

Chairman's Statement



▶ **Mr. Ma Tiesheng**
Chairman

Dear Shareholders,

2003 has been an extremely tough year for the Group in its history of development. In particular, the sudden outbreak of Severe Acute Respiratory Syndrome ("SARS") had a strong impact on China's air travel and tourism industries and the Group's core businesses were also adversely affected as a result. At the same time, the further internal integration of the three major airline holdings companies in October 2002 brought about a noticeable drop in the average price for the Group's ETD and APP businesses in comparison to their historical values. China's accession to the WTO, together with ongoing industry policy adjustments following the restructuring of the civil aviation industry, brought uncertain factors to the Group's development. The increasing demands for information technology products and better service quality not only brought development opportunities to the Group but also resulted in a constant increase in the Group's operating costs. In addition, rapid development and extensive application of new technologies such as open platform, wireless network, mobile computing and network computing technologies also posed a potential challenge to the Group's existing business model.

Despite the above unfavourable operating environments, the Group has responded in a steadfast way and, with careful organisation and sophisticated arrangements, has ensured the smooth implementation of all its operations. As a result, processing volume of ETD and APP systems maintained a growing momentum; integrated service systems of marketing, products and security continued to improve; key projects such as the new generation of ETD, APP project, e-business, e-ticket and data service made satisfactory progress; and the distribution of travel products such as air-travel personal injury insurance and provision of information technology solutions services which had been outsourced by airlines and airports made significant breakthroughs. As a result, the infrastructure that serves the Group's strategic development was enhanced, and processing capability, security functions and interference resisting ability of the system were further upgraded. In addition, the Group's revenue, earnings before interest, tax, depreciation and amortization (EBITDA) as well as net profit and earnings per share all recorded satisfactory results.

During Year 2003, China's civil aviation industry accomplished almost all its strategic restructuring goals. The separation of functions of the government and those of enterprises and the re-engineering of the industry management systems have been realised. The industry framework witnessed tremendous changes. Looking into 2004, it is expected that the sustainable prosperity of China's economy, the revival of the global economy, the recovery of air travelers' confidence and the implementation of marketing programs by industry participants would resume growth to China's air travel and tourism industries, which will definitely lay a solid foundation for the development of the Group's core businesses. Meanwhile, as leading airline holding companies and airport management companies further their restructuring and business integration, higher standard for information technology solutions is required so as to meet their customized needs in business developments, competitions, and operating efficiencies. All these will provide a broad market space for development of the Group's new businesses such as e-business and information technology solutions for airlines and airports. In addition, it is estimated that China's tourism industry in 2004 is to return to its pre-SARS level and that foreign and private enterprises are to speed up their strategic entries into the tourism market, one with the greatest growth potential in the world. This promises to create valuable opportunities for the Group to promote its e-distribution business of travel products such as electronic sales of air-travel personal injury insurance and hotel reservation.

In order to face challenges, take up new opportunities and transform the Group into a major player with international presence and core competencies, which is also advantageously positioned in China as well as in Asia, the Group will fully utilise its leading position in the market, technology, expertise and resources, keep abreast of the needs of its users and focus on the following aspects to:

- continue to face the market, improve services, participate in competition, strengthen business and core technology capabilities, implement the integrated service systems of marketing, products and security, and strive to expand the market size and increase the market share for the core businesses;
- take initiatives to develop businesses overseas in line with airline shareholders' expansion into international markets, and actively explore international route which can strengthen core competencies and utilise competitive edge to satisfy the business needs of airline shareholders;
- play an active role in the participation of information technology development of industry participants such as airlines and airports, adopt an effective combination strategy for business, technology and capital, and thus provide them with value-added services;
- grasp opportunities in the development of tourism industry, speed up the construction of distribution platform for travel products, develop travel products with combination advantages, get involved in the business chain of travel product distribution and positively promote the distribution business;
- take significant opportunities arising from global optimization of production elements and transfer of industry assets, keep pace with the restructuring of air travel and tourism industries, make full use of the opportunities arisen from China's accession to the WTO, explore the possibilities of establishing strategic alliances with leading international players, and in turn provide favourable environment for the Group's rapid growth;
- continue to strengthen corporate governance, progressively establish committees for remuneration and investment, fully utilise the role of independent directors, perfect corporate legal person governance; and meanwhile further the corporate management mechanism, streamline work procedure, improve the accountability system where both rights and responsibilities are accounted for, and further enhance the operating efficiency of the Group.

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The term of the first Board of Directors expired at the end of Year 2003. The second Board had been elected in accordance with the Articles of Association. I would like to express my sincere gratitude to the first Board for their diligent work. I am also convinced that under the leadership of the new Board, the Group will continue to adhere to its principles of sustainable profitability and corporate value maximization, grasp favourable market opportunities, continue its customer-oriented strategy, persist in technology and management innovation, improve service constantly, maintain its competitive edge and a healthy development, and thus eventually bring satisfactory returns to the shareholders.

It is only with the cooperation of our management and staff members who spare no efforts in their work and with the full understanding and support from our shareholders that the Group is able to achieve such remarkable results. Thus on behalf of the Board, I would like to extend my deep and heartfelt gratitude to them all.



Chairman
March 11, 2004