

UNIQUE MARKET POSITION

Our Net Profit in Year 2002 was

RMB **453.2**
million





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FINANCIAL REVIEW

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial information of the Group contained in the financial statements (together with the notes thereto) reproduced in this annual report. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The selected historical results as discussed herein do not represent a prediction of the future business operations of the Group.

OVERVIEW

In the year ended December 31, 2002 ("Year 2002"), profit before taxation of the Group was approximately RMB459.9 million, representing an increase of 11.8 per cent. over that in the year ended December 31, 2001 ("Year 2001"). EBITDA reached approximately RMB554.6 million, representing an increase of 15.7 per cent. over that in Year 2001. Net profit was approximately RMB453.2 million, representing an increase of 11.1 per cent. over that in the previous year. The increase in profitability of the Group was mainly due to the growth in the Group's businesses.

Basic and diluted earnings per share of the Company in Year 2002 were RMB0.51.

TOTAL REVENUES

The total revenues of the Group for Year 2002 amounted to RMB977.4 million, representing an increase of approximately RMB146.6 million, or 17.7 per cent., from RMB830.8 million in Year 2001. The increase resulted principally from growth in the businesses of the Group and usage of the Group's services, which can be attributed to the growth of the PRC economy and the PRC air travel and tourism industries. The increase in total revenues reflected the following:

- * ETD revenues represented 53.7 per cent. of the total revenues of the Group in Year 2002 as compared to 55.4 per cent. in Year 2001. ETD revenues increased by 14.1 per cent. to RMB524.9 million in Year 2002 from RMB459.9 million in Year 2001. The increase in revenues resulted primarily from increased usage of ETD services due to the growth of the PRC economy and the PRC air travel and tourism industries, as well as increased usage of ETD services by foreign and regional airlines.
- * APP revenues represented 24.8 per cent. of the Group's total revenues in Year 2002 as compared to 24.5 per cent. in Year 2001. APP revenues increased by 19.2 per cent. to RMB242.6 million in Year 2002 from RMB203.6 million in Year 2001. The increase resulted primarily from increased sales of APP services to airports which only adopted APP services during Year 2001 and which sales amount was not fully reflected in the revenues for Year 2001, as well as from increased usage of APP services by the existing consumers of the Group who installed the APP system before Year 2002 and by airports which newly installed the APP system in Year 2002.
- * Data network revenues represented 16.8 per cent. of the Group's total revenues in Year 2002 as compared to 13.8 per cent. in Year 2001. Data network revenues increased by 41.5 per cent. to RMB162.1 million in Year 2002 from RMB114.6 million in Year 2001. There is an increase in data network revenues given the significant increase in revenues brought forward by the enhanced market expandability of the Company's local distribution centres ("LDCs") and the commencement of business of the newly established LDCs in Year 2002.
- * Equipment sales and other revenues decreased by 9.2 per cent. to RMB47.9 million in Year 2002 from RMB52.8 million in Year 2001. The decrease was principally caused by a decrease in sales of equipment by the Company as the CAAC provided special funds to support airports in the implementation of their own APP front-end systems.



NET REVENUES

Net revenues increased by 17.9 per cent. to RMB944.8 million in Year 2002 from RMB801.1 million in Year 2001.

OPERATING EXPENSES

Total operating expenses for Year 2002 amounted to RMB538.9 million, representing an increase of RMB104.2 million, or 24.0 per cent., from RMB434.7 million in Year 2001. The percentage increase in operating expenses was higher than the increase in total revenues, mainly because the Company improved its research and marketing strategies which thereby expanded its efforts in the research and development of new products and new technology, and partly because of the Group's efforts in expanding its market as well as in strengthening its support for localisation of consumers. The increase in operating expenses was also caused by the following:

- * depreciation and amortization charge increased by 25.3 per cent., mainly because the depreciation and amortization charges for the hardware and software purchased as part of capital expenditure in Year 2001 were not fully reflected in the previous year;
- * labour cost increased by 38.3 per cent., primarily due to an increase in the number of employees to support the development of the Group's business and the increase in labour cost as newly established LDCs commenced operations;
- * technical support expenses increased by 23.8 per cent., due to additional technical support expenses associated with the development of the new-generation ETD and APP systems of the Group;
- * commission and promotional expenses increased by 70.6 per cent., due to the growth in new APP consumers and the implementation of the Group's APP promotional programmes; and
- * other operating costs of the Group increased by 21.6 per cent., mainly attributable to the increase in related costs arising from the increase in revenues as a result of the additional efforts of the Group's LDCs in expanding market in Year 2002.

As a result of the above changes in net revenues and operating expenses, the operating profit of the Group increased by RMB39.6 million, or 10.8 per cent., to RMB406.0 million in Year 2002 from RMB366.4 million in Year 2001.

SHARE OF RESULTS FROM ASSOCIATED COMPANIES

Share of results from associated companies was RMB7.3 million in Year 2001, whereas share of results from associated companies amounted to RMB14.3 million, representing an increase of RMB7.0 million in Year 2002. The main reason for such an increase was that there was an increase in the profits of associated companies.

