



The Company is the dominant provider of information technology solutions for China's air travel and tourism industry. The Company is also the dominant provider of advanced aviation and aviation-related information technology service for

Chinese commercial airlines and the leading distributors of products and services of Chinese commercial airlines to travel agencies, travel service distributors, ticketing offices and individual consumers. After more than two decades of development, the Company has built up a range of relatively integrated, comprehensive and functional product lines for information technology services, addressing the needs of various industry participants ranging from commercial airlines, airports, travel product and service suppliers to travel agencies, travel service distributors, corporate clients, travelers and cargo shippers. Through the product lines, the Company helped these industry participants broaden their core business, improve their service quality and enhance their operational efficiency.

AVIATION INFORMATION TECHNOLOGY SERVICE

The Company's aviation information technology ("AIT") service consists of series of products and solutions provided to all Chinese commercial airlines and nearly 30 foreign and regional airlines, comprising electronic travel distribution ("ETD") service (including Inventory Control System ("ICS") service, Computer Reservation System ("CRS") service) and Airport Passenger Processing ("APP") service, as well as other extended information technology services related to the above core businesses, including but not limited to, data service to support decisions of commercial airlines, product service to support aviation alliance, solutions for developing commercial airline e-commerce and information management system to improve ground operational efficiency of commercial airlines and airports. In 2004, revenue generated from the AIT service increased by 54.5 per cent. year-on-year to RMB 1,025.7 million, representing 80.0 per cent. of the Group's total revenue.

Thanks to the continuous rapid growth of the PRC economy, the expanded foreign trade and the vibrant international investment, increasingly frequent domestic and foreign business trips and recreational travels, the civil aviation industry of the PRC experienced a booming year in 2004. The passenger volume of China's civil aviation industry exceeded 100 million for the first time, stepping into a new stage. As the dominant supplier of information technology services in the PRC aviation and travel industry, the Company's ETD system processed approximately 132.2 million bookings on domestic and overseas commercial airlines in 2004, an increase of approximately 36.6% over 2003, of which bookings on Chinese commercial airlines increased by approximately 37.4% while that on foreign and regional airlines increased by approximately 18.6%. Passenger departures processed by APP system increased by approximately 42.5% to approximately 102.3 million over 2003 and accounted for approximately 80.3% of the total passenger departures from domestic airports.

The Group's AIT service and other extended information technology services are designed to reinforce the competitiveness and profitability of commercial airlines. Rooted for years in China's air travel and tourism industry, the Group continues to keep abreast of the technology development in the industry and demand for development in China's aviation market to perfect its AIT service and other extended information technology services. In 2004, by their continuous use of the Group's AIT service, domestic and overseas commercial airlines witnessed streamlined business operation workflows, enriched sales channels and mode, diversified aspects of customer services, and enhanced operating quality of core business. For instance, the principle commercial airlines in the PRC have fully adopted our self-developed AirTIS and EasyFare to release and manage their aviation freights. The Company's e-ticket technology solution for commercial airlines has also been widely applied in Air China, giving rise to a sales mode characterized by more channels and means. In December 2004, sales of e-tickets of Air China through the e-tickets system of the Company accounted for more than 10% of its total sales of tickets. To achieve the target of e-ticket sales accounting for 50% of the total ticket sales in the PRC air and travel industry by 2007, the Company has developed a BSP e-ticket technology solution and Hainan Airlines was the first to adopt this technology solution. Meanwhile, the Company spared no effort in development of commercial airline substantial resource management products such as flight route optimization and flight information sharing products. Upon completion of the APP system for 129 domestic operating airports, there were 12 more airports operating on the new generation of APP front system. In addition to 17 regional and overseas airlines with direct links to the Company's ETD system, 13 overseas commercial airlines including Air France and Lufthansa have also decided to link with the Company's APP system.

Following the rollout a series of data products and services based on its initial data service system in 2003, in 2004, the Company advanced diversification of data application and product line keeping a closer eye on the demands of commercial airlines, and successfully supported the operation of core business system of commercial airlines such as air mileage data bank, income management, etc.. To sustain code sharing and aviation alliance among commercial airlines, the Company put more efforts in system function improvement and product development, thus achieving real-time information exchange of alliance systems. The Company's e-commerce solutions have facilitated, to a certain extent, the development of e-business of Chinese commercial airlines. The Company's self-developed Airport Ground Operation Management System (AGOMS) has been widely introduced into base airports of Air China, Hainan Airlines and Shenzhen Airlines and effectively improved their ground handling efficiency.

