Total liabilities	1,063,162	937,822	759,537	868,616	**1,073,512**
Total equity	4,387,378	5,118,100	5,535,994	6,158,667	**6,807,845**

Notes:

The financial statements for the year 2006, 2007 and 2008 have been adjusted, as if ACCA had been acquired at the earliest period presented.

CORPORATE INFORMATION

(as of the issue date of this annual report)

BOARD OF DIRECTORS

Xu Qiang	*Chairman, Executive Director* (appointed on March 16, 2010)
Cui Zhixiong	*Executive Director* (appointed on March 16, 2010)
Xiao Yinhong	*Executive Director, General Manager* (appointed on March 16, 2010)
Wang Quanhua	*Non-executive Director* (appointed on March 16, 2010)
Luo Chaogeng	*Non-executive Director* (appointed on March 16, 2010)
Sun Yude	*Non-executive Director* (appointed on March 16, 2010)
Zhou Deqiang	*Independent Non-executive Director* (appointed on March 16, 2010)
Pan Chongyi	*Independent Non-executive Director* (appointed on March 16, 2010)
Cheung Yuk Ming	*Independent Non-executive Director* (appointed on March 16, 2010)

Resigned Directors:

Cao Guangfu	*Non-executive Director* (appointed on March 3, 2009, resigned on March 16, 2010)
Yick Wing Fat, Simon	*Independent Non-executive Director* (appointed on January 9, 2007, resigned on March 16, 2010)
Yuan Yaohui	*Independent Non-executive Director* (appointed on January 9, 2007, resigned on March 16, 2010)
Chua Keng Kim	*Independent Non-executive Director* (appointed on June 5, 2007, resigned on March 16, 2010)

AUDIT COMMITTEE

Cheung Yuk Ming	*Chief Member (Chairman)* (appointed on March 16, 2010)
Zhou Deqiang	*Member* (appointed on March 16, 2010)
Pan Chongyi	*Member* (appointed on March 16, 2010)

Resigned Members:

Yick Wing Fat, Simon	(appointed on January 9, 2007, resigned on March 16, 2010)
Yuan Yaohui	(appointed on January 9, 2007, resigned on March 16, 2010)
Chua Keng Kim	(appointed on June 5, 2007, resigned on March 16, 2010)

CORPORATE INFORMATION

(as of the issue date of this annual report)

STRATEGIC COMMITTEE

Xu Qiang	*Chief Member (Chairman)* (appointed on March 16, 2010)
Wang Quanhua	*Member* (appointed on March 16, 2010)
Luo Chaogeng	*Member* (appointed on March 16, 2010)
Sun Yude	*Member* (appointed on March 16, 2010)
Cui Zhixiong	*Member* (appointed on March 16, 2010)
Xiao Yinhong	*Member* (appointed on March 16, 2010)

Resigned Member:

Cao Guangfu	(appointed on March 3, 2009, resigned on March 16, 2010)

REMUNERATION AND EVALUATION COMMITTEE

Zhou Deqiang	*Chief Member* (Chairman) (appointed on March 16, 2010)
Pan Chongyi	*Member* (appointed on March 16, 2010)
Cheung Yuk Ming	*Member* (appointed on March 16, 2010)
Wang Quanhua	*Member* (appointed on March 16, 2010)
Cui Zhixiong	*Member* (appointed on March 16, 2010)

Resigned Members:

Yick Wing Fat, Simon	(appointed on January 9, 2007, resigned on March 16, 2010)
Yuan Yaohui	(appointed on January 9, 2007, resigned on March 16, 2010)
Chua Keng Kim	(appointed on June 5, 2007, resigned on March 16, 2010)

EXECUTIVE COMMITTEE

Xu Qiang	*Chief Member* (Chairman) (appointed on March 16, 2010)
Cui Zhixiong	*Member* (appointed on March 16, 2010)
Xiao Yinhong	*Member* (appointed on March 16, 2010)

CORPORATE INFORMATION

(as of the issue date of this annual report)

SUPERVISORY COMMITTEE

Li Xiaojun	*Chairperson of Supervisory Committee, Staff Representative Supervisor* (appointed on March 16, 2010)
Zeng Yiwei	*Supervisor* (appointed on March 16, 2010)
Yu Yanbing	*Supervisor* (appointed on March 16, 2010)
Xiao Wei	*Staff Representative Supervisor* (appointed on March 16, 2010)
Rao Geping	*Independent Supervisor* (appointed on March 16, 2010)

Resigned Supervisors:

