

Report of directors

The Board of Directors of the Company is pleased to present its report together with the audited financial statements of the Group for the year ended December 31, 2000.

GROUP REORGANISATION

The Company was incorporated in the PRC on October 18, 2000 as a joint stock company with limited liability as a result of a group reorganisation of CACI in preparation for the listing of the Company's H shares on the Stock Exchange. The reorganisation principally involved CACI transferring to the Company certain assets, interests, rights and obligations relating to the businesses then owned and operated by CACI. The H shares of the Company were listed on the Stock Exchange on February 7, 2001.

GROUP ACTIVITIES

The Group is a dominant provider of information technology solutions for China's air travel and tourism industries. All 25 Chinese commercial airlines outsource their core inventory control systems to the Group. The core businesses of the Group include:

- * electronic travel distribution;
- * airport passenger processing;
- * air cargo system;
- * data network; and
- * Internet-based travel platform.

An analysis of the Group's revenues is set out under the section headed "Financial Review".

No analysis of the Group's revenues and contribution to operating profit by geographical areas are presented as revenues and results of the Group during the year were principally derived from the operations of the Group in the PRC.

SHARE CAPITAL STRUCTURE

The share capital of the Company in issue as fully paid, or credited as fully paid as at December 31, 2000 amounted to 577,303,500 domestic shares, with a par value of RMB1.00 each. As at December 31, 2000, the share capital structure of the Company was as follows:-

Shares	Percentage of the total number of shares in issue Number of shares as at December 31, 2000 as at December 31, 2000 (per cent.)
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Domestic Shares	577,303,500 100.00
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Directors

The composition of the Board of Directors during the period from the date of incorporation of the Company and up to the date of this report was as follows: -

Executive Directors

Yang Jun (Chairman)	(appointed on October 18, 2000)
Huang Yuanchang	(appointed on October 18, 2000)
Xiao Yinhong	(appointed on October 18, 2000)
Li Xiaojun	(appointed on October 18, 2000)
Ding Weiping	(appointed on October 18, 2000)

Non-executive Directors

Hu Yunqi (Vice Chairman)	(appointed on October 18, 2000)
Cao Jianxiong (Vice Chairman)	(appointed on October 18, 2000)
Zhang Xueren (Vice Chairman)	(appointed on October 18, 2000)
Liu Chunchi	(appointed on October 18, 2000)
Rong Gang	(appointed on October 18, 2000)
Feng Gang	(appointed on October 18, 2000)
Li Xiaoguang	(appointed on October 18, 2000)
Shi Dinghao	(appointed on October 18, 2000)

Independent Non-executive Directors

Wu Jiapei	(appointed on October 18, 2000)
Chow Kwok Wah, James	(appointed on January 13, 2001)

SUPERVISORS

The composition of the Supervisory Committee of the Company during the period from the date of incorporation of the Company and up to the date of this report was as follows:-

Supervisors

Du Hongying (Chairman)	(appointed on October 18, 2000)
Chen Lihong	(appointed on October 18, 2000)
Wang Yongqiang	(appointed on October 18, 2000)
Jiang Mengdong	(appointed on October 18, 2000)
Song Jinxiang	(appointed on October 18, 2000)
Tan Xiaoxu	(appointed on October 18, 2000)
Zhang Xin	(appointed on October 18, 2000)

Independent Supervisor

Wang Baoshu (appointed on October 18, 2000)

INTERESTS OF DIRECTORS AND SUPERVISORS IN THE SHARE CAPITAL OF THE COMPANY

None of the Directors and Supervisors had, as at December 31, 2000, any interest in any shares in or debentures of the Company or any associated corporation within the meaning of the Securities (Disclosure of Interests) Ordinance (Cap.396 of the Laws of Hong Kong) (the "SDI Ordinance") which (had the Company been listed then) would have to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which a Director or Supervisor is deemed to have under Section 31, or Part 1 of the Schedule to the SDI Ordinance) or which would be required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or, in the case of Supervisors, which would be required to be notified as described above if they had been Directors.

