

BUSINESS REVIEW



“With a professional and highly experienced management team, a proven track record and a portfolio of state-of-the-art information and management systems, TraveSky is well positioned to lead China’s air travel and tourism industries into a new digital era.” – Zhu Yong, Executive Director and General Manager

The Company is the dominant provider of information technology solutions for China's air travel and tourism industries. The Company is also the dominant provider of inventory management solutions for Chinese commercial airlines and the market leader in the distribution of products and services of Chinese commercial airlines to domestic travel agencies, ticketing offices and individual consumers. The Company has been developing state-of-the-art products and services that address the needs of a range of industry participants - from airlines, airports and non-air travel suppliers to travel agencies, corporate travel consumers, air travel consumers and cargo shippers - for the purpose of enabling such participants to conduct electronic transactions and manage travel-related information. The core businesses of the Company include ETD, APP, data network, ACS and Internet-based travel platform. The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited on February 7, 2001.

ETD

The Company's ETD system provides inventory management functions to all 25 Chinese commercial airlines and serves as a distribution platform for the provision of products and services for domestic and overseas travel suppliers. The Company is the dominant provider of ETD solutions for China's air travel and tourism industries.

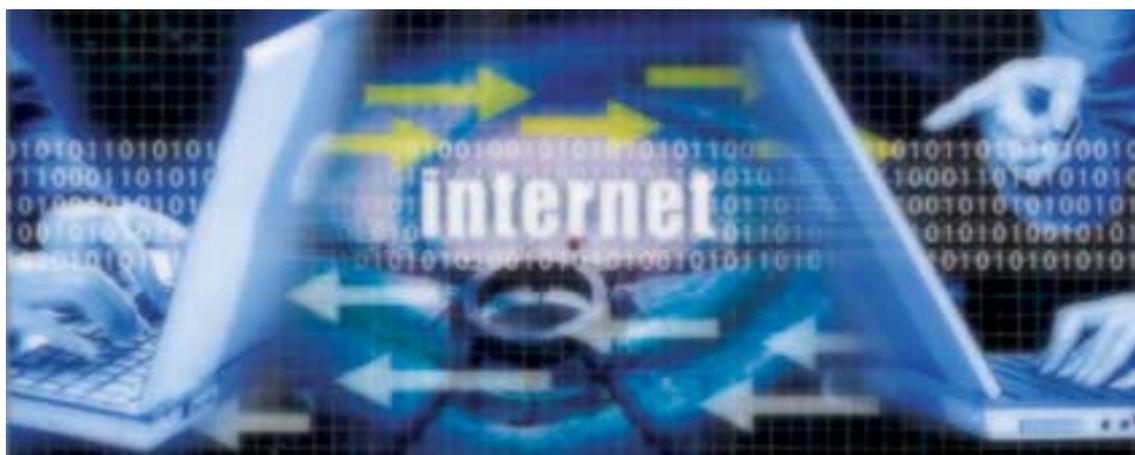


In Year 2001, the Company has to a large extent widened the scope of information within its system by successfully upgrading its connection with other global distribution systems ("GDS") around the world, improving the functions of its ETD system, increasing the volume of flight information, as well as adding numerous travel-related information to the ETD system. The Company has also provided various products to travel agencies for the purpose of facilitating access to the ETD system, offering more dedicated services to air travel consumers and supporting the business development of the travel agencies. In addition, the Company is currently working jointly with domestic commercial banks in developing a complete set of electronic services ranging from tickets reservation and settlement to boarding for air travel consumers, and to provide air travel suppliers with electronic sale and settlement solutions.

In Year 2001, the Company continued to promote and enhance its ETD products. Sales information of 24 foreign commercial airlines was newly added to the system, thus bringing the total number of domestic and foreign commercial airlines using the ETD system to over 440. BSP was launched in Hong Kong and Singapore, which facilitates the sale of ATB2 neutral tickets by tour operators in Hong Kong, Macau and Singapore through the Company's ETD system. Shenzhen Airlines Ltd. became the first airline to use the electronic ticketing technology of the Company, providing air travellers with "paperless travel". United Airlines began to use the Company's Net Fare Display system to notify travel agencies of its selling prices for each new season. The hotel reservations business underwent vigorous development through the Company's co-operation with both non-air travel suppliers and Chinese commercial airlines. Moreover, a comprehensive customer representative system was set up to improve communication with the market thereby enhancing the provision of personalized services to consumers.

