

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, 2001.

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;
- * data network;
- * air cargo system; 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 Year 2001 were principally derived from the operations of the Group in the PRC.

SHARE CAPITAL STRUCTURE

The share capital of the Company as at December 31, 2001 amounted to 888,157,500 shares,

with a par value of RMB1.00 each. As at December 31, 2001, the share capital structure of the Company was as follows:

Shares	Number of shares as at December 31, 2001	Percentage of the total number of shares in issue as at December 31, 2001 (per cent.)
Domestic Shares	577,303,500	65.00
H Shares	310,854,000	35.00

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2001, in accordance with the register maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance"), the following substantial shareholders held a interest of 10 per cent. or more in their respective class of share capital of the Company:

Name of shareholder	Class	Number of shares held	Percentage of respective class of share capital (per cent.)	Percentage of total share capital (per cent.)
HKSCC Nominees Limited	H shares	310,709,000	99.9	35.0
CACI	Domestic	198,496,500	34.4	22.3
Southern Airlines (Group) Co.	Domestic	83,187,000	14.4	9.4
Eastern Air Group Co.	Domestic	68,685,500	11.9	7.7
Air China	Domestic	58,123,000	10.1	6.5

Save as disclosed herein, in accordance with the register maintained under Section 16(1) of the SDI Ordinance, there were no other shareholders holding an interest of 10 per cent. or more in their respective class of share capital of the Company as at December 31, 2001.

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:

CHAIRMAN

Yang Jun (appointed on October 18, 2001)

EXECUTIVE DIRECTORS

Zhu Yong (appointed on May 28, 2001)
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 (resigned on May 28, 2001)
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)
Jiang Mengdong	(appointed on October 18, 2000)
Wang Yongqiang	(appointed on October 18, 2000)
Chen Lihong	(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)
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INTERESTS OF DIRECTORS AND SUPERVISORS IN THE SHARE CAPITAL OF THE COMPANY

None of the Directors and Supervisors had, as at December 31, 2001, any interest in any shares in or debentures of the Company or any associated corporation within the meaning of the SDI Ordinance which would create a duty on the part of the Directors or Supervisors in question to notify 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

Some of the Directors and Supervisors of the Company are also members of management of various Chinese commercial airlines which are shareholders of the Company. The contracts or transactions entered into between the Company or any of its subsidiaries with such airline shareholders have been referred to in the section "Connected Transactions" of this Report of Directors. Other than the above, none of the Directors or Supervisors of the Company had a material interest in any contract of significance to which the Company or any of its subsidiaries was a party during Year 2001.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of Directors and Supervisors are set out in note 21 to the financial statements.

INTEREST CAPITALISED

No interest was capitalised for the Group for the year ended December 31, 2001.

FIXED ASSETS

Movements in fixed assets of the Group during the year ended December 31, 2001 are summarised in note 4 to the financial statements.

RESERVES

Details of movements in reserves of the Group for the year ended December 31, 2001 are set out in the consolidated statements of changes in shareholders' equity.

DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.184 per share for the year ended December 31, 2001.

STATUTORY PUBLIC WELFARE FUND

Details in relation to the statutory public welfare fund, such as the nature and application of the fund, and the basis of its calculation, are set out in note 16 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 22 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

SITA was the largest supplier to the Group for the year ended December 31, 2001 and the total network usage fees paid to it in 2001 accounted for 11.2 per cent. of the Group's total operating expenses (excluding depreciation and amortisation expenses) for that year. During 2001, the total amount paid to the five largest suppliers of the Group accounted for 32.7 per cent. of the Group's total operating expenses (excluding depreciation and amortisation expenses).

The largest customer of the Group, Southern Airlines (Group) Co., accounted for 13.4 per cent. of the Group's total revenues for the year ended December 31, 2001. During the same period, total sales to the Group's five largest customers accounted for 39.7 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 23.6 per cent. of the issued share capital of the Company as at December 31, 2001. The aggregate revenue derived from the above major customers is set out in note 20 to the financial statements.

Save as disclosed above and in note 20 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, 2001 are set out in note 1 to the financial statements.

USE OF PROCEEDS FROM ISSUANCE OF THE H SHARES

The H shares of the Company were listed on the Stock Exchange on February 7, 2001, and the net proceeds from the issuance of H shares amounted to approximately HK\$1,186.0 million. For the year ended December 31, 2001, such amount has been used in the same

manner as set out in the prospectus of the Company dated January 29, 2001. In particular:

- * approximately RMB248.0 million (HK\$233.7 million) was used to finance a portion of the funding requirements of the ETD plan;
- * approximately RMB38.3 million (HK\$36.1 million) was used to finance a portion of the expansion and upgrading of the APP system;
- * approximately RMB4.1 million (HK\$3.9 million) was used to finance the expansion and upgrading of the ACS and other new businesses of the Company;
- * approximately RMB14.4 million (HK\$13.6 million) was used for daily operating activities; and
- * the balance of the net proceeds is currently deposited with banks.

The Board of Directors believes that the Company currently has sufficient capital for its operations, including future expansion of its businesses in the PRC and potential strategic acquisition or investments which the Company may decide to pursue in the future.

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 the year ended December 31, 2001 are set out in note 20 to the financial statements. In addition, the Company received RMB26.5 million from the LDCs in 2001 as connection and installation fees (for connections to the Company's network), equipment lease fees and physical identified device (PID) fees. The Company paid RMB3.8 million to the LDCs in 2001 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, 2001:

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 a letter from the auditors stating that such connected transactions:

- (a) have received the approval of the Board;
- (b) were entered into 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).

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 for its employees.

TRUST DEPOSITS AND OVERDUE TIME DEPOSITS

As at December 31, 2001, 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, 2001, other than the H share offering of the Company, 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 has discussed and reviewed with the Company's management the financial information contained in the annual report and has also discussed certain other matters including internal control and financial reporting. The Board of Directors is of the opinion that the Company has complied with the requirements of the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited since the listing of its H shares on the Stock Exchange.

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 2001.

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 PricewaterhouseCoopers as the Company's international auditors and domestic auditors, respectively, for the year ending December 31, 2002 will be proposed at the Annual General Meeting of the Company to be held on Friday, May 10, 2002.

By order of the Board

Chairman

March 21, 2002