During the year, the Company did not grant its Directors, Supervisors or their respective spouses or children below the age of 18 any right to subscribe for its equity or debt securities.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors (other than the independent non-executive Director, Mr Chow Kwok Wah, James) and Supervisors of the Company has entered into a service agreement with the Company. All Directors and Supervisors will serve a term of three years commencing from their respective dates of appointment. Directors and Supervisors may serve consecutive terms.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

None of the Directors or Supervisors had a material interest in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of Directors and Supervisors are set out in note 19 to the financial statements.

EMPLOYEES

As at December 31, 2000, the total number of employees of the Group was 675. Personnel expenses amounted to approximately RMB39.7 million for the year ended December 31, 2000, representing 10.7 per cent. of the total operating expenses of the Group in 2000.

In 2000, the Group provided at least three categories of training to its employees: (1) professional training for selected employees on specialised knowledge in relation to the aviation and computer industries; (2) opportunities for selected employees to be sent to different universities to obtain Master's degrees in business administration; and (3) general training for all employees on the latest developments in areas such as computer technologies, law and economics.

BANK LOANS

Details of the bank loans of the Group as at December 31, 2000 are set out in note 10 to the financial statements.

INTEREST CAPITALISED

No interest was capitalised for the Group for the year ended December 31, 2000.

FIXED ASSETS

Movements of fixed assets of the Group during the year are summarised in note 4 to the financial statements.

RESERVES

Details of movements in reserves of the Group for the year ended December 31, 2000 are set out in the consolidated statements of changes in shareholders' equity.

DIVIDENDS

As the Company was incorporated in October 2000 and the Company's H shares were not listed in 2000, the Board does not recommend the payment of a final dividend (other than the special dividend referred to in note 22 to the financial statements) for the period from the date of incorporation of the Company to December 31, 2000.

STATUTORY PUBLIC WELFARE FUND

Details in relation to the statutory public welfare fund, such as the nature, application of the fund, and the basis of its calculation, are set out in note 14 to the financial statements. Details of movements of the fund are set out in the consolidated statements of changes in shareholders' equity as part of the statutory reserves.

EMPLOYEES' RETIREMENT SCHEME

Details of the employees' retirement scheme of the Group are set out in note 20 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

SITA was the largest supplier of the Group for the year ended December 31, 2000, and the total network usage fees paid to it in 2000 accounted for approximately 14.1 per cent. of the Group's total operating expenses (excluding depreciation expenses) for that year. During 2000, the total amount paid to the five largest suppliers of the Group accounted for approximately 33.1 per cent. of the Group's total operating expenses (excluding depreciation expenses).

The largest customer of the Group, Southern Airlines (Group) Co., accounted for approximately 12.2 per cent. of the Group's total revenues for the year ended December 31, 2000. During the same period, total sales to the Group's five largest customers accounted for approximately 40.2 per cent. of the Group's total revenue. Three of these top five customers, Southern Airlines (Group) Co., Eastern Air Group Co., and Air China, are among the principal shareholders of the Company, holding in aggregate approximately 36.4 per cent. of the issued share capital of the Company as at December 31, 2000. The aggregate revenue derived from the above major customers is set out in note 18 to the financial statements.

Save as disclosed above and in note 18 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 per cent. of the Company's share capital) had any interest in any of the above mentioned suppliers and customers.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the Company's subsidiaries and associated companies as at December 31, 2000 are set out in note 1 to the financial statements.

USE OF PROCEEDS FROM ISSUANCE OF THE H SHARES

The net proceeds from the Offering of the Company's H shares are being and will continue to be applied in the manner as set out in the prospectus of the Company issued on January 29, 2001.

