

Chairman's Statement

The year 2000 was a very extraordinary year in the history of development of the Company. With a view to addressing the increasing demand for information technology solutions arising from the accelerated development of the air travel and tourism industry in China, and to reforming the corporate organisational and management structure of the business so as to increase corporate operational efficiency, the Company was incorporated in October 2000 by the Civil Aviation Computer Information Centre (CACI) and twenty Chinese commercial airlines. Significant efforts were made in 2000 to prepare for the listing of the Company's H shares, which culminated in the successful listing of such shares on The Stock Exchange of Hong Kong Limited on February 7, 2001.

Investor response to the Company's initial public offering was very positive, and the Company raised a total of approximately HK\$1.3 billion from the offering. The solid support from the market has been a strong endorsement of the Company's businesses, which has been very encouraging to both the management and employees of the Company.

TravelSky has developed a business model that leverages its leading edge technology and unique market position. Its core businesses are directed at critical segments of China's air travel and tourism industries.

OPERATIONAL PERFORMANCE FOR 2000

As a dominant supplier of information technology solutions for the air travel and tourism industry in China, the Company has maintained steady growth in its various businesses in 2000. The Company's electronic travel distribution (ETD) system processed 70.7 million bookings for flights on Chinese commercial airlines, or 97 per cent. of the total bookings for flights on Chinese commercial airlines. This was a 11.1 per cent. increase over the same period in 1999. Bookings using the Company's systems on foreign and regional airlines amounted to 2.8 million, or 70 per cent. of the total bookings for foreign and regional airlines in China. This was a 35.8 per cent. increase over the same period in 1999.

Financial information presented in this "Chairman's Statement" has been extracted from the consolidated financial statements of the Group presented elsewhere in this annual report. Such consolidated financial statements and the operating data presented in this "Chairman's Statement" has been prepared on the basis that the current structure of the Group had been in existence throughout the two years ended December 31, 2000.

The Company's airport passenger processing (APP) system processed an outgoing passenger volume of 33.5 million, accounting for 47 per cent. of the total outgoing passengers handled by domestic airports and representing a 48.7 per cent. increase over the same period in 1999. The Company's air cargo system (ACS) processed a total of 2.2 million airway-bills, representing an increase of 22.6 per cent. over the previous year.

These figures firmly establish the Company as the leading provider of information technology solutions for the air travel and tourism industries in China. To build on its strong operational performance for 2000, the Company has designated ETD as the cornerstone of its business development plans, with the APP business as the primary support business division and supplemented by accelerated development in new business areas such as ACS, data network and Internet-based travel platform as well as IT solutions for non-aviation businesses such as car rentals and hotel reservations.



FINANCIAL PERFORMANCE FOR 2000

The financial results of the Group in 2000 have been very encouraging. For the year ended December 31, 2000, the Group's total revenue was RMB742.0 million, which represents a 22.9 per cent. increase over 1999. Earnings before interest, tax, depreciation and amortisation (EBITDA) were RMB453.0 million, an increase of 12.1 per cent. over 1999. Net profit was RMB256.6 million, which represents a rise of 23.3 per cent. over 1999.



Revenues from ETD amounted to RMB439.1 million, an increase of 22.4 per cent. over the same period in 1999, split between a ratio of 84:16 for domestic ETD revenues and foreign or regional ETD revenues, respectively. This compares with a 87:13 ratio for ETD revenues in 1999.

Revenues from APP amounted to RMB155.5 million, an increase of 58.4 per cent. over the same period in 1999. Revenues from data network services amounted to RMB109.0 million, an increase of 9.1 per cent. over 1999. Combined revenues from ACS and Internet-based travel platform services amounted to RMB8.7 million, an increase of 57.9 per cent. over 1999.



THE YEAR 2000 IN RETROSPECT

In 2000, the air travel industry in China maintained its steady growth. In addition to handling the increasing demand for bookings on Chinese commercial flights, which tracked the increase in total volume of civil aviation transportation in China, the Company's ETD system also handled a rapid increase in the number of bookings for flights on foreign and regional airlines in China.

New ETD products and technologies, such as Net Fare Display, Code-Share technology, electronic ticketing, Advance Seats Reservation, transmission control protocol/Internet protocol (TCP/IP) based PC products, e-Term, AirManager and HotelAccess were introduced and made available on a wide scale to customers, including airlines, travel service companies and travel agencies. The technical services department of the Company also successfully bridged the connection between its host systems and open platforms such as Microsoft Windows NT and UNIX.



The Company has completed the implementation of the Billing Settlement Plan, or BSP system, in China. This move is in accordance with a directive of the Civil Aviation Administration of China (CAAC) that commencing from 1 January 2001, all travel agencies and commercial airlines in China had to adopt the BSP system for issuing air tickets in China. BSP is a necessary step forward for the travel industry in China as it enables tickets to be printed in Chinese or English by the ETD system of the Company, and it brings the procedure for issuing air tickets in China in line with international standards.