Du Hongying	*Vice Chairperson of Supervisory Committee, Supervisor* (appointed on January 9, 2007, resigned on March 16, 2010)
Gao Jingping	*Staff Representative Supervisor* (appointed on January 9, 2007, resigned on March 16, 2010)

SENIOR MANAGEMENT

Rong Gang	*Deputy General Manager* (appointed on March 16, 2010)
Wang Wei	*Deputy General Manager* (appointed on March 16, 2010)
Sun Yongtao	*Deputy General Manager and Financial Controller* (appointed on March 16, 2010)
Zhu Xiaoxing	*Deputy General Manager* (appointed on March 16, 2010)
Huang Yuanchang	*Deputy General Manager* (appointed on March 16, 2010)
Li Jinsong	*General Counsel* (appointed on March 16, 2010)

JOINT COMPANY SECRETARIES

Yu Xiaochun	(appointed on March 16, 2010)
Liu Pui Yee	(appointed on March 16, 2010)

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.todayir.com

CORPORATE INFORMATION

(as of the issue date of this annual report)

AUDITORS

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

PRC Auditors:
PricewaterhouseCoopers Zhong Tian CPAs Limited Company
11/F, PricewaterhouseCoopers Centre
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PRC

LEGAL ADVISERS

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Hong Kong

as to the PRC law:
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COMPLIANCE ADVISOR

Shenyin Wanguo Capital (H.K.) Limited
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CORPORATE INFORMATION

(as of the issue date of this annual report)

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PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 0696

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

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The Bank of New York
Shareholder
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Church Street Station
New York, NY 10286-1258, U.S.A.

Shareholders can obtain a copy of this annual report through the website of the Company at http://travelsky.todayir.com.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

(as of the issue date of this annual report)

DIRECTORS

Mr Xu Qiang, aged 49, the Chairman and an executive Director of the Company. Mr Xu graduated from First Research Institute of Ministry of Aviation and Aerospace Industry (航空航天部第一研究院) and got Ph.D. Degree. From November 1990 to May 1999, Mr Xu served at the Ministry of Aero-Space Industry (航空航天部), China Aerospace Industry Corporation (中國航天工業總公司) as engineer, vice-director and director of research office as well as vice director and director of 13th Institute in succession. From May 1999 to May 2007, Mr Xu served at China Aerospace Science and Technology Corporation (中國航天科技集團公司), held the position of assistant to president and vice president of First Research Institute (第一研究院), president of 10th Research Institute (第十研究院) and general engineer of China Aerospace Science and Technology Corporation. Mr Xu served as general manager and deputy party secretary of China TravelSky Holding Company (中國民航信息集團公司) since May 2007. Mr Xu served as an executive Director and Chairman of the third Board of the Company since May 2008. From August 2008, Mr Xu served as the deputy secretary of the Communist Party Committee of the Company. Since March 2010, Mr Xu has served as an executive Director and the Chairman of the fourth Board of the Company, and the Chief Member (Chairman) of the Strategic Committee and the Executive Committee. Mr Xu is holding positions as the chairman of TravelSky Technology (Hong Kong) Limited (中國民航信息網絡股份(香港)有限公司), a subsidiary of the Company. China TravelSky Holding Company had interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and Mr Xu was an employee of China TravelSky Holding Company.

Mr Cui Zhixiong, aged 50, an executive Director of the Company. Mr Cui, a postgraduate, graduated from the Party School of the Central Committee of the CPC (中央黨校) majoring in Global Economics and had an EMBA degree from Nankai University. From December 1976 to September 1989, he served as an army officer. From September 1989 to February 1993, he worked in the Government Offices Administration of the State Council (國務院機關事務管理局) and had held positions as an deputy supervisor, deputy secretary and secretary of the State Organs of the CPC. From February 1993 to April 2004, he worked in the Communist Youth League Work Committee of the State Organs of the CPC (共青團中央國家機關工作委員會) and had served as deputy secretary and secretary. In June 2000, he served as the Chairman of the State Organs Youth Federation of the CPC (中央國家機關青年聯合會). Meanwhile, from November 2001 to October 2003, he served as Deputy Secretary-General of Gansu Provincial Committee and Deputy Secretary of Municipal Committee of Jiayuguan, Gansu Province. Since April 2004, he has served as the party secretary of China TravelSky Holding Company (中國民航信息集團公司) and deputy general manager of China TravelSky Holding Company from April 2004 to June 2008. Since August 2008, he has been the Deputy Party Secretary of the Company. Since October 2008, Mr Cui served as an executive Director of the third Board of the Company. Since March 2010, Mr Cui has served as an executive Director of the fourth Board of the Company, and a member of the Remuneration and Evaluation Committee, the Strategic Committee and the Executive Committee.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

