



Beijing	6	CX 900	馬尼拉
Newark/New York	5	RA 409	加德滿都
Singapore	4	KA 951	青島
Amman	7	KA 060	吉隆坡
Bangkok	2	CX 565	台北
Hong Kong	6	AC 3007	溫哥華
London	3	UA 895	芝加哥
Shanghai	4	KA 811	南京
Taipei	5	KA 437	高雄
Yokohama	6	KA 805	上海
	8	VS 200	香港

# DIVERSIFIED PORTFOLIO OF SOLUTIONS



Our EBITDA in Year 2002 was

R M B **554.6**  
**million**



# BUSINESS REVIEW

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 commercial airlines, airports and 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.

## ETD

The Company's ETD system provides inventory management functions to all 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 2002, in addition to continuously increasing its investment in, and enhancement of, the ETD functions and capability, the Company continued to strengthen the marketing activities for its ETD products. After launching in Hong Kong and Singapore at the end of 2001, the Billing Settlement Plan ("BSP") of the Company was also launched in Taiwan in February 2002, and the Company thereby became an ETD supplier in Taiwan. The Company entered into a comprehensive cooperation agreement with Orient Thai Airways in April 2002, which has since begun to fully utilize the ETD and APP systems provided by the Company. In addition to continuously implementing effective marketing activities for the purpose of encouraging more foreign and regional commercial airlines to use the Company's ETD system for tickets reservation and distribution, in September 2002, the Company established a direct link with the reservation system of American Northwest Airlines, which marked a significant development of the air travel distribution market in North America.

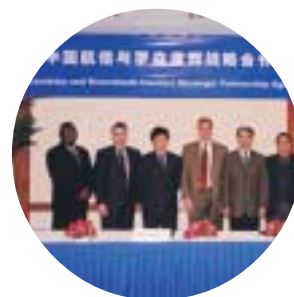
In addition, the Company continued to strengthen its efforts in developing the market for its travel products. The Company's electronic distribution system for air-travel personal injury insurance commenced operations in Kunming in April 2002, and the system has since processed 1.1 million electronic policies. In June 2002, the Company co-operated with Amadeus Global Travel Distribution S.A. ("AMADEUS") with respect to the marketing of travel businesses including global hotel reservation. At the moment, the Company has completed its



**Mr. Zhu Yong**  
Executive Director  
CEO

technological preparation and is ready to conduct the marketing activities of its travel businesses. Through such system, domestic travel agencies will be able to provide air travel services including worldwide hotel reservation and car rental services to domestic and overseas travellers.

In Year 2002, the ETD system processed approximately 94.4 million bookings on domestic and overseas commercial airlines, representing an increase of approximately 16.1 per cent. over that in the year ended December 31, 2001 ("Year 2001"). Bookings processed by the Company's ETD system on Chinese commercial airlines and on foreign and regional airlines increased by approximately 15.8 per cent. and approximately 23.3 per cent, respectively.



## 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 order to enhance the adoption of information technology by domestic airports and to satisfy the needs of commercial airlines for revenue management and electronic ticketing and the establishment of airport hubs, the Company endeavoured to complete in Year 2002 the installation of the APP system in the top 100 domestic airports in terms of passenger volume. The building of the APP system was announced by the CAAC as one of the key projects for the adoption of information technology by the civil aviation industry in Year 2002, and the CAAC had allocated special funding to support such project. With the support of the CAAC, airports and Chinese commercial airlines, a total of 63 domestic and foreign airports adopted the APP system of the Company by the end of 2002. The Company also entered into commercial contracts with other domestic airports to install APP front-end systems, which are expected to be completed in the first half of 2003.

**Core businesses of the Company have become**  
**ESSENTIAL**  
**SEGMENTS**  
**in China's air travel and tourism industries**

In the meantime, apart from increasing the utilization of the APP systems by those airports that have already installed the system, the Company also continued to improve and upgrade the functions and services of the APP system, so as to gradually integrate the APP system with the information systems of commercial airlines and airports, thereby providing seamless services to air travellers. In Year 2002, in order to build a new-generation of APP system and provide comprehensive solutions to air travellers, the Company focused its development in three respects, namely, providing check-in and boarding control based on open technology, providing specific solutions to commercial airlines and airport operation and management, and providing new products addressing the service trends of air travellers, so as to improve its existing APP system products and integrate them with the new-generation ETD system. In Year 2002, the new generation APP front-end system solely developed by the Company commenced its operations in the Shenzhen International Airport and achieved preliminary results.



In Year 2002, the APP system of the Company processed approximately 60.2 million passenger departures, which is equivalent to approximately 66.6 per cent. of the total passenger departures handled by domestic airports in China, representing an increase of approximately 28.8 per cent. over that of Year 2001.

## ACS

In Year 2002, InfoSky Technology Co., Ltd. ("InfoSky"), a Sino-foreign joint venture engaged in the air cargo business jointly established by the Company and a subsidiary of Société Internationale de Télécommunications Aeronautiques Information, Networking and Computing N.V. ("SITA INC."), continued to develop and improve products suitable for the air cargo market of China and had successfully expanded its market share. With a focus on the current application of information technologies in air logistics, InfoSky commenced changing its business model in Year 2002 so as to transform its business focus within 1 to 2 years from providing air cargo information technology services to providing air logistics information technology services. As a result, InfoSky began to develop the information platform for air logistics, which provided participants with information exchange services for cargo and logistics. In addition, based on the existing users and data resources, InfoSky provided clients with value-added services such as cargo-tracking enquiry, information release and operational data consolidation.