For its APP business, the Company entered into new agreements for the construction of APP Front Terminal Systems in eight airports (including Guilin airport and Hangzhou airport). These agreements, when fully implemented in 2001, will bring the total number of domestic and international airports using the Company's APP to 37. The Company also continued to improve the utilisation of APP by airports which have already installed the APP system.

For its data network business, the Company continued its ongoing programme of upgrading its network infrastructure. Currently, approximately 70 per cent. of all the nodes within the network infrastructure have been upgraded to a TCP/IP platform. The entire communication network of the Group has been converted to a Digital Data Network (DDN) platform. The business division of the Company also completed the construction of a centralised network management system.

Aside from investment in core businesses, the Company has also been exploring new business areas. The Company's ACS business increased the number of customers using its automated cargo processing system from 2 companies in 1999 to 12 companies by December 31, 2000. Also in 2000, the Company took over the participation of CACI in an air cargo business joint venture, InfoSky Technology Company Limited (InfoSky), which was originally formed between CACI and a subsidiary of Societe Internationale de Telecommunications Aeronautiques S.C. (SITA). InfoSky commenced formal operations on January 1, 2001. It is expected that InfoSky will account for approximately 60 per cent. of air cargo processing in China.



The Company's other new business, the Internet-based delivery platform "e-Term", featuring travel service products, provided services to more than 500 customers from different countries in the Asia Pacific region. This new solution complemented the Company's venture into non-aviation tourism businesses. Over the course of 2000, the Company entered into product and service sales agreements with three hotel groups (including the Starwood chain) and three insurance companies (including China People's Life Insurance Company).

To better service its customers, which are located all over Mainland China, the Company established new local distribution centres (LDCs) in Inner Mongolia, and, together with Yunnan Airlines, jointly established Aviation Cares of Yunnan Information Company Limited as an LDC in Yunnan. These moves are expected to further improve the customer and market-oriented business model of the Company.

For a company as heavily dependent on technology for servicing its customers as the Company, no discussion of 2000 would be complete without an analysis of systems reliability for the Company's various business divisions. In this aspect, the Company is proud to report that the 2000 utilisation ratios of the Company's ICS, CRS, APP and ACS mainframe systems were 99.99 per cent., 99.99 per cent., 99.94 per cent. and 99.98 per cent., respectively. At the same time, the Company completed the construction and upgrading of an ETD mainframe back-up system and also transferred and upgraded the APP system, thereby greatly improving their performance and operating efficiency.

LOOKING AHEAD FOR 2001

The demand for information technology solutions by the air travel and tourism industries in China continues to increase and industry participants are placing further reliance on information technology providers, such as the Company, for access to accurate and up-to-date data in order to conduct their businesses.


In 2001, the Company will further enhance its position as the dominant information technology provider for China's air travel and tourism industries by accelerating the construction of its new generation ETD (in accordance with a five-year framework) and the promotion of its APP business. The Company also intends to continue developing leading application products and services, uniquely adapted for local conditions, in order to satisfy the demand for advanced information technology by the rapidly developing air travel and tourism industries in China. The high expectations of the Company's customers will be addressed by committing the Company to a programme of capital investment, introducing advanced technologies, enhancing corporate management, promoting efficiency and improving customer service.

The dominant position of the Company in the provision of information technology solutions to the air travel and tourism industries in China over the past 15 years is expected to stand the Company in good stead as it extends the Company's services to new business areas. These include arrangements to provide IT solutions to service providers such as car rental companies, hoteliers, non-air travel suppliers and online distributors. The Company is further committed to enhancing and adapting existing and newly-developed IT solutions through integration with Internet technology, providing easier customer access to the Company's core ETD solutions.

In line with its new status as a listed company, the Company will continue to improve its focus on its market servicing system whereby training, operations and services are integrated, in order to further improve the quality of its services by adhering to the principle of "market orientation focusing on customers". With the assistance of professional management advisers, the Company intends to implement a new organisational structure in order to improve internal working processes, establish a performance evaluation system, strengthen the Company's incentive and control mechanism, thereby enhancing the operating efficiency of the Company.

Building on its strategic alliance in November 2000 with world-class travel distribution and electronic data network companies, including Sabre, Amadeus and SITA, and the relationship with the Company's corporate investor, Cathay Pacific, the Company will actively pursue co-operation in various forms with these companies in the areas of product research and development, personnel training and exchange of management and operational experience. The Company is well-positioned to take advantage of new opportunities arising from China's entry into the World Trade Organisation. The Company will also take advantage of the reform of China's aviation system and advancements in the information technology industry to explore strategic opportunities to purchase or invest in other businesses related to the Company's core activities.

I would like to extend my sincere thanks to shareholders and investors, the Board of Directors and all staff and employees for their loyal support. I believe that the implementation of the Company's long-term development strategies will strengthen the Company's leading position as an information technology provider for China's air travel and tourism industries and will bring satisfactory returns to all shareholders.

A handwritten signature in black ink, appearing to be the name 'Liu Xiang' (刘翔), written in a cursive style.

Chairman
April 11, 2001