

REPORT OF DIRECTORS

The Board of Directors (the “Board”) of the Company is pleased to present its report together with the audited financial statements of the Group for the year ended December 31, 2002.

GROUP ACTIVITIES

The Group is the dominant provider of information technology solutions for China’s air travel and tourism industries. All 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 financial performance is set out under the section “Financial Review”.

No analysis of the Group’s revenues and contribution to operating profit by geographical areas is presented as revenues and results of the Group during Year 2002 were principally derived from the operations of the Group in the PRC.

SHARE CAPITAL STRUCTURE

The issued share capital of the Company as at December 31, 2002 amounted to 888,157,500 shares, with a par value of RMB1.00 each. As at December 31, 2002, the share capital structure of the Company was as follows:

Shares	Number of shares as at December 31, 2002	Percentage to the total number of shares in issue as at December 31, 2002 (per cent.)
Domestic Shares	577,303,500	65.00
H Shares	310,854,000	35.00

SUBSTANTIAL SHAREHOLDERS

As at December 31, 2002, 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 an 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	310,654,000	99.9	35.0
China TravelSky Holding Company*	Domestic	198,496,500	34.4	22.3
China Southern Air Holding Company*	Domestic	116,460,500	20.2	13.2
China Eastern Air Holding Company*	Domestic	109,414,500	19.0	12.3
China National Aviation Holding Company*	Domestic	89,433,500	15.5	10.1

* Note: Reference is made to the announcement of the Company dated October 10, 2002 regarding the restructuring of the civil aviation industry in China and the formation of four aviation holding companies in China on October 11, 2002 which respectively hold equity interests in the Company as follows:

- (1) *China TravelSky Holding Company*: Formerly known as Civil Aviation Computer Information Centre, China TravelSky Holding Company will continue to directly hold, among other things, approximately 22.3 per cent. interest in the Company;
- (2) *China Southern Air Holding Company*: Formerly known as Southern Airlines (Group) Co., China Southern Air Holding Company will continue to directly hold approximately 9.4 per cent. interest in the Company and will also own, among other things: (i) 100 per cent. interest in China Northern Airlines Co.; and (ii) 100 per cent. interest in Xinjiang Airlines Co.. Since China Northern Airlines Co. and Xinjiang Airlines Co. hold approximately 2.8 per cent. and 1.0 per cent. interest respectively in the Company, China Southern Air Holding Company effectively controls an aggregate of approximately 13.2 per cent. interest in the Company;
- (3) *China Eastern Air Holding Company*: Formerly known as Eastern Air Group Co., China Eastern Air Holding Company will continue to hold approximately 7.7 per cent. interest in the Company and will also own, among other things: (i) 100 per cent. interest in China Northwest Airlines Co.; and (ii) 100 per cent. interest in Yunnan Airlines Co.. Since China Northwest Airlines Co. and Yunnan Airlines Co. hold approximately 2.6 per cent. and 2.0 per cent. interest respectively in the Company, China Eastern Air Holding Company effectively controls an aggregate of approximately 12.3 per cent. interest in the Company; and

- (4) *China National Aviation Holding Company*: A newly established holding company, China National Aviation Holding Company will directly own, among other things: (i) 100 per cent. interest in Air China; (ii) 100 per cent. interest in China Southwest Airlines Co.; and (iii) 100 per cent. interest in China National Aviation Corporation. Since Air China, China Southwest Airlines Co. and China National Aviation Corporation hold approximately 6.5 per cent., 2.9 per cent. and 0.7 per cent. interest respectively in the Company, China National Aviation Holding Company effectively controls an aggregate of approximately 10.1 per cent. interest in the Company.

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, 2002.

INTERESTS OF DIRECTORS AND SUPERVISORS IN THE SHARE CAPITAL OF THE COMPANY

None of the Directors and Supervisors had, as at December 31, 2002, 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 of 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 Year 2002, 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 an independent non-executive Director, Mr Chow Kwok Wah, James) and Supervisors of the Company has entered into a service agreement with the Company. All existing Directors and Supervisors will serve a term up to October 17, 2003. Directors and Supervisors may serve consecutive terms of three years each if re-elected at general meetings.

