

BUSINESS REVIEW FOR THE FIRST HALF OF THE YEAR

The air travel and tourism industries around the world experienced a low level of activities under the influence of the global economic downturn and the US-British war against Iraq. In the beginning of 2003, China's air travel and tourism industries, driven by the continuous prosperity of the Chinese economy, maintained fast growth from 2002. However, the outbreak of Severe Acute Respiratory Syndrome ("SARS") in April posed a serious challenge to China's air travel and tourism industries, and the Group encountered yet another pressing situation in its operations since the Asian financial crisis in 1998. In the face of the SARS outbreak, the Group remained calm, made detailed arrangements and carried out various tasks aimed at minimizing the losses caused by SARS.

During the six months ended June 30, 2003 ("the first half of 2003"), as a result of SARS and the US-British war against Iraq, the Electronic Travel Distribution ("ETD") system processed approximately 36.6 million bookings on domestic and foreign airlines, representing a decrease of approximately 16.3 per cent. compared to the six months ended June 30 2002 ("the first half of 2002"). Bookings on Chinese commercial airlines decreased by approximately 16.2 per cent. while bookings on foreign and regional airlines decreased by approximately 19.8 per cent.

In the first half of 2003, the Company continued with marketing activities for its ETD products and enhanced personalized services for key customers while continuing to improve the functions of ETD products already launched on the market. With the Company's technical support, Air China has officially offered electronic tickets for sale to the public and achieved automatic ticket settlement. A direct link was established between the Company's ETD system and the flight management system of United Airlines. The Company also stepped up the research, development and promotion of air travel products and planned to provide technical support for travel management of corporate clients. In the first half of 2003, significant progress was made in the marketing of the sales management system for electronic air-travel personal injury insurance policies, with more than 3.5 million electronic policies processed by the system.

In the first half of 2003, the Company had by and large completed the installation of the Airport Passenger Processing ("APP") system in the top 100 domestic airports in the country in terms of passenger volume. A total of 102 domestic and foreign airports are currently using the Company's APP system. After the new-generation APP front-ended system developed by the Company was smoothly launched at the Shenzhen Airport last year, it was also introduced at Zhengzhou, Taiyuan and other airports. In the first half of 2003, the APP system processed approximately 26.1 million passenger departures, equivalent to 74.2 per cent. of the total passenger departures handled by domestic airports in China, representing a decrease of approximately 4.9 per cent. compared to the first half of 2002 in the number of passenger departures.

In the first half of 2003, the Group continued to implement measures to ensure the stable operation of the data network and information security while carrying out technological improvements to enhance data network performance. New local distribution centres in Harbin and Kunming were established to provide better services to local users in those cities.

In the first half of 2003, the Company's subsidiary InfoSky Technology Co., Ltd. ("InfoSky") had been committed to expanding its market share while continuing to improve the functions of the existing Air Cargo System ("ACS"). A logistics information exchange platform was also developed by InfoSky, which is capable of processing business data and conducting data exchange so as to increase the efficiency of internal data processing by air cargo forwarders and the capabilities of cooperation among air cargo forwarders.

In the first half of 2003, with the use of Internet technology, the Group's Internet-based travel platform, which was developed by leveraging its core ETD system, APP System, data network and ACS, achieved certain progress. The Company continued to provide technical support for users of Internet Booking Engine ("IBE") such as China Southern Airlines Co., Ltd. while further improving its IBE technology so as to provide a whole package of services ranging from booking of flights to issuance of tickets. The Company has completed the establishment of air-travel-related short message dissemination platform for foreign airlines and the development of short message notification products for individuals, and continued to provide Application Service Provider services and web-hosting solutions to air travel product and service suppliers, travel agencies, corporate travellers and cargo forwarders. In the first half of 2003, the number of on-line air ticket bookings processed through travelsky.com represented approximately 2 per cent. of all bookings through the Company's ETD system.

In the first half of 2003, while seeking to prevent SARS, the Group implemented a number of effective measures such as the launch of a crisis management plan to continue to maintain the operational reliability of the Group's various business units. The utilization ratios of the Group's Inventory Control System ("ICS"), Computer Reservation System ("CRS"), APP and ACS mainframe systems were approximately 99.99 per cent., 100 per cent., 99.99 per cent. and 99.99 per cent. respectively.