(as of the issue date of this annual report)

Mr Xiao Yinhong, aged 48, an executive Director and the general manager of the Company. Mr Xiao was awarded a Master Degree of Beihang University (北京航空航天大學) and was a senior engineer with over 20 years of management experience in the aviation industry of the PRC. From July 1984 to October 2000, Mr Xiao had consecutively held positions such as the deputy director of Application Office (應用室), director of Information Office (信息室), assistant to general manager and deputy general manager of China Civil Aviation Computer Information Center (中國民航計算機信息中心). Mr Xiao served as an executive Director of the first Board of the Company from October 2000 to December 2003. From October 2000 to August 2008, Mr Xiao had served as a deputy general manager of the Company and has served as the general manager of the Company since August 2008. Since October 2008, Mr Xiao served as the executive Director of the third Board of the Company. Since March 2010, Mr Xiao has served as an executive Director of the fourth Board of the Company, and a member of the Strategic Committee and the Executive Committee. Mr Xiao is also the Chairman of InfoSky Technology Co., Ltd. (天信達信息技術有限公司), the chairman of Guangzhou TravelSky Information Technology Limited (廣州民航信息技術有限公司), the chairman of Civil Aviation Cares of Qingdao Ltd. (青島民航凱亞系統集成有限公司) and the director of TravelSky Technology (Hong Kong) Limited (中國民航信息網絡股份(香港)有限公司), all of which are subsidiaries of the Company.

Mr Wang Quanhua, aged 56, a non-executive Director of the Company. Mr Wang is a university graduate and has about 30 years of management experience in China's civil aviation industry. He joined China Southern Airlines Company (中國南方航空公司) in June 1991. Since June 1998, he had served as the General Manager of the Strategic Planning and Development Department, and then as the Assistant to the President and the Vice President of Southern Air (Holding) Company (南方航空(集團)公司), a promoter of the Company. He has been the Deputy General Manager of China Southern Air Holding Company (中國南方航空集團公司) since October 2002 and a director of China Southern Airlines Company Limited (中國南方航空股份有限公司) (a company listed on the Main Board of the Stock Exchange and a subsidiary of China Southern Air Holding Company) since March 2003. Since December 2003, Mr Wang has served as a non-executive Director and a Vice Chairman of the second Board of the Company. In March 2004, Mr Wang was appointed by the Board as a member of the Strategic Committee and the Remuneration and Evaluation Committee of the second Board. Since January 2007, Mr Wang has been re-appointed as a non-executive Director of the Company's third Board and a member of the Strategic Committee and the Remuneration and Evaluation Committee. From January 2007 to March 2009, Mr Wang served as the Vice Chairman of the third Board of the Company. Since March 2010, Mr Wang has served as a non-executive Director of the fourth Board of the Company, and a member of the Remuneration and Evaluation Committee and the Strategic Committee. China Southern Air Holding Company had interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and Mr Wang was an employee of China Southern Air Holding Company.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

(as of the issue date of this annual report)

Mr Luo Chaogeng, aged 60, a non-executive Director of the Company. Mr Luo joined the civil aviation industry in 1970. Mr Luo has obtained first class competency in flight mechanics. Mr Luo was a flight mechanic of the instructing team of the Lanzhou Civil Aviation Administration Bureau (民航蘭州管理局) from August 1970 to August 1972. From September 1972 to March 1989, he was the flight mechanic of the 8th Civil Aviation Flight Team (中國民航第八飛行大隊). From March 1989 to August 1994, he was the deputy commissar, commissar and party secretary of the Xian Flight Team of China Northwest Airlines Co., Ltd. (中國西北航空公司). From August 1994 to October 1996, he was the party secretary of the aircraft maintenance plant of China Northwest Airlines Co., Ltd. From October 1996 to March 1997, he was the party secretary and deputy general manager of the aircraft maintenance base of China Northwest Airlines Co., Ltd. From March 1997 to December 2000, he was the deputy director of the Civil Aviation Administration Bureau of Xibei (民航西北管理局). From December 2000 to November 2001, he was the general manager of Yunnan Airlines Co., Ltd. (雲南航空公司) and a director and the deputy party secretary of Civil Aviation Administration Bureau of Yunnan (民航雲南省管理局). From November 2001 to September 2002, he was the general manager and deputy party secretary of Yunnan Airlines Co., Ltd. From September 2002 to September 2004, he has also been serving concurrently as the general manager of China Eastern Airlines, Yunnan Branch (中國東方航空雲南公司). From September 2004 to October 2006, Mr Luo was a director, the General Manager and the deputy party secretary of China Eastern Airlines Corporation Limited (中國東方航空股份有限公司), a company listed on the Main Board of the Stock Exchange and a subsidiary of China Eastern Air Holding Company (中國東方航空集團公司) which is a promoter and a substantial shareholder of the Company. From September 2002 to the present, Mr Luo has been the Vice President and a party constitution member of China Eastern Air Holding Company. From June 2007 to March 2009, Mr Luo served as a Vice Chairman of the Company's third Board and the Chief Member (Chairman) of the Strategic Committee. From June 2007 to March 2010, Mr Luo served as a non-executive Director of the third Board of the Company and the Chief Member of the Strategic Committee. Since March 2010, Mr Luo has served as a non-executive Director of the fourth Board of the Company, and a member of the Strategic Committee. China Eastern Air Holding Company had interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and Mr Luo was an employee of China Eastern Air Holding Company.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