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. Except as disclosed in that section, 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 2002.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of Directors and Supervisors are set out in note 6 to the financial statements.

INTEREST CAPITALISED

No interest was capitalised for the Group for the year ended December 31, 2002.

FIXED ASSETS

Movements in fixed assets of the Group during the year ended December 31, 2002 are summarized in note 12 to the financial statements.

RESERVES

Details of movements in reserves of the Group for the year ended December 31, 2002 are set out in the consolidated statement of changes in shareholders' equity.

DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.192 per share for the year ended December 31, 2002.

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 27 to the financial statements. Details of movements of the fund are set out in the consolidated statement 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 7 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

Société Internationale de Télécommunications Aeronautiques S.C. ("SITA S.C.") was the largest supplier to the Group for the year ended December 31, 2002 and the total network usage fees paid to SITA S.C. in Year 2002 accounted for 8.7 per cent. of the Group's total operating expenses (excluding depreciation and amortization expenses) for that year. During Year 2002, the total amount paid to the five largest suppliers of the Group accounted for 24.1 per cent. of the Group's total operating expenses (excluding depreciation and amortization expenses).

Sales to the largest customer of the Group, China Southern Air Holding Company, accounted for 17.6 per cent. of the Group's total revenues for the year ended December 31, 2002. During Year 2002, total sales to the Group's five largest customers accounted for 51.8 per cent. of the Group's total revenue. Three of these top five customers, China Southern Air Holding Company, China Eastern Air Holding Company, and China National Aviation Holding Company, are among the principal shareholders of the Company, holding an aggregate of approximately 35.6 per cent. of the issued share capital of the Company as at December 31, 2002. The aggregate revenue derived from the above major customers is set out in note 32 to the financial statements.

Save as disclosed above and in note 32 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 aforementioned suppliers and customers.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the Company's subsidiaries and associated companies as at December 31, 2002 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, 2002, 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 RMB297.2 million (HK\$280.1 million) was used to finance a portion of the funding requirements of the ETD plan;
- approximately RMB39.0 million (HK\$36.8 million) was used to finance a portion of the expansion and upgrading of the APP system;
- approximately RMB4.6 million (HK\$4.3 million) was used to finance the expansion and upgrading of the ACS and other new businesses of the Company;
- approximately RMB23.9 million (HK\$22.5 million) was used for daily operating activities; and
- the balance of the net proceeds is currently deposited with banks.

The Board 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

During Year 2002, the Group continued to carry out the following transactions, which constitute connected transactions as defined in the Listing Rules, and are required to be disclosed in accordance with Chapter 14 of the Listing Rules:

(a) Provision of Services and Technological Support by the Group to the Company's promoters

In Year 2002, the Group continued to provide all the promoters/shareholders of the Company (other than CTHC) with services and technological support, including: ETD, APP, data network and ACS services. Details and financial information relating to the provision of such services by the Group during Year 2002, which are of a material nature, are set out in note 32 to the financial statements.

(b) Lease of properties by the Company from CTHC

The Company continued to lease two properties from CTHC in Year 2002. Details and financial information relating to such leases during Year 2002 are set out in note 32 to the financial statements.

(c) Transaction between SITA INC. and InfoSky

InfoSky was a joint venture company established by the Company (holding 51 per cent.) and Société Internationale de Télécommunications Aeronautiques Greater China Holdings Limited ("SITAGCH", holding 49 per cent.) to engage in the provision of air cargo information processing system services to participants of China's air travel and tourism industries. SITAGCH provided InfoSky with certain cargo integrated services in return for payment based on usage at the rates agreed between the parties. By virtue of an internal reorganisation of the SITA group of companies, the cargo integrated services originally run by SITAGCH were transferred to SITA INC., which became the official provider of the cargo integrated services from 1 January 2002. In 2002, InfoSky also began to provide its customers with cargo-related services. In order to provide such cargo-related services, InfoSky requires SITA INC. to provide, in return for payment based on rates agreed between the parties, related state-of-the-art services including technological support and training.

