

BUSINESS REVIEW FOR THE FIRST HALF OF THE YEAR

The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited ("HKSE") on February 7, 2001.

During the six months ended June 30, 2001 ("the first half of 2001"), each of the Group's core businesses continued to grow steadily. In the first half of 2001, the Electronic Travel Distribution (ETD) system processed approximately 36.7 million bookings on Chinese commercial airlines, representing an increase of approximately 13.6% over the six months ended June 30, 2000 ("the first half of 2000"). In addition, the Company processed approximately 1.6 million bookings on foreign and regional airlines, representing an increase of approximately 20.2% over the first half of 2000. In the first half of 2001, some progress was achieved in the hotel reservation business through the Company's cooperation with both non-air travel suppliers and certain Chinese commercial airlines.

In the first half of 2001, the Airport Passenger Processing (APP) system processed approximately 20.5 million passenger departures, representing an increase of approximately 37.1% over the first half of 2000 and approximately 55.9% of the total passenger departures handled by domestic airports during the first half of 2001. Apart from further improving and upgrading its APP system and urging more commercial airlines to increase the usage of its APP system at airports already installed with the system, the Company also installed the system at six domestic airports including Guilin and Hangzhou. In addition, new agreements were signed for the construction of APP front-end systems in eleven domestic airports including Qingdao and Changchun. Through the commencement of usage of the APP system by these airports installed or to be installed with the APP system, it is expected that by the end of 2001, the Company's APP system will be capable of processing a greater number of passenger departures.

The Company, together with a subsidiary of SITA, have formed a Sino-foreign joint venture, InfoSky Technology Company Limited ("InfoSky"), to engage in air cargo business. InfoSky commenced operations on January 1, 2001. In the first half of 2001, InfoSky's Air Cargo System (ACS) processed a total of approximately 2.2 million cargo airway bills, representing an increase of approximately 106.8% over the first half of 2000.

In the first half of 2001, the Company continued to implement its ongoing programme to upgrade its network infrastructure, with nodes in areas including Changsha and Nanjing upgraded to a TCP/IP platform. The Company has set up new local distribution centres (LDCs) in Hangzhou and Hong Kong in an effort to provide local users in these regions with better services.

With the use of the Internet technology, the Group also achieved progress in the business of its Internet-based travel platform, which was developed by leveraging its core ETD system, APP system, data network and ACS. Through travelsky.com, the Group provides direct access to its ETD system and allows individual consumers to book flight reservations. A total of approximately 1.2 million tickets were booked through travelsky.com during the first half of 2001. Apart from improving and upgrading the functions of its Internet-based travel platform, the Group also devoted significant efforts in providing air travel suppliers,

travel agencies, corporate travel customers and cargo shippers with ASP (Application Services Provider) services as well as web-hosting solutions.

In the first half of 2001, the Company achieved some progress in the marketing of new-generation ETD products and services. China Eastern Airlines Corporation Limited has become the Company's third major customer following Air China and Xiamen Airlines Limited Company in using the Company's Net Fare Display system in notifying travel agencies of its sale prices for the new season. In addition, through its code-share technology, the Company has provided technical support to certain domestic and foreign commercial airlines in respect of their business cooperation, such as the cooperation between Air China with Shanghai Airlines Co. Ltd., and the cooperation between China Eastern Airlines Corporation Limited with American Airlines Inc. The data service system of the Company also successfully assisted Air China and China Southern Airlines Company Limited in the operation of their revenue management systems. Moreover, the number of terminal users of e-Term, a TCP/IP platform-based product of the Company, reached over 1,800.

The Group continued to maintain the reliability of the systems of all business units. In the first half of 2001, the available utilisation capacity of the Group's Inventory Control System (ICS), Computer Reservation System (CRS), APP and ACS were maintained at an outstanding level of approximately 99.99%, 99.99%, 99.99% and 99.99%, respectively.

With the assistance of the Company's professional management consultants and based on efforts in improving the Company's internal control system, the Company has preliminarily set up a reasonable system for the sharing of resources and has strengthened the connections between each internal business unit with the Company. The above has ensured the implementation of the Company's strategy towards a unified approach in combining products and services as well as the operation of a system for the provision of integrated services. The Company will strive to enhance its operational efficiency by continuing to improve its internal working processes, establishing a performance evaluation system and strengthening its incentive and control mechanisms.