



Mr. Zhu Xiaoxing
CEO

The Company is the leading provider of information technology solutions for the China's aviation and travel industry. While the Company provides advanced aviation information technology and related services to the Chinese commercial airlines, it also distributes commercial airlines products and services to travel service distributors, ticketing offices and individual consumers and is taking a leading role. With over more than two decades of continuous development, the Company has preliminarily built up product lines of comprehensive and functional information technology services, to satisfy the needs of all the industry participants ranging from commercial airlines, airports, travel products and service suppliers to travel agents, travel service distributors, corporate clients, travelers and cargo shippers. Through the product lines, the Company helped these industry participants to broaden their core business, improve their service quality and enhance their operational efficiency.

AVIATION INFORMATION TECHNOLOGY SERVICE

The Company's aviation information technology ("AIT") services, which consist of series of products and solutions, are provided to Chinese commercial airlines and more than 280 foreign and regional commercial airlines. The AIT services comprise 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 airlines' e-ticket and e-commerce as well as information management system to improve ground operational efficiency of commercial airlines and airports. Comparing with Year 2004, revenue generated from the AIT services in Year 2005 increased by approximately 20.7% to approximately RMB1,238.0 million, representing approximately 82.7% of the Group's total revenue.

Thanks to the rapid growth of the PRC economy and the deepening economic globalization, the civil aviation industry of the PRC experienced a blooming year in 2005, paving the way for China to head for the second largest global aviation and transportation market after USA. As the dominant supplier of information technology services in the PRC aviation and travel industry, the Company's ETD system processed approximately 151.4 million bookings on domestic and overseas commercial airlines, representing an increase of approximately 14.5% over Year 2004, and has continued to maintain a rapid growth momentum. Among which, bookings on Chinese commercial airlines increased by approximately 14.2%, while that on foreign and regional commercial airlines increased by approximately 22.7%. Passenger departures processed by APP system accounted for approximately 88% of total traveler departures from domestic airports. With 26 foreign and regional commercial airlines like SilkAir of Singapore and Cathay Pacific joining the Company's APP system, foreign traveler departures from domestic airports processed by the system reached approximately 1.6 million.

Rooted for years in China's aviation and travel industry, the Group has been meeting clients' needs, keeping abreast of up-to-date industry technology. By focusing on the product lines of seat management, distribution information technology solution packages and fare solutions, which aims at serving commercial airlines' profit-oriented requirement, the Group has been perfecting and enhancing AIT and related services, and has made great contribution to domestic and foreign commercial airlines for their diversified marketing channels, streamlined business workflows, improved service modes and decreased operating costs. In 2005, the Company took initiatives to keep on perfecting its product lines based on new technologies while promoting application of AIT services in the industry. With reference to industry standards, the Company has developed 3 major technologies of BSP (