As SITAGCH is a substantial shareholder of InfoSky and SITA INC. is an indirect holding company of SITAGCH, SITA INC. is a connected person of the Company. For Year 2002, total payments made by InfoSky to SITA INC. for the aforementioned services amounted to approximately US\$1,119,000 (2001: US\$303,000).

On June 25, 2002, the Stock Exchange granted, subject to the same conditions applicable to the Company at the time of listing of its shares, a new waiver from strict compliance with the relevant requirements of the Listing Rules regarding the connected transaction between InfoSky and SITA INC.. Under the new waiver, the aggregate amount to be paid by InfoSky to SITA INC. for each financial year shall not exceed the lower of 3 per cent. of the net tangible asset value of the Group as disclosed in the Company's latest published accounts and a cap amount of US\$8.70 million (equivalent to approximately HK\$67.9 million).

(d) Network usage fees paid by the Company to SITA S.C.

During Year 2002, the Company continued to engage SITA S.C. in providing data network services to the Company. The data network usage fees were determined based on the rates agreed between SITA S.C. and the Company.

Since both SITA INC. and SITA S.C. are owned and managed by almost the same group of shareholders, SITA S.C. is an associate of SITAGCH, and SITA S.C. is therefore considered as a connected person of the Company. For Year 2002, the network usage fees paid by the Company to SITA S.C. amounted to approximately RMB34,911,000 (2001: RMB36,361,000).

On June 25, 2002, the Stock Exchange granted, subject to the same conditions applicable to the Company at the time of listing of its shares, a new waiver from strict compliance with the relevant requirements of the Listing Rules regarding the connected transaction between the Company and SITA S.C.. Under the new waiver, the aggregate amount to be paid by the Company to SITA S.C. for each financial year shall not exceed the lower of 3 per cent. of the net tangible asset value of the Group as disclosed in the Company's latest published accounts and a cap amount of RMB72.00 million (equivalent to approximately HK\$67.9 million).

(e) Transactions between the Company and the Cares Companies

The Cares Companies are joint venture companies established between the Company and Chinese commercial airlines and airports for distributing the products of the Company and providing better service to customers in different regions. The Cares Companies will pay fees to the Company, such as the connection and installation fees and physical identified device ("PID") fees, at the rates prescribed by the CAAC.

For Year 2002, the Company received from the Cares Companies an aggregate of approximately RMB43,592,000 for the aforementioned fees.

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, 2002:

Categories of transactions	Cap Amount
Leasing and using properties	RMB40.00 million
Payment to SITA INC. by InfoSky	US\$8.70 million
Revenues from the Cares Companies	RMB48.00 million
Expenditure to SITA S.C.	RMB72.00 million

In relation to such connected transactions, 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 of the Company;
- (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 upper limits (referred to in (iv) above).

TRUST DEPOSITS AND IRRECOVERABLE OVERDUE TIME DEPOSITS

As at December 31, 2002, 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, 2002, 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 procedures of the Company. The Board 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 Listing Rules during Year 2002.

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 dispute in Year 2002.

AUDITORS

During the period from the date of incorporation of the Company and up to December 31, 2001, Arthur Andersen & Co in Hong Kong and Arthur Andersen • Hua Qiang in the PRC were the Company's international and PRC auditors, respectively.

PricewaterhouseCoopers (Certified Public Accountants in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co. (Certified Public Accountants in the PRC) are the Company's international and PRC auditors, respectively for Year 2002. A resolution to appoint PricewaterhouseCoopers as the Company's international auditors and PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co. as PRC auditors, respectively, for the year ending December 31, 2003 will be proposed at the Annual General Meeting of the Company to be held on Tuesday, April 29, 2003.

By order of the Board



Chairman

March 14, 2003