EXTRAORDINARY GENERAL MEETING

At an extraordinary shareholders' meeting of the Company held on October 18, 2000, resolutions of the shareholders of the Company were passed pursuant to which, among other matters, the following were approved:

- (i) the conversion of the Company into a "public subscription company";
- (ii) the issue and offer for sale of the H shares and the granting of the over-allotment option;
- (iii) the listing of the H shares on the Stock Exchange;
- (iv) the adoption of the share option scheme of the Company; and
- (v) the adoption of the Company's new Articles of Association and the authorisation to the Directors to amend the new Articles of Association in accordance with any comments from the relevant governing authorities in the PRC and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

The Company was established on October 18, 2000 with CACI and 20 PRC airline shareholders as its promoters.

As at December 31, 2000, the following substantial shareholders were recorded in the register of members as holding 10 per cent. or more of the share capital of the Company:

Name of shareholder	Class	Number of shares held	Percentage (per cent.)
CACI	Domestic	198,496,500	34.4
Southern Airlines (Group) Co.	Domestic	83,187,000	14.4
Eastern Air Group Co.	Domestic	68,685,500	11.9
Air China	Domestic	58,123,000	10.1

Save as the aforesaid, as at December 31, 2000, the Company is not aware of any other registered shareholder who holds 10 per cent. or more of the issued share capital of the Company.

CONNECTED TRANSACTIONS

Connected transactions which are the subject of exemption under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

Details of the connected transactions (as defined in the Listing Rules) of the Company carried out by the Company in 2000 are set out in note 18 to the financial statements and under "Particulars of Significant Contracts with CACI" in this Report of Directors. In addition, the Company received RMB30.3 million from the LDCs in 2000 as connection and installation fees (for connections to the Company's network), equipment lease fees and physical identified device (PID) fees, and paid RMB4.6 million to the LDCs in 2000 as fees for providing technical support for the front end of the Company's APP. The LDCs are either subsidiaries of the Company or are associates (as defined in the Listing Rules) of connected persons of the Company.

In the opinion of the independent non-executive directors of the Company, such connected transactions:

- (i) were entered into by the Group in the ordinary and usual course of its business;
- (ii) were conducted either
 - (a) on normal commercial terms (which expression shall be applied by reference to transactions of a similar nature and to be made by similar entities); or
 - (b) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iii) were entered into either
 - (a) in accordance with the terms of the agreements governing such transactions; or
 - (b) (where there are no such agreements) on terms no less favourable than those available to or from independent third parties;
- (iv) if they fall within any of the following categories, did not exceed the upper limits set out below for the financial year ended December 31, 2000:

Categories of transactions	Cap Amount
Leasing and using properties	RMB40.00 million
Payment to a wholly-owned subsidiary of SITA by InfoSky	US\$2.50 million
Revenues from the Company's LDCs	RMB48.00 million
Expenditure to SITA	RMB40.00 million

The Company has received from the auditors a letter stating that such connected transactions:

- (a) have received the approval of the Board;
- (b) were entered in accordance with the pricing policies as stated in the notes to the financial statements;
- (c) were entered into in accordance with the terms of the respective agreements and documents governing those transactions; and
- (d) the aggregate amounts of the transactions have not exceeded the cap amounts (referred to in (iv) above).

Particulars of Significant Contracts with CACI

Particulars of significant contracts entered into between the Company and CACI during 2000 are listed below:

Assets Injection Agreement

The Company and CACI entered into an assets injection agreement dated October 18, 2000, pursuant to which CACI transferred to the Company its assets, liabilities and rights in relation to, among others, the core businesses as part of the restructuring in preparation for the Offering and listing of the H shares of the Company. Each of CACI and the other promoters also entered into agreements providing certain non-competition undertakings to the Company.

Agreements for Properties

CACI entered into two agreements for properties with the Company on October 18, 2000, each with a term of ten years (subject to renewal), with usage fees / rental varying from RMB3.5 to RMB5 per square metre. Also see note 18 to the financial statements.

