

## Business Review for the First Half of the Year

During the six months ended June 30, 2002 (“the first half of 2002”), since the Company benefited from the continuous prosperity of China’s air travel and tourism industries and from an increase in the bookings of foreign and regional airlines processed by the Electronic Travel Distribution (“ETD”) system of the Company, the ETD system processed approximately 43.8 million bookings, representing an increase of approximately 14.3 per cent. over the six months ended June 30, 2001 (“the first half of 2001”). Bookings processed by the ETD system of the Company on Chinese commercial airlines increased by approximately 14.2 per cent. while bookings on foreign and regional airlines increased by approximately 17.7 per cent..

In the first half of 2002, the Company achieved certain progress in the marketing of its existing ETD products while continuing to improve the functions of such products. Not only had Orient Thai commenced using the Company’s ETD system, the Company also entered into a cooperation agreement with Amadeus Global Travel Distribution S.A. (“AMADEUS”) with respect to non-airline businesses such as global hotel reservations, allowing travel agencies to directly reserve non-air travel products from AMADEUS through the Company’s ETD system resulting in providing more convenience to air travellers. Launched in Hong Kong and Singapore at the end of 2001, the Billing Settlement Plan (“BSP”) was also launched in Taiwan at the beginning of 2002, facilitating the sale of ATB2 neutral tickets by tour operators in Taiwan through the Company’s ETD system.

In the first half of 2002, apart from further improving and upgrading the functions of the Airport Passenger Processing (“APP”) system and promoting the increased usage thereof by more commercial airlines at airports in which the system was installed, the Company successfully installed the APP system at other domestic airports such as Urumqi. As a result, there is currently a total of 50 domestic and foreign airports, using the APP system of the Company. In the first half of 2002, the APP system of the Company processed a total of approximately 27.4 million passenger departures, which is equivalent to approximately 65.2 per cent. of the total passenger departures handled by domestic airports in China, representing an increase of approximately 33.7 per cent. over the first half of 2001.

In the first half of 2002, the Group continued to implement measures to ensure the stable operation of the data network and to upgrade the nodes of certain areas of its existing network infrastructure onto a TCP/IP platform. The Group has set up a new Local Distribution Centre (“LDC”) in Qingdao, and other LDCs will also be set up in Urumqi and Xi’an to provide better services to local users.

In the first half of 2002, InfoSky Technology Co., Ltd (“InfoSky”) had been committed to expanding its market share (with Chengsha International Airport becoming a new user of its Air Cargo System (“ACS”)), while continuing to improve the functions of the existing ACS. In the first half of 2002, InfoSky’s ACS processed a total of approximately 1.6 million cargo airway bills, representing a decrease of approximately 8.7 per cent. from the first half of 2001.

In the first half of 2002, the Group’s Internet-based travel platform, which was developed by leveraging its core ETD system, APP system, data network and ACS, achieved a certain degree of progress. The Group provided Application Services Provider services, web-hosting solutions and on-line booking engine services to air travel suppliers, travel agencies, corporate travel consumers and cargo shippers while continuing to improve the contents of travelsky.com. In the first half of 2002, the number of on-line air ticket bookings through travelsky.com represented approximately 2.1 per cent. of all bookings made using the ETD system of the Company.

In the first half of 2002, there were two catastrophic accidents in China’s civil aviation industry. To maintain the operational reliability of the Group’s various business units, several safety measures were established and implemented after undertaking certain operational reviews. The utilization ratios of the Group’s Inventory Control System (ICS), Computer Reservation System (CRS), APP and ACS mainframe systems in the first half of 2002 were 99.97%, 99.99%, 99.82%, and 99.99%, respectively.

## **Research and Development**

In the first half of 2002, the Company continued to develop and improve the products of its new-generation ETD system, providing participants in each segment of the value chain in the air travel and tourism industries with information technology solutions and services. With the assistance of the Company’s technology, China Southern Airlines and Air China have established their own air mileage data banks for frequent travellers, achieving the electronic management of frequent travellers in relation to air mileage accumulation, notices, inquiries, and prize redemption. The Company also continued to improve its data services system, expand its sources of information and enrich its data contents, so as to enable the Company to meet the individual expectations of major Chinese commercial airlines in enhancing their operational efficiency through the use of information technology solutions and services.

In the first half of 2002, after careful consideration of development trends in information technology, the demands of various customers, together with the adoption of various technology structures, the Company developed a series of APP front-end solutions to achieve the integration of the APP system with the information systems of airports and airlines, thereby providing air travellers with seamless services. The new-generation APP front-ended system will first be implemented in the Shenzhen International Airport for a trial run, and it will provide data linkage through OPEN/ENV technology and allow data sharing with the information management systems of airports and airlines. The technology developed by the Company allows information sharing between the APP system and the safety information management systems of airports, providing air travellers with all-round services throughout the departure process.