MINORITY INTEREST

Minority interest increased by 621.3 per cent. to RMB3.5 million in Year 2002 from RMB 0.5 million in Year 2001. The reasons for such an increase were attributable to the improved profitability of subsidiary companies and the establishment of new subsidiary companies in Year 2002.

NET PROFIT

As a result of the above factors, the Group's net profit increased by 11.1 per cent. to RMB453.2 million in Year 2002 from RMB407.9 million in Year 2001.



RESERVES AVAILABLE FOR DISTRIBUTION

After the appropriation of the statutory surplus reserve fund, the statutory public welfare fund and the discretionary surplus reserve fund from the net profit as reflected in the Company's statutory financial statements prepared under PRC GAAP, the reserves available for distribution as at December 31, 2002, as stated in note 27 to the financial statements, amounted to RMB326.9 million, which is the lesser of the amounts as determined according to PRC GAAP and IFRS.



DISTRIBUTION OF DIVIDEND

The Board of Directors (the "Board") recommends the payment of a final dividend of RMB0.192 per share for Year 2002, totalling RMB170.5 million. After the appropriation of the dividend, the reserves available for distribution as at December 31, 2002 became RMB156.4 million.

NET CASH FLOWS AND LIQUIDITY

The following table summarises the cash flows of the Group for the years presented:

	Year ended December 31	
	2002 (RMB in million)	2001 (RMB in million)
Net cash inflows from operating activities	622.5	605.1
Net cash used in investing activities	(94.7)	(808.6)
Net cash provided by financing activities	(271.2)	1,255.6
Net increase in cash and cash equivalents	256.6	1,052.1

The Group's working capital for Year 2002 mainly came from operating activities. Net cash inflow for operating activities amounted to RMB622.5 million.

In Year 2002, the Group had no short-term or long-term bank loans, and the Group also did not use any financial instruments for hedging purposes.

As at December 31, 2002, cash and cash equivalents of the Group amounted to RMB1,893.4 million, of which 69.7 per cent., 9.6 per cent. and 20.7 per cent. were denominated in Renminbi, US dollars and Hong Kong dollars, respectively.

CAPITAL EXPENDITURE

The total capital expenditure of the Group was RMB70.9 million in Year 2002, representing a substantial reduction of RMB181.2 million from RMB252.1 million in Year 2001.

The capital expenditure of the Group in Year 2002 consisted principally of purchases of hardware, software and equipment in accordance with the Group's ETD business strategy and software for ACS.

The total capital expenditure of the Group in Year 2002 was lower than the estimated amount of RMB205.6 million. This was due to the postponement in the implementation of part of the Group's planned capital projects to year 2003 as a result of the reform in the bidding system for domestic construction projects.

The Board estimates that the Group's planned capital expenditure for year 2003 will amount to approximately RMB432.0 million, which is mainly for the development and gradual implementation of the new-generation ETD and APP systems, the ACS and other new businesses.

The sources of funding for the capital expenditure commitments will include net proceeds from the initial public offering of the Company and internal cash flow generated from operations.

The Board estimates that the sources of funding of the Group in year 2003 will be sufficient for its capital expenditure commitments, daily operations and other purposes.

The Board estimates that completion of the development of the new-generation ETD system will require total capital expenditure of approximately RMB1.0 billion.

EXCHANGE RISKS

The Group is exposed to foreign exchange risks related to its capital expenditure since a substantial portion of its capital expenditure involves payments for the purchase of imported equipment which are denominated in U.S. dollars. Under the current foreign exchange system in the PRC, the Group is not able to hedge effectively against currency risks, except for the cash and cash equivalents that are denominated in foreign currency.

GEARING RATIO

As at December 31, 2002, the gearing ratio of the Group was 9.1 per cent. (2001: 13.1 per cent.), which was computed by dividing the total amount of liabilities and minority interests, by the total assets of the Group as at December 31, 2002.

CONTINGENT LIABILITIES

As at December 31, 2002, the Group had no material contingent liabilities.

EMPLOYEES

As at December 31, 2002, the total number of employees of the Group was 1,170. Personnel expenses amounted to RMB99.6 million for the year ended December 31, 2002, representing 18.5 per cent. of the total operating expenses of the Group for Year 2002.

The remuneration of the employees of the Group includes salaries, bonuses and other fringe benefits. The Group has different rates of remuneration for different employees to be determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

In Year 2002, the Group continued to provide its employees with opportunities to learn skills in relation to the air travel industry, computer technologies and business administration and provide training on the latest developments in areas such as computer technologies, personal development, laws, regulations and economics.

BASIC MEDICAL INSURANCE REGULATION

On 20 February 2001, the People's Government of the Municipality of Beijing in the PRC promulgated the "Basic Medical Insurance Regulation for the Municipality of Beijing" (the "Regulation"). Given the fact that relevant regulations concerning employees' medical insurance must be applied according to the policies applicable to the place in which a company is located, the head office of the Company in Beijing implemented the Regulation from September 1, 2002 onwards. For Year 2002, the Company incurred a total amount of RMB311,900 pursuant to the Regulation for employees' medical insurance. As the amount is not substantial, the Board believes that by implementing the Regulation, the financial position of the Company has not been materially affected.