Trademark Transfer-Agreement

CACI is the non-registered owner of, and had submitted registration applications to relevant PRC authorities for the registration of, a number of trademarks. On November 20, 2000, CACI entered into a trademark transfer agreement with the Company, pursuant to which CACI agreed to transfer to the Company for no consideration such trademarks, immediately after completion of the relevant registration process. The Company was also authorised to use such trademarks before the completion of the registration.

Agreements in relation to travelsky.com

The Company entered into a use of equipment agreement and a business co-operation agreement on November 20, 2000 with CACI in respect of travelsky.com. Under the use of equipment agreement, the Company will allow CACI to use certain equipment at a fee of RMB100,000 per year for a term of five years. Under the business co-operation agreement which is for a term of one year (subject to renewal), the Company will provide to CACI at no consideration marketing and customer development service, and CACI will in turn provide to the Company at no consideration the travelsky.com website and related services and support for distributing the Company's services. The Company also entered into an agreement with CACI on November 20, 2000, pursuant to which 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.

Agreements-in relation to InfoSky

The Company entered into an ownership transfer agreement with CACI and a subsidiary of SITA dated November 6, 2000 pursuant to which CACI transferred its legal rights and interests in InfoSky's joint venture contract and the cargo services co-operation agreement between it and the SITA subsidiary, and its 51 per cent. interest in InfoSky, to the Company. The registration process for the transfer has been completed and InfoSky commenced operations on January 1, 2001.

STAFF HOUSING FUND

The Group follows the general housing policies as promulgated by the local governments and a housing scheme is implemented in accordance with relevant PRC laws and regulations. Under the scheme, the Group and its employees are required to make monthly contributions to a State-sponsored housing fund. Other than this, the Group has no other obligations to provide any housing benefits to its employees. On September 6, 2000, the Ministry of Finance issued a directive regarding issues on the financial treatment concerning the reform of corporate staff quarters system (Cai Qi [2000] No. 295) (the "First Directive") which was implemented on the date of issuance. On December 22, 2000, the Ministry of Finance issued another directory as supplement to the First Directive (Cai Qi [2000] No.878) (this directive, together with the First Directive, are collectively the "Directives"). The Company has examined the Directives. As the Group does not have any obligations to provide housing benefits to employees other than to make contributions to the housing fund as described above, the Company believes that the relevant policies adopted by the Ministry of Finance will not have any material financial impact on the Group.

TRUST DEPOSITS AND OVERDUE TIME DEPOSITS

As at December 31, 2000, the Group did not have any trust deposits or irrecoverable overdue time deposits. All of the Group's cash deposits are placed with commercial banks and are in compliance with applicable laws and regulations.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

For the year ended December 31, 2000, the Group did not purchase, sell or redeem any of the Company's securities.

AUDIT COMMITTEE AND COMPLIANCE WITH CODE OF BEST PRACTICE

The Audit Committee of the Company was formally established in January 2001. The Code of Best Practice ("Code of Best Practice") contained in Appendix 14 to the Listing Rules did not apply to the Company in 2000 as the Company was listed on the Stock Exchange on February 7, 2001. Following the listing, the Company has complied and will continue to comply with the Code of Best Practice.

PRE-EMPTIVE RIGHTS

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

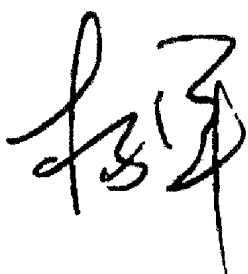
MATERIAL LITIGATION

The Group was not involved in any material litigation or disputes in 2000.

AUDITORS

Arthur Andersen & Co in Hong Kong and Arthur Andersen * Hua Qiang Certified Public Accountants in the PRC are the Company's international and domestic auditors, respectively. A resolution to appoint Arthur Andersen & Co in Hong Kong and Arthur Andersen * Hua Qiang Certified Public Accountants in the PRC as the Company's international auditors and domestic auditors, respectively, for 2001 will be proposed at the annual general meeting of the Company to be held on May 28, 2001.

By order of the Board



Chairman

April 11, 2001