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. After two decades of development, the Company has developed a range of relatively comprehensive and functional product lines for passenger information services, which address the needs of industry participants ranging from commercial airlines, airports and travel products and services suppliers to travel agencies, corporate clients, air travelers and cargo shippers. The product lines have also increased their market shares, improved their operating efficiencies and enhanced their service quality standards. Meanwhile, the Company has developed core businesses such as ETD, APP and Data Network.

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 airlines and travel suppliers. In 2003, revenue generated from ETD accounted for 48.3% of the total revenue of the Group.

The development of the Company's ETD business experienced intense volatility in Year 2003. At the beginning of the year, stimulated by the continuous growth of the domestic economy, the ETD business benefited from the booming air and tourism industry. Bookings processed by ETD maintained its growing momentum since 2002. Unfortunately, with the outbreak of Severe Acute Respiratory Syndrome ("SARS") in April, the domestic air and tourism industries suffered great loss and consequently booking volume processed by ETD dropped dramatically. However, SARS came under control in June, coupled with favourable factors such as the gradual recovery of air traveler's confidence, CAAC's "Sky Revival" program and the launch of marketing initiatives by various domestic commercial airlines, rapid growth to the domestic aviation industry was restored. In Year 2003, the ETD system processed approximately 96.8 million bookings on domestic and foreign and regional commercial airlines, an increase of approximately 2.5% over the previous year, among which bookings on Chinese commercial airlines increased by about 2.7% while that on foreign and regional airlines dropped by approximately 1.0%.

In Year 2003, in addition to improving its existing ETD products system, the Company continued its promotion and marketing activities of ETD and strengthened its customized services to domestic and foreign commercial airlines. Supported by the Company's technology, Air China and China Eastern Airlines began to use products and services developed by the Company such as auto settlement of airline tickets, auto printing of international air ticket invoices and net fare display system, which address their needs to improve operating efficiencies and service quality through information technology upgrade. In order to cater for China Southern Airlines' need for information technology solutions in its operation, the Company set up a special development team for the provision of one-to-one service. The direct link between the Company's ETD System and the flight management system of United Airlines of America has been established thus making the latter the second airline company in North America (Northeast Airlines of America being the first) to have links with the Company's ETD system.

During Year 2003, the Company continued to strengthen its customer services while address the needs of travel agencies and provide them with suitable products. During the SARS period, the Company actively carried out its "Crisis Marketing" and, together with travel agencies, strived to overcome this difficult time. The Company also continued to enrich and improve its product lines based on open platform technology to provide travel agencies with product support and better services. At the same time, the Company adjusted its marketing strategies and formed strategic partnerships with major travel agencies to provide customized service.

Business Review

APP

The Company's APP system is designed to enhance airlines' level of customer services for ground handling and processing efficiency. The Company is currently the largest provider of APP services in China. In 2003, revenue generated from APP accounted for 26.0% of the group's total revenue.

In Year 2003, after the successful installation of the APP system in the top 100 domestic airports in terms of passenger volume, the Company entered into contracts for installation of the APP front end system with the remaining 26 domestic airports. These contracts are estimated to be completed in the first half of 2004. By then the Company's APP system will be installed at all domestic airports, which will further reinforce the Company's market position in China's aviation industry. In Year 2003, the Company's APP system processed approximately 71.8 million passenger departures, an increase of approximately 19.3% over the previous year and accounted for 77.4% of the total passenger departures processed by domestic airports.

Following the successful launch of the new generation of APP front end system developed by the Company in Shenzhen Airport, the Company continued to improve its new generation APP system and progressively established four product lines: Easy Airport series for airport passenger processing, Easy Manager series for airport operation, Easy Check-In series for passenger service and Easy Interface series for connection to other information systems. With the further improvement of these product lines, the integration of APP system with information system of commercial airlines and airport will be gradually achieved, thus providing comprehensive information technology solutions for the operations and management of commercial airlines and airports as well as more convenient, efficient and seamless services for air passengers.

During 2003, while improving and enriching the new generation APP product line, the Company installed the new generation APP front end system successively in 10 airports including Zhengzhou, Taiyuan and Harbin Airport. Also, in response to the international and domestic antiterrorist wave after the "9.11" terrorist attack, the Company successfully installed airport passenger access information system at the request of government departments such as CAAC.

◀ **Mr. Zhu Yong**
Executive Director
CEO

E-BUSINESS

Combining Internet technology with the Company's core systems of ETD, APP and data network, the Company's self-developed e-business improved steadily. E-business provides commercial airlines with an efficient and inexpensive distribution channel with reduced distribution costs. It provides travel agencies with cost-efficient and convenient system connections as well as customized services. It also provides air passengers with a variety of online travel products and services on a fully open basis. The e-business products of the Company mainly include online product distribution, online check-in, online schedule, short message processing platform, website ASP service, website hosting, e-ticketing and e-payment. In Year 2003, online air ticket bookings through travelsky.com accounted for approximately 2% of all the bookings processed by the Company's ETD system.

