

## Business review



The Company is the dominant provider of information technology solutions for China's air travel and tourism industries. The Company is the dominant provider of inventory management solutions for Chinese commercial airlines and the market leader in the distribution of the products and services of Chinese commercial airlines to domestic travel agencies, ticketing offices and consumers. The Company has been developing leading edge applications and services that address the needs of all industry participants - ranging from airlines, airports and non-air travel suppliers, to travel agencies, corporate travel customers, air travel consumers and cargo shippers, and to allow them to conduct electronic transactions and manage travel-related information. The core businesses of the Company include:

- \* Electronic Travel Distribution;
- \* Airport Passenger Processing;
- \* Air Cargo System;
- \* Data network; and
- \* Internet-based travel platform.



## **ELECTRONIC TRAVEL DISTRIBUTION SYSTEM**

The Company's ETD system provides inventory management and flight reservation functionality for all 25 Chinese commercial airlines, as well as Macau Airlines. The Company's ETD system also provides direct access to approximately 2,000 hotels, one major car rental company, two large tour operators and three travel insurance companies. In 2000, the Company's ETD system processed approximately 70.7 million bookings on Chinese commercial airlines, which represents an increase of 11.1 per cent. from 1999 and approximately 97 per cent. of the total air passenger traffic on Chinese commercial airlines in 2000. In addition, the Company processed approximately 2.8 million bookings on foreign and regional airlines in 2000, which represents an increase of 35.8 per cent. from the previous year. The Company's ETD solutions are based on two critical, interconnected systems, namely the Inventory Control System and the Computer Reservation System.





## **INVENTORY CONTROL SYSTEM ("ICS")**

The Company's ICS is a comprehensive back-end management system that airlines use to manage inventory, track customer records, control space allocations, maintain and analyse critical data, as well as to support business decisions. The ICS of the Company allows its airline customers to manage their inventory and passenger data processing, and provides electronic travel distribution solutions to allow travel agencies to distribute the products and services of travel suppliers. Services and solutions provided by the ICS include frequent flyer management, partner airline code-sharing, electronic ticketing and yield management analysis. All 25 Chinese commercial airlines and Macau Airlines rely on the Company's ICS for reservation management as well as bookings, scheduling and fare information on their flights. In addition to airlines, the Company's ICS has the capacity to provide inventory control functions and management services for other travel suppliers, including tour operators, railroads and cruise lines. Host-to-host links, made in accordance with the data exchange standard of the International Air Transport Association (IATA), connect the Company's ICS with eight international GDSs, allowing foreign and regional subscribers or travel agencies to directly book reservations on Chinese commercial airlines.



## COMPUTER RESERVATION SYSTEM ("CRS")

The Company's CRS is a sales distribution platform that enables its travel supplier customers to expand the reach of their products and provides travel agencies and consumers access, either directly or indirectly, to a wide array of travel-related products and services throughout the world. The Company's CRS allows Chinese commercial airlines, along with other travel providers, to access data on the Company's ICS and distribute their products and booking services to travel service companies, travel agencies and consumers. Subscribers can make bookings on all 25 Chinese commercial airlines through their computer terminals which can access the Company's CRS and ICS, either through the Company's data network or the e-Term product offered by the Company over the Internet. In order to expand the global distribution functionality of the travel services and solutions, the Company has linked its CRS to eight international GDSs and the inventory control systems of foreign and regional airlines, enabling Chinese travel agencies to make reservations on approximately 400 foreign and regional air carriers around the world. All of China's travel agencies, totalling over 5,000 in over 6,000 locations, as well as airline ticketing offices and other subscribers, connect to the Company's CRS through over 28,000 user terminals in 300 cities in China and 80 foreign cities around the world. Over 500 foreign and regional travel agencies, mostly in Asia, subscribe to the Company's CRS.



The Company's CRS is the leading distribution platform of travel-related products in China, and the Company is the only CRS provider in China that provides IATA-approved BSP ticketing services. Initially established by IATA, the BSP system connects airlines, travel agencies, data processing centres and settlement banks, enabling participating airlines and travel agencies to issue standardised BSP tickets to their customers and periodically settle payments automatically through a central clearing bank. As at December 31, 2000, the Company has installed 5,332 BSP ticket machines for 3,990 users in China. This move is in accordance with a directive of the Civil Aviation Administration of China that commencing from January 1, 2001, all travel agencies and commercial airlines in China had to cease issuing hand-written tickets and to adopt the automated BSP system for issuing air tickets in China.





## **AIRPORT PASSENGER PROCESSING SYSTEM**

The Company's APP system is designed to increase an airline's level of customer service for ground handling and processing efficiency. The broad reach of the APP system in airports in China allows an airline to electronically aggregate all of its data from different airports and facilitates code-sharing, through-route check-in and passenger transfers for partner airlines. The Company is currently the largest provider of APP services in the PRC, with its APP system being used by all 25 Chinese commercial airlines as well as Macau Airlines in 24 major domestic airports, the airports in Hong Kong and Macau and three foreign airports.

In 2000, the Company's APP system processed approximately 33.5 million passenger departures from these airports, which represents an increase of 48.7 per cent. from 1999.