In Year 2001, the ETD system processed approximately 78.0 million bookings on Chinese commercial airlines and approximately 3.3 million bookings on foreign and regional airlines, representing an increase of approximately 10.3 per cent. and 18.2 per cent., respectively,

over that in Year 2000.



APP

The Company's APP system is designed to enhance an airline's level of customer services for ground handling and processing efficiency. The Company is currently the largest provider of APP services in China. In Year 2001, the functions of the APP system were further improved and upgraded with the aim of supporting new products such as check-in services in cities and hotels by commercial airlines, assisting in providing through-route check-in and passenger transfers on various flights or with partner airlines and implementing related functions of the new-generation ETD plan in the APP system by the application of emerging technologies.

In Year 2001, apart from further encouraging more commercial airlines to increase their usage of the APP system at airports already installed with the system, the Company also installed the system at certain domestic and foreign airports including Guilin, Hangzhou and Jakarta. There are currently a total of 43 domestic and foreign airports using the APP system of the Company.

In Year 2001, the APP system of the Company processed approximately 46.7 million passenger departures, which is equivalent to 59.9 per cent. of the total passenger departures handled by domestic airports in China, representing an increase of approximately 39.4 per cent. over that in Year 2000.



DATA NETWORK

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 Year 2001, the Company upgraded the nodes of its existing network infrastructure onto a TCP/IP platform in areas including Guilin and Urumqi, and established new network infrastructure at airports including Jinan and Lanzhou. By the end of 2001, the fundamental upgrading of the Company's core network infrastructure and the optimization of the network structure were essentially completed. As a result, the transmission capacity of the data network was improved. Furthermore, the Company also refined the centralised network management system and improved work flow, as well as fully enhanced the general monitoring capacity of the network, resulting in an upgrade of the maintainability of network operation. In addition, the Company continued to set up new local distribution centres ("LDCs") in Hangzhou, Lanzhou, Xiamen, Beijing and Hong Kong for the distribution of products of the Group and the provision of better services to local users in those cities. In Year 2001, the operating costs of the Company decreased owing to the diversion of part of its lines using SITA nodes from Beijing to the cheaper Hong Kong nodes. The Company also set about launching virtual private network services for its users.

ACS

InfoSky, a Sino-foreign joint venture engaged in the air cargo business which was jointly established by the Company and a subsidiary of SITA, commenced operations on January 1, 2001. InfoSky is a leading provider of automated air cargo systems in China. Since commencement of its operations, InfoSky has been devoted to introducing and developing technologies suitable for the air cargo market of China. In Year 2001, it introduced a software system for SITA containers and dangerous goods management and upgraded its freight mainframe operation system and the Cargo Front and Processing System and

Decision Support System, as well as developed various products including ULD Control System, INFOLOGIS and INFOPUB. InfoSky has also been committed to expanding market share, with both the Beijing Capital International Airport and Guangzhou Baiyun International Airport becoming new users of its ACS. China Eastern Airlines Corporation Ltd., an important cargo system client, has been transferred from SITA to InfoSky in accordance with a joint venture agreement entered into between the Company and a subsidiary of SITA. Furthermore, InfoSky has improved its customer services system by making 24-hour-a-day and 7-day-a-week support available to its customers. Such improvements have brought about a higher level of satisfaction from Infosky's customers. In Year 2001, InfoSky's ACS processed a total of approximately 3.8 million cargo airway bills, representing an increase of approximately 69.8 per cent. over that in Year 2000.