Focusing on traveler service, the Company's new generation traveler service system is devised to flexibly support the business service in each step of the travel value chain, so as to emulate the development trend of air travel and tourism industry and support the competition and operational service for commercial airlines. During the year, leveraging the international advanced technology, the Company independently developed part of the intermediary and front products based on the WINDOWS technology, thereby realizing the partial externalization of the existing core systems, laying a solid foundation for the smooth transition of core systems to the open platform.

DISTRIBUTION INFORMATION TECHNOLOGY SERVICE

Relying on travel agencies and travel service distributors for distribution, the Group has been aiming at developing information technology solutions to meet the demand of travel agencies and travel service distributors and providing them with widened distribution scope, more flexible distribution networks and customized services. As such, based on the previous years' effort, the Company took effort in improvement of existing E-Term products and development of the internet-based agency portal system in 2004. The Company also boosted its PC platform renovation, resulting in the overall usage rate of PC platform of over 70% by the end of 2004. Furthermore, the Group carried out Travelnet scheme to cut down the operating expenses for travel agencies and travel service distributors. The Group's sales products and applications including management instruments, BACK-office products and data service have been widely used by travel agencies and travel service distributors in market analysis, customer management and operation. The Group has also established closer strategic partnership with a number of the largest travel agencies in the PRC including China Travel Services Hong Kong Ltd. and China International Travel Service, elaborating on its fortitude in information technology services in the China's air travel and tourism industry and facilitating Chinese tourism enterprises' participation in international competition.

Another vital target of the Company is to develop solutions to maintain distribution networks. In 2004, in addition to continuous improvement of such existing e-business products as IBE, e-payment, online schedule and short message processing, the Company continued to advance website ASP and website hosting services. The Company's preliminarily established "one-stop" distribution information technology solution has been successfully applied in Shanghai Dongmei Aviation Tourism Co., Ltd. to assist its online distribution business.

The Company has established 30 wholly-owned or joint-venture local distribution centers all over China, forming the backbone of the Company's distribution system. The Company relies on these distribution centers to provide travel agencies and travel service distributors with information technology services.

TRAVEL PRODUCT DISTRIBUTION SERVICE

In 2004, the arrivals and departures processed in China exceeded 100 million and 38 million respectively, making China the fourth largest travel destination and passenger source in the world. Aiming to provide more choices of product and service for travelers and new business opportunities for travel agencies and travel service distributors during such an opportune time for the rapid development of China tourism industry, the Group capitalized on its resources, technologies and market service system through years. The Group is dedicating itself in development of travel product distribution service including hotel reservation, sales of "hotel plus ticket" product, car renting and sales of air-travel personal injury insurance. Currently, the number of domestic and overseas hotels and car-rental agencies accessible through the Company's travel distribution system exceed 63,000 and 24,000 respectively. During the year, e-policies sold through the Company's sales management system of air-travel personal injury insurance exceeded 16.2 million.

INFORMATION TECHNOLOGY INTEGRATION SERVICE

In 2004, in addition to the efforts in strengthening AIT and distribution information technology services, the Group actively extended its presence in various fields to develop information technology integration business, such as construction, operation, maintenance and management of information technology infrastructure, by providing more personalized data service, technology support and business consultancy. The Group's self-developed information technology integrated products including security information system, airport automatic broadcasting system and luggage confirmation system have been initially used.

Since the outbreak of "911" attack in the USA, anti-terrorism has become a key concern in the international civil aviation industry. To seize the opportunity in China aviation information safety business, the Company is constructing information monitoring and management security systems for air travelers and cargos.

INFRASTRUCTURE

The Group's infrastructure serves the Group's overall development strategy. The objectives of the Company's infrastructure are to ensure safety, satisfy the needs of business development, adjust system structure and optimize resource allocation by taking full use of technologies, business and management, so as to improve operating reliability and interference resisting ability with lower operating expenses.

In 2004, in order to ensure safe operation of infrastructure, the Company commenced operation of real-time data backup system and improved the same-city-different-location backup structure. Also, a second communication route supplier was introduced with further diversified safety measures. In order to strengthen the performance of infrastructure, on the other hand, the Company adopted new technology and tools to adjust the mix of applied systems, optimize processing procedures of core modules, broaden communications channels between each applied system, thereby achieving an optimized network hierarchy. Meanwhile, through message transfer, centralized management of open platforms and commercial negotiations, the Company managed to minimize its operating expenses of infrastructure. In 2004, the utilization rates of the Company's ICS, CRS and APP mainframe computer and network systems have exceeded approximately 99.9%, with desirable operating performance of its core network and accessing network.