## **AIR CARGO SYSTEM**

The Company is a leading provider of automated air cargo system in China. The Company's centralised real-time ACS is currently used by four airlines and eight airports in China. In 2000, the Company processed approximately 2.2 million cargo airway bills in China, which represents an increase of 22.6 per cent. from 1999. The Company expects to pursue its air cargo business in China with a subsidiary of Societe Internationale de Telecommunications Aeronautiques S.C. ("SITA") (being one of the strategic investors in the Company) by way of a sino-foreign joint venture company, InfoSky Technology Company Limited ("InfoSky"). InfoSky officially commenced operations on January 1, 2001.

## **DATA NETWORK SERVICES**

The Company owns and operates the largest real-time commercial data network for the civil aviation industry in China. The Company delivers its ICS, CRS, APP and ACS services through its nation-wide data network. In 2000, the Company established a new local distribution centre (LDC) in Inner Mongolia, and together with Yunnan Airlines, established another LDC in Yunnan, for the purpose of distributing the Company's products and providing services. These moves are expected to further improve the customer and market-oriented business model of the Company. The Company's data network supports approximately 28,000 user terminals, and covers approximately 300 cities in China. By linking directly with SITA's network, the coverage of the network is expanded to 80 additional cities around the world. In 2000, the Company continued its ongoing programme of upgrading its network infrastructure and completed the upgrade of approximately 70 per cent. of the nodes to an open transmission control protocol/Internet protocol (TCP/IP) platform. The rest of the nodes are expected to be upgraded in 2001. The entire communication network of the Company has also been converted to a Digital Data Network (DDN) platform. The Company also completed the construction of a centralised network management system.



## **INTERNET-BASED TRAVEL PLATFORM**

The Company has, by leveraging its core ETD system, APP system, data network and ACS and utilising Internet technology, developed an Internet-based travel platform to enhance its existing offerings, expand its distribution channels and provide comprehensive information technology solutions to the air travel and tourism industries in China. The Company has entered into a business co-operation agreement with CACI to develop the latter's commercial website, [travelsky.com](http://travelsky.com), as an alternative distribution channel for the products and services of its travel supplier customers. Through [travelsky.com](http://travelsky.com), the Company provides direct access to its ETD systems and allows individual consumers to schedule and book reservations. An approximate total of 210,000 tickets were booked online during 2000. The Company's Internet-based travel platform consists of two offerings: Internet-based applications (including the e-Term product) and application services provider (ASP) offerings and web-hosting solutions. By integrating new Internet technology into its offerings to expand its distribution channels, the Company has developed wireless application solutions for offering real time travel information and reservations to its customers through wireless application protocol (WAP) enabled cellular phones or personal

digital assistant (PDA) devices.



## **BUSINESS STRATEGIES AND FORECAST**

The Company's objectives are to maintain its position as the dominant information technology provider for China's air travel and tourism industries and to expand its services and applications into complementary areas. As the Company generates revenues from each boarding passenger on Chinese commercial airlines, the Company believes that it is uniquely positioned to benefit from the expected high growth of air travel and tourism in China and the growth of the Chinese economy. In order to capitalise on these opportunities, the Company is offering leading edge services and solutions to its customers by developing advanced technologies in China and adopting international best practice standards in IT in the global travel and tourism industries.

It is estimated that the Company's APP system is currently being used for only 47 per cent. of passenger departures on Chinese commercial airlines from domestic airports. The remaining 53 per cent. of departures remain processed manually. As the Company believes that there are significant growth opportunities for expanding the usage of its APP system, the Company plans to devote significant efforts to promote the increased usage of its APP system at those airports which are already using the APP system and to promote its adoption by more airports in China. The Company also plans to expand and upgrade its data network in anticipation of increased usage of its data network services by the air travel and tourism industries and, subject to applicable laws and obtaining required approvals, by other travel-related industries.

In the near term, the Company will focus on further developing its capability in providing ETD services. The Company has developed a plan to build a new generation ETD system to pursue new growth opportunities in non-aviation travel and tourism industries by proactively adopting network-based Internet-compatible technologies. With such a goal in mind, the Company intends to leverage its database and core systems and its relationship with CACI's travelsky.com to further develop its Internet-based travel platform services and expand the distribution of its core products and services over the Internet. The Company has a five-year option to purchase the business of travelsky.com from CACI if and when PRC law permits it to do so. Through integration with its core systems and infrastructure, the Company plans to provide browser-based front-end solutions and to facilitate real-time transactions in the travel industry in China.

As Chinese commercial airlines increase their focus on customer-relationship management and operational efficiency, the Company also plans to expand its data warehousing and decision support services to maximise the value in its unique database and to capture new growth opportunities. The Company also plans, through its InfoSky joint venture, to capitalise on growth opportunities for the Company's ACS business from increased volumes of air cargo in China, in line with the continued growth of the Chinese domestic economy and the anticipated positive impact of China's imminent entry into the World Trade Organisation. Strategic acquisitions of or investments in businesses that would strengthen or complement the Company's existing businesses will also be considered on a timely basis by the Company's management. The Company is also exploring opportunities for strategic co-operation with international and regional leaders to pursue other growth opportunities with the aim of expanding its markets and services.