(as of the issue date of this annual report)

Mr Sun Yude, aged 57, a non-executive Director of the Company, graduated from Civil Aviation Institute of Chin (中國民航學院) (currently known as Civil Aviation University of China (中國民航大學)) majoring in economic management. He started his career in China's civil aviation industry in 1972 and served as the Deputy Head of CAAC Taiyuan Terminal (民航太原航站) and Head of Ningbo Terminal (寧波航站), as well as General Manager of CNAC Zhejiang Airlines (中航浙江航空公司). In October 2002, Mr Sun joined Air China International Corporation (中國國際航空公司) as Vice President and General Manager of Zhejiang branch, and has been serving as Vice President of Air China Limited (中國國際航空股份有限公司) (a company listed on the Main Board of the Stock Exchange and a subsidiary of China National Aviation Holding Company (中國航空集團公司) (a promoter and a substantial shareholder of the Company); stock code: 0753 (HKSE); 601111 (Shanghai Stock Exchange); AIRC (London Stock Exchange)) since September 2004. Mr Sun has been serving as Chairman of Shandong Aviation Group (山東航空集團有限公司) since November 2004, as well as President and the deputy party secretary since December 2005. Mr Sun served as a director, the president and party secretary of China National Aviation Corporation (Group) Limited since March 2007. From October 2007 to October 2010, he also served as the chairperson of the supervisory committee of Air China Limited. Mr Sun served as a director of Air China Limited since October 2010. He was appointed as deputy General Manager and a party constitution member of China National Aviation Holding Company, a director and the president of China National Aviation Corporation (Group) Limited and the chairperson of the supervisory committee of Air China Limited in May 2009. Since March 2010, Mr Sun has served as a non-executive Director of the fourth Board of the Company, and a member of the Strategic Committee. China National Aviation Holding Company had interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and Mr Sun was an employee of China National Aviation Holding Company.

Mr Cheung Yuk Ming, aged 58, an independent non-executive Director of the Company, is a certified public accountant registered in Hong Kong and a fellow of the Hong Kong Institute of Certified Public Accountants (香港會計師公會), a member of the Hong Kong Institute of Bankers (香港銀行學會), a member of the Institute of Internal Auditors of the United States, a member of the Alliance of Merger and Acquisition Advisors (Chicago, the United States), an associate of The Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Securities Institute (香港證券專業學會). He obtained a Master's degree in business administration from the University of East Asia, Macau (澳門東亞大學) in 1987. Prior to June 2009, Mr Cheung had served as assistant auditor and senior accountant at PriceWaterhouse, and was a partner of Lau, Cheung, Fung & Chan. Since January 2005, he has been an executive director of Lawrence CPA Limited. Mr Cheung was appointed as an independent non-executive Director of Metallurgical Corporation of China Ltd. (中國冶金科工股份有限公司) (HKSE stock code:1618) in June 2009. Since March 2010, Mr Cheung has served as an independent non-executive Director of the fourth Board of the Company, the Chief Member (Chairman) of the Audit Committee and a member of the Remuneration and Evaluation Committee.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

(as of the issue date of this annual report)