INTERNET-BASED TRAVEL PLATFORM

With the use of Internet technology, the Company's Internet-based travel platform, which was developed by leveraging its core ETD system, APP system, data network and ACS, has become more sophisticated. Under a co-operation arrangement with travelsky.com, which is owned by the controlling shareholder of the Company, CACI, the Company has provided a new distribution channel for the products and services of travel suppliers. Information and services such as flight enquiry, on-line bookings, on-line settlement, on-line hotel reservations, car rentals, arrival time at destinations, travel products, foreign exchange rates as well as weather forecasts in as many as 178 domestic and foreign cities are all available on travelsky.com. Apart from that, travelsky.com also assists airlines in providing travellers with one-to-one personalized services, including on-line aircraft seat reservation, SMS for informing travellers of any change in their flight bookings, support services for wireless application protocol ("WAP") enabled cellular phones or personal digital assistants ("PDAs"), browser-based terminal access, application services provider ("ASP") services, web-hosting solutions for nine travel agencies such as China Air Services Ltd and limited on-line booking engine service for users in the industry. In Year 2001, the number of on-line

air ticket bookings made by individual consumers through travelsky.com represented approximately 2 per cent. of all the bookings made under the ETD system of the Company.

RESEARCH AND DEVELOPMENT

In Year 2001, the Company essentially completed construction of the framework of the new-generation ETD plan and achieved a number of remarkable results and significant progress. When the new-generation ETD plan was being implemented during the past two years, the Company has, in order to ensure the technological advancement and practicability of such new-generation ETD plan, undertaken extensive co-operation with GDS operators, international advanced information technology suppliers and domestic and foreign commercial airlines in various projects so that the Company's new-generation ETD system was kept abreast of trends in international technology development. This also ensured the continuous development flexibility of its ETD system in addressing the needs of China's air travel and tourism industries in relation to information technology solutions.

Through further development and improvement of the functional modules of its new-generation ETD system, the Company has completed the integration of flight information from the ICS of Chinese commercial airlines with the information systems of CRS, GDS and the Official Aviation Group, as well as achieving synchronisation of domestic and international flight information in all information systems within China. The Company also introduced total support for all technology standards under IATA recognised aviation alliances and assisted commercial airlines in establishing technology-based alliances such as code sharing.

By using the data collected from the transmission of air traffic sale information to travellers, the Company has developed a data services system which successfully supports the operation of the revenue management system and the frequent traveller management system of various Chinese commercial airlines including Air China. The data products and services developed by the Company, such as sales data analysis for flights and travel agencies, MIDT and travellers' track data analysis, provide real-time data support to facilitate the operations and decision-making of participants in the civil aviation industry and for participants of the air travel and tourism industries including commercial airlines and travel agencies.

The advanced OPEN/ENV technology recently adopted by the Company allows for data exchange between traditional mainframes and open platforms. It enhances the processing capacity of the traditional mainframe and has made the integration of related information systems in the air travel and tourism industries possible.

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 applications and services into complementary areas. The Company aims to provide participants of the air travel and tourism industries with more comprehensive market information, saleable applications and more value-added services at a lower operating cost. By drawing on advanced international technology standards, the Company will upgrade traditional mainframe and network technology to new open-platform technology in order to increase development efficiency and offer cheaper but more flexible applications and services. In addition, the Company intends to jointly explore with its customers new business models for air travel businesses in order to offer more convenient and economic ways for the sale and provision of its services and to address the need for advanced information technology arising from the rapid development of China's air travel and tourism industries.

The Company has made efforts in expanding the processing scale and market share of the APP system and it intends to utilize the latest information technology in developing and integrating solutions in its existing ETP and APP systems, in order to provide accurate, timely and reliable information in the internal information management systems of commercial airlines and to capture the opportunities offered by the digitalisation of the Chinese civil aviation industry and develop a comprehensive use of information technology for the integration of its APP system with the information systems at various airports for the purpose of providing air travellers with seamless services.

The Company intends to continue to leverage its core systems to further develop its Internet-based travel platform applications and services and to expand the distribution channels of its core products and services over the Internet. The Company also plans to maximise the value in its unique database and to capture new growth opportunities.

After China's accession to the World Trade Organisation and the proposed strategic reorganisation of the civil aviation industry in China, the Company expects the level of demand for information technology as well as the integration of various information systems owned by the participants of China's air travel and tourism industries will become greater than before. The Company intends to take full advantage of its position as a dominant provider of information technology solutions for air travel and tourism industries by providing industry participants with more assistance and support for their business development and enhancing the progress of the construction of their internal information systems. The Company also intends to seek strategic acquisition or investment opportunities

in relation to its core businesses arising from the proposed strategic reorganisation of China's civil aviation industry and other developments in the information technology industry.