E-TICKET

The Company's self-developed e-ticket system is based on the Company's ETD, APP and settlement systems. Currently, the Company has built a well-structured and sophisticated e-ticket system based on ICS e-tickets and supplemented by CRS e-tickets and Internet e-tickets. The system supports various functions of ticket booking such as e-tickets issue, display, alteration, cancellation, return and re-issue. It also supports the processing of airport passengers who hold e-tickets, as well as payment and settlement of e-tickets. In the past two years, Shenzhen Airlines and Air China, through the use of the Company's e-ticket solutions, have broadened their sales networks and achieved significant returns. In 2003, tickets sold through the Company's e-ticket system exceeded 100,000. In the meantime, CAAC, with support from the Company, promulgated the PRC standard for e-tickets, which facilitated the promotion of e-tickets in the China market.

DATA SERVICE

The Company's self-developed data service system, through collecting data generated from operation of the Company's ETD and APP systems and the use of technologies such as databank, provides a variety of products and services to address the needs of air travel industry participants such as industry regulatory authorities, commercial airlines, airports and travel agencies . At present, the Company's data services include data subscription system, air passenger market analysis, reservation analysis for sales agency, Marketing Information Data Tape (MIDT), Billing Information Data Tape (BIDT), booking trend analysis and airline revenue analysis. All these services are available to the customers through prints, facsimile, Internet, website and email to help them to make decisions. In 2003, after Xiamen Airlines started to use the Company's data service, now all domestic commercial airlines are using the Company's service.

E-TERM

The Company's self-developed and open technology-based E-term supports multi-access methods such as private line and Internet. With a graphic user interface of emulation, the product can allows an ordinary PC to emulate a traditional ETD system terminal, thus shortening training period and increasing efficiency as well as reducing costs for customer by the expansion of PC functions. In addition, E-term also supports emulation for other products such as Window CE and PDA, therefore providing a spectrum of choices for customers. At present, nearly 2,000 customers are using E-term.

Business Review

DISTRIBUTION OF TRAVEL PRODUCTS

The Company's self-developed EasyBooking system is able to provide hotel and car-rental information all over the world, assist travel agencies to make enquires and reservations for hotels and car-rentals, and provide distribution services for travelers. Currently, the number of overseas and domestic hotels and car-rental agencies accessible through the Company's system exceed 58,000 and 24,000 respectively. In addition, the Company, together with China Eastern Airlines Holdings Limited, established Shanghai Dongmei Aviation Tourism Online Co., Ltd., and is currently exploring the business of travel product distribution as well as developing complete information technology solutions for travel agencies which can integrate travel product reservation, binding sales, pricing, ticketing and backoffice management.

SALE OF AIR-TRAVEL PERSONAL INJURY INSURANCE

The sales management system is the Company's self-developed information processing system for sales of air-travel personal injury insurance. Directly linked with the Company's ETD system, the sales management system makes full use of the Company's existing mainframe resources and data service systems. It electronically automates the sales, claims management and administration of air-travel personal injury insurance, thus significantly enhances the efficiency for insurers, policy outlets and air travelers. Since its introduction to the market in 2002, the business has expanded rapidly. In 2003, e-policies sold by the Company's sales management system exceeded 10,000,000.

INFORMATION TECHNOLOGY SERVICE

In 2003, through an associated company Shanghai Civil Aviation East China Cares System Integration Co., Ltd., the Company undertook the information technology business outsourced by China Eastern Airlines and began to provide information technology solutions to the airline companies. In the meanwhile, the Company also established airport information service joint venture companies with airport management companies in Yunnan and Heilongjiang province respectively and provided information technology solutions through the joint venture companies.

LOCAL DISTRIBUTION CENTERS

By the end of 2003, the Company had established altogether 30 wholly-owned and joint venture branches across China. These branches are all over China and form the backbone of the Company's local distribution centers as well as an important component of the Company's market service system. Crucial to the Company's business operation, these local distribution centers play a key role as important distributors for the Company's existing products and services, customer service centers providing local technical service and support, as well as important tools for the Company's marketing work such as market research, new product promotion and customer feedback collection.

INFRASTRUCTURE

The Group's infrastructure serves the Group's overall development strategy. The objectives of the Company's infrastructure are to ensure that the Company's system capability is in line with the growth of the business, and that it can take advantage of new technologies to optimize system resource allocation, adjust system application mechanism and improve system resource functionalities so as to bring about improved security, reliability and interference resisting ability for system operation. Therefore, in 2003, the Company purchased a new mainframe computer and upgraded the Company's system capability in processing and backup. Core network and major network were also upgraded, which optimized the network route and enhanced the safety and stability of the whole network. Meanwhile, the Company continued to strengthen the construction and implementation of its safety production system to ensure a safe operation of the infrastructure. In 2003, the utilization rate of the Company's Inventory Control System (ICS), Computer Reservation System (CRS) and APP mainframe computer amounted to approximately 99.99%, 99.98% and 99.99% respectively, showing impressive results.

NEW GENERATION OF TRAVELER SERVICE SYSTEM

The Company's new generation ETD plan will be terminated in 2004 having achieved all desired goals. In order to maintain its leading position in the domestic market as well as seek greater development in the future Asian air travel industry amidst the constantly changing market and technologies, the Company studied the construction of the new generation of traveler service system in 2003.