Mr Zhou Deqiang, aged 69, an independent non-executive Director of the Company, is a professor-level Senior Engineer. He graduated from Nanjing Institute of Posts and Telecommunications (南京郵電學院) and was engaged in telecommunications technology and management for a long time. Mr Zhou served as Director General of Anhui Post and Telecommunications Administration (安徽省郵電管理局) from September 1984 to October 1994, and Vice Minister of the Ministry of Posts and Telecommunications (郵電部) and the Ministry of Information Industry (信息產業部) from October 1994 to April 2000. He served as President of China Telecommunications Corporation (中國電信集團公司) from April 2000 to November 2004, and Chairman of the Board of Directors and CEO of China Telecom Corporation Limited (中國電信股份有限公司) (HKSE stock code: 0728) from September 2002 to December 2004. Mr Zhou was a member of CPPCC (全國政協) and the Economics Committee of CPPCC (全國政協經濟委員會) from March 2003 to March 2008. He is now Chairman of China Institute of Communications (中國通信學會), Honorary Chairman of Association of Communications Across Taiwan Straits (海峽兩岸通信交流協會), an external director of China Shenhua Group (中國神華集團公司) and an independent director of China PTAC Communications Services Co., Ltd. (中郵普泰通信服務股份有限公司). Since March 2010, Mr Zhou has served as an independent non-executive Director of the fourth Board of the Company, a member of the Audit Committee and the Chief Member (Chairman) of the Remuneration and Evaluation Committee.

Mr Pan Chongyi, aged 65, an independent non-executive Director of the Company, is a professor-level Senior Engineer. Mr Pan graduated from University of Shanghai for Science and Technology (上海理工大學). Mr Pan served as vice factory director of Harbin Turbine Company (哈爾濱汽輪機廠), Director of the Light Industry Bureau of Harbin (哈爾濱市輕工業局) and deputy general manager of HPEGC (哈爾濱電站設備集團公司) from December 1968 to October 1994. He served as vice chairman and general manager of Harbin Power Equipment Company Limited (哈爾濱動力設備股份有限公司) (HKSE stock code:1133) from October 1994 to April 1997. Mr Pan served as deputy general manager of China National Machinery Industry Corporation (中國機械工業集團公司) and general manager of China National Electric Equipment Corporation (中國電工設備總公司) from April 1997 to August 2005. From 2005 to October 2010, Mr Pan has taken the positions as the Chairman of China Perfect Machinery Industry Corp., Ltd. (中國浦發機械工業股份有限公司), an external director of China Railway Communication Co. Ltd. (中國鐵通集團公司) and an external director of China National Real Estate Group Corporation (中國房地產集團公司) in chronological order. Since March 2010, Mr Pan has served as an external director of China Coal Technology & Engineering Group Corporation and an independent non-executive Director of the fourth Board of the Company, a member of the Audit Committee and the Remuneration and Evaluation Committee.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

(as of the issue date of this annual report)

SUPERVISORS

Ms Li Xiaojun, aged 55, Chairperson of the Supervisory Committee of the Company, is a senior economist who graduated from People's University of China (中國人民大學) and has over 20 years of management experience in China's civil aviation industry. From March 1983 to May 1988, Ms Li worked in the Planning Department of the Beijing Bureau of General Administration of Civil Aviation of China (中國民用航空總局北京管理局計劃處). From May 1988 to December 1997, she held the positions of the Deputy Head and then the Head of the Planning Department of Air China International Corporation (中國國際航空公司). Ms Li was the Head of Enterprise & Institute Personnel Division of Personnel and Education Department of General Administration of Civil Aviation of China (中國民用航空總局人事教育司企事業人事處) from December 1997 to August 2000. From October 2000 to August 2004, she had been a Director, the Deputy General Manager and Deputy Party Secretary of the Company. She has also been the Deputy Party Secretary and Secretary of the Disciplinary Committee of China TravelSky Holding Company (中國民航信息集團公司), a promoter of the Company, since September 2002. Since August 2008, she has served as the Deputy Party Secretary of the Company and Secretary of the Disciplinary Committee. She was an executive Director of the first Board. Since December 2003, Ms Li has served as a Supervisor and the Chairperson of the second Supervisory Committee, and was re-appointed as a Supervisor and the Chairperson of the third Supervisory Committee in January 2007. Since March 2010, she was re-appointed as a staff representative Supervisor and the Chairperson of the fourth Supervisory Committee of the Company.