## 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 ETD, APP and ACS services through its nation-wide data network. In Year 2002, the Company adjusted the front-end network structure of its mainframe computer system in order to enhance the reliability of connections to its APP mainframe. The technology of its core network was improved, resulting in reduced complexity of system maintenance as well as increased transmission capacity. The Company also improved the whole network router, adjusted the back-up format of the whole network and improved its ability to supervise the whole network, so as to improve the safety and stability of the whole network. The Company also established new local distribution centres in Qingdao, Xi'an and Xinjiang for the distribution of products of the Group and the provision of quality services to local users in those cities.



## 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, became even more sophisticated. In Year 2002, the Company developed Internet-based electronic ticketing solutions which integrated with the operations of commercial airlines, so that the Company could offer comprehensive services ranging from business modelling, flow design and launch of products to customised services, thereby broadening the scope of services offered to commercial airlines. In the meantime, the Company provided application services provider ("ASP") services to travel agencies such as China Junyao Group Co., Ltd.; jointly established mobile SMS platform with a mobile ASP, namely BJ Digital Network Communication Corp., to provide mobile SMS services; continued to improve contents of [travelsky.com](http://www.travelsky.com) ([www.travelsky.com](http://www.travelsky.com)) and connected it with the payment systems of Industrial & Commercial Bank of China and China Everbright Bank so as to increase the methods of electronic payment available on [travelsky.com](http://travelsky.com). In Year 2002, the number of on-line air ticket bookings made by individual consumers through [travelsky.com](http://travelsky.com) represented approximately 2 per cent. of all bookings through the ETD system of the Company.



## RESEARCH AND DEVELOPMENT

For the purposes of consolidating the technological innovation of the Company, conducting research and development on products suitable to the market, developing its own products with its own intellectual property rights and competitive edges, and realising the strategic transformation from being a system operator currently to being an advanced product and service provider, the Company had in Year 2002 reorganised its research and development system, continued to put tremendous efforts into further developing its core businesses, and gradually implemented transformations in three respects: firstly, changing from the development for a single customer to the planning and development of product lines suitable for various multi-user groups in the market; secondly, evolving from the establishment of a single platform or project to a composite platform; and thirdly, changing from the conduct of individual research and development projects to that of multiple research and development projects, giving priority to new technology and new projects, focusing mainly on product design and development and employing appropriate system and procedures.

In Year 2002, the Company continued to develop and improve the products of its new-generation ETD system, with the aim of providing participants in each segment of the value chain of the air travel and tourism industries with information technology solutions and services. The Company continued to enhance the features and widen the functions of its ETD system, which led to significant improvements in its capabilities. Through its air mileage data banks for frequent travellers, the Company provided real time connection between its ETD system and the internal management information systems of Chinese commercial airlines, as well as realising electronic management of air mileage accumulation, notices, inquiries and gift redemption for frequent travellers of Chinese commercial airlines, and thereby enabling Chinese commercial airlines to provide more convenient services to air travellers. The project jointly developed by the Company and International Aviation Transportation Association (IATA) for settlement / automatic return of bills for Chinese commercial airlines secured the accuracy of data and shortened the settlement period, which thereby improved efficiency. The Company and the Accounting Centre of China Aviation jointly developed the bill automatic settlement system for commercial airlines, which smoothly commenced its operation in Air China. The data products developed and services provided by the Company, such as the preliminary analysis products of the APP system, satisfied the need of participants in the air travel and tourism industries to use information technology solutions for enhancing their operating efficiency.

## BUSINESS STRATEGY AND PROSPECTS

The Company is determined to become a provider and integrated operator of information technology services which boast core competitiveness for the air travel and tourism industries, and to maintain its position as the dominant provider of information technology solutions for China's air travel and tourism industries while striving to diversify the applications of its existing technologies, products and services to complementary business areas. In order to provide industry participants such as commercial airlines and airports with different options for expanding and diversifying their core and related businesses, and to provide air passengers with more choices which will satisfy their increasingly sophisticated demand for personalised services, the Company intends to place substantial efforts into developing new-generation ETD and APP products and services which boast internationally competitive core technologies. In addition, the Company will also extensively adopt new technologies such as open platforms and open technologies in the development of wireless and interlinked open networks, and it will insist on utilising both imported technologies and those derived from in-house research and development.

While the Company will strive to expand the scale and increase the market share of its existing core businesses, it will also, on a continuous basis, enhance its research on marketing strategies, improve its business operation model, adjust its pricing mechanism, apply flexible and effective marketing measures, and fully promote the development of marketing services systems.

Based on the Company's existing strengths, the Company will also focus on the markets for electronic distribution of tourism-related services, including air-travel personal injury insurance and hotel reservation. An Internet-based travel platform will be actively developed through a strategic integration of commercial, technological and management strengths of the Company. Meanwhile, the Company will be constantly seeking growth opportunities by developing, on the basis of in-depth market research, new products and services that are demanded by industry participants such as commercial airlines and airports, so as to maximise the value of its unique database.

In order to address the needs of the Group's business growth and market development, the Company will endeavour to develop production and information systems with first class security in Asia through the following plans: by adopting new technologies for enhancing the allocation of system resources, by further improving the structure of its application systems, by establishing a structural mechanism which will support the Group's product development strategies, by strengthening the security, reliability and interference resistance of the mainframes and the system network, and by improving on a continuous basis the functionality of its system resources.