Ms Zeng Yiwei, aged 39, a Supervisor of the Company, graduated from Xiamen University with a master's degree. Ms Zeng has being working as the deputy manager and manager of the Finance Division of the Finance and Accounting Department of Xiamen Airlines (廈門航空有限公司) since 1993, she was promoted to the position of and has been the deputy general manager of the Finance and Accounting Department of Xiamen Airlines since April 2004 till now. Since March 2010, Ms Zeng has served as a Supervisor of the fourth Supervisory Committee of the Company.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

(as of the issue date of this annual report)

Mr Yu Yanbing, aged 34, a Supervisor of the Company, graduated from Civil Aviation Institute of China (中國民航學院) (currently known as Civil Aviation University of China (中國民航大學)), majoring in computer science. Mr Yu joined the Computer Centre of Hainan Airlines Company Limited (海南航空股份有限公司), a promoter of the Company, immediately after graduation. Since May 2000, he has worked in HNA Systems Company Limited (海南海航航空信息系統有限公司). From July 2004 to September 2007, Mr Yu was the deputy general manager of HNA Systems Company Limited. From September 2007 to January 2010, Mr Yu has served as the General Manager of the IT Strategy & Management of HNA Group Company Limited (海航集團有限公司) as well as the Chairman and CEO of HNA Systems Company Limited. Starting from October 2007, Mr Yu has also served as the Chairman of Hainan Baicheng Systems Company Limited (海南百成信息系統有限公司). From January 2008 to January 2010, Mr Yu has worked as the assistant to Chief Executive Officer of HNA Group Company Limited. Since January 2010, Mr Yu has worked as the vice president and Chief Information Officer of HNA Tourism Holding (Group) Company Limited (海航旅業控股(集團)有限公司). Since March 2010, Mr Yu has been the chairman and chief executive officer of Hainan E King Technology Company Limited (海南易建科技股份有限公司). Since January 2007, Mr Yu has served as a Supervisor of the third Supervisory Committee. Mr Yu was re-appointed as a Supervisor of the fourth Supervisory Committee of the Company since March 2010.

Mr Xiao Wei, aged 41, a staff representative Supervisor of the Company, graduated from Beihang University (北京航空航天大學) with a master's degree in engineering. Mr Xiao joined China Civil Aviation Computer Information Center (中國民航計算機信息中心), the predecessor of China TravelSky Holding Company, a promoter of the Company, in April 1995. From October 2000 (when the Company was established) to October 2008, Mr Xiao served as an engineer of the Networking Department and Deputy Director and Director of the Community Union Working Department of the Company, and general manager of Shenyang Civil Aviation Cares of Northeast China Ltd. (瀋陽民航東北凱亞有限公司), subsidiary of the Company. Mr Xiao has been working as Office Manager to Discipline Committee of the Company since October 2008. Since March 2010, Mr Xiao has served as a staff representative Supervisor of the fourth Supervisory Committee of the Company.

Mr Rao Geping, aged 63, an independent Supervisor of the Company, is a professor and doctorate tutor of the law school of Peking University (北京大學), the head of the Institute of International Law of Peking University, the Head of Hong Kong, Macau and Taiwan Law Research Center in Peking University, Vice President of Chinese Society of International Law and a member of the Committee for the Basic Law of Hong Kong Special Administrative Region of the Standing Committee of the National People's Congress of the PRC. He is also a part-time professor in a number of universities in China, such as Wuhan University (武漢大學), China Foreign Affairs University (外交學院) and East China University of Politics and Law (華東政法大學). Mr Rao specializes in areas such as laws of Hong Kong, Macau and Taiwan as well as international law, etc. Mr Rao also served as an independent director of Super Shine Co., Ltd. (廣西陽光股份有限公司), which is listed on the Shenzhen Stock Exchange. Since December 2003, Mr Rao has served as an independent Supervisor of the second Supervisory Committee, and was re-appointed an independent Supervisor of the third Supervisory Committee in January 2007. Since March 2010, Mr Rao was re-appointed as an independent Supervisor of the fourth Supervisory Committee of the Company.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

(as of the issue date of this annual report)

SENIOR MANAGEMENT

Mr Rong Gang, aged 48, a deputy general manager of the Company, is a senior engineer. He holds a master degree in business administration from Guanghua School of Management, Peking University. He has over 20 years of management experience in China's civil aviation industry. From August 1983 to May 1996, Mr Rong worked in Civil Aviation Computer Information Centre (民航計算機信息中心). From May 1996 to May 1999, he worked in General Administration of Civil Aviation of China (中國民用航空總局). From May 1999 to September 2002, Mr Rong served as the Vice President of Civil Aviation Computer Information Centre (currently known as China TravelSky Holding Company). He has been the Deputy General Manager of China TravelSky Holding Company, a promoter and shareholder of the Company, from September 2002 to June 2008. From October 2000 to March 2009, Mr Rong acted as a non-executive Director of the Company. He also served as a member of the Company's Strategic Committee from March 2004 to March 2009. Mr Rong has been a Deputy General Manager of the Company since December 2008. Currently, Mr Rong is also an executive director of TravelSky Technology (Beijing) Real Estate Limited (中航信凱亞（北京）置業有限公司).

Mr Wang Wei, aged 50, a deputy general manager of the Company, is a senior engineer. He holds a master degree in business administration from the China Europe International Business School. From July 1993 to April 2002, he served as the Deputy General Manager of the Beijing branch company of China Aviation Supplies Import and Export Corporation (中國航空器材進出口總公司北京分公司). He was the assistant to the General Manager of China Aviation Supplies Import and Export Corporation from April 2002 to September 2002. From September 2002 to March 2008, Mr Wang served as the Deputy General Manager of China Aviation Supplies Import and Export Group Corporation (中國航空器材進出口集團公司). From March 2008 to June 2008, he served as the Deputy General Manager of China TravelSky Holding Company, a promoter of the Company. Mr Wang has been a Deputy General Manager of the Company since December 2008.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

(as of the issue date of this annual report)

Mr Sun Yongtao, aged 53, a deputy general manager and the financial controller of the Company, holds a master degree in economics and is a senior accountant. From May 1988 to July 1990, Mr Sun served as manager of Finance Department of Shenzhen Huamei Steel and Iron Company Limited (深圳華美鋼鐵公司). From July 1990 to July 1993, he was the Chief Accountant of Shenzhen Century Plaza Hotel Company Limited (深圳新都酒店股份有限公司), a company listed on the Shenzhen Stock Exchange. From July 1993 to January 1996, he was a director and General Manager of Finance Department of Shum Yip Holdings Company Limited (深業控股有限公司) (a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, now known as Shenzhen Holding Company Limited (深圳控股有限公司)). From January 1996 to March 2001, he served as the Financial Controller, the Deputy General Manager (General Affairs) and a director of Hengli Weaving (Holdings) Limited (香港囱力紡織(集團)有限公司). From March 2001 to February 2002, Mr Sun served as the Deputy General Manager and the Financial Controller of Guiming Investment Limited (香港貴明投資有限公司). He was the Deputy General Manager and the Financial Controller of Daya Bay Nuclear Power Finance Corporation, Ltd. (大亞灣核電財務有限責任公司) from February 2002 to November 2004. Mr Sun has been the Chief Accountant of China TravelSky Holding Company, a promoter of the Company, from November 2004 to June 2008. From March 2008 to May 2008, Mr Sun served as the acting chairman of the Company. From January 2007 to March 2009, Mr Sun served as a non-executive Director of the Company and a member of the Remuneration and Evaluation Committee. Mr Sun has been a Deputy General Manager of the Company since December 2008. Mr Sun has been the Financial Controller of the Company since March 2010. Mr Sun currently also serves as a supervisor of Travelsky Cares (Beijing) Real Estate Co. Limited (中航信凱亞(北京)置業有限公司), a subsidiary of the Company.

Mr Zhu Xiaoxing, aged 46, a deputy general manager of the Company, graduated from Jilin University majoring in computer software and graduated from Tsinghua University (清華大學) with a master's degree in business administration. Mr Zhu has nearly 20 years of experience in management and technological support in China's civil aviation industry. Mr Zhu held the positions such as the Head of the Operation Department and the Customer Service Department of China Civil Aviation Computer Information Center (中國民航計算機信息中心) from August 1987 to October 2000. Since the establishment of the Company in October 2000, Mr Zhu had been the General Manager of the Operation Department, the Customer Service Department and the Technical Management Department of the Company. From August 2004 to August 2008, Mr Zhu has served as the General Manager of the Company. From October 2004 to March 2009, he has served as an executive Director of the Company. Mr Zhu has been a Deputy General Manager of the Company since August 2008.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

(as of the issue date of this annual report)

Mr Huang Yuanchang, aged 48, a deputy general manager of the Company, graduated from Nanjing Institute of Technology (南京工業學院), and holds a master degree of administration from Beijing University of Aeronautics and Astronautics (北京航空航天大學). Mr Huang is currently a senior engineer and has more than twenty years of management and technical support experience in China's aviation industry. From May 1989 to October 2000, Mr Huang served as the Deputy Head and the Head of Operation Room, the Head of Production Management Department, assistant to the General Manager and Deputy General Manager of the Production Management Department of China Civil Aviation Computer Center (中國民航計算機中心). Mr Huang served as the executive director of the first Board of the Company from October 2000 to December 2003. Mr Huang served as the Deputy General Manager of the Company from October 2000 to November 2006. From August 2007 to August 2008, Mr Huang was the General Manager of the Marketing and Research & Development Department of China TravelSky Holding Company. Mr Huang has been a Deputy General Manager of the Company since September 2008. Mr Huang also serves as the chairman of Cares Hubei Co., Ltd. (湖北民航凱亞有限公司) and Civil Aviation Cares Technology of Xi'an Ltd. (西安民航凱亞科技有限公司), the chairman of Shanghai TravelSky Information Technology Limited (上海民航信息科技有限公司), all of which are subsidiaries of the Company.

Mr Li Jinsong, aged 41, the General Counsel of the Company, is a senior engineer, certified public accountant and lawyer. He holds a bachelor degree of engineering, master degree of business administration and a doctor of philosophy degree in law from Tsinghua University, and he is an arbitrator of the Beijing Arbitration Commission. Mr Li served as Business Manager of the Investment Management Department of China Huaqing Industrial Corporation (中國華輕實業公司) from August 1990 to September 1995, the General Manager of Liaoning Huaqing Inc. (遼寧華輕實業有限責任公司) from September 1995 to September 2000, and the Assistant to General Manager of China Huaqing Industrial Corporation from September 2000 to March 2002. He resigned from work to study at the Law School of Tsinghua University from March 2001 to February 2004, and served as Associate Professor and a member of the Academic Committee of Beijing National Accounting Institute from February 2004 to March 2007 (during this period, he was also a research scholar at the Faculty of Law of London School of Economics and Political Science). In March 2007, he held the position of general counsel of China TravelSky Holding Company. From August 2007 to December 2008, he also served as the General Manager of Department of Corporate Audit Monitoring and Law Affairs (公司審計監察與法律事務部) of China TravelSky Holding Company. From December 2008 up to now, Mr Li has been the general counsel of the Company. Mr Li currently also serves as a supervisor of Shanghai TravelSky Information Technology Limited (上海民航信息科技有限公司), a subsidiary of the Company.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND JOINT COMPANY SECRETARIES

(as of the issue date of this annual report)

JOINT COMPANY SECRETARIES

Mr Yu Xiaochun, aged 43, the company secretary of the Company (Secretary to the Board), graduated from the Department of Systems Engineering of Beihang University (北京航空航天大學) in July 1989, majoring in Management Engineering. He obtained a master degree in management from Beihang University in March 2002. Since Mr Yu joined China Civil Aviation Computer Information Center (中國民航計算機信息中心), the predecessor of China TravelSky Holding Company, a promoter of the Company, in July 1989, Mr Yu has worked in the China civil aviation information industry (in which the Company carries its activities) for more than 20 years and has extensive management experience. Mr Yu was the deputy director of the marketing department of China Civil Aviation Computer Information Center from July 1999 to October 2000. From October 2000 (when the Company was established) to December 2002, he held various positions in the Company such as deputy director of the marketing department, the general manager of the DCS department (離港部) and the deputy general manager of the marketing department. From December 2002 to July 2009, Mr Yu was the general manager of the planning and development department of China TravelSky Holding Company. He is the head of the Planning and Development Department of the Company since July 2009. Mr Yu is currently also the director of subsidiaries of the Company, namely Aviation Cares of Yunnan Information Co. Ltd. (雲南民航凱亞信息有限公司) (both being subsidiaries of the Company), and Civil Aviation Cares Technology of Xi'an Ltd. (西安民航凱亞科技有限公司). Mr Yu has served as the joint company secretary and secretary to the Board of the Company since March 2010.

Ms Liu Pui Yee, aged 33, the joint company secretary of the Company, is a Hong Kong qualified solicitor. She obtained a bachelor degree in laws and Postgraduate Certificates in Laws from the University of Hong Kong. Ms Liu also obtained a second degree in Chinese laws from the Tsinghua University. Ms Liu has accumulated extensive experiences from handling of compliance issues of listed companies and corporate merger and acquisitions transactions. Ms Liu is currently the joint company secretary of First Tractor Company Limited, a company whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Since March 2010, Ms Liu has served as the joint company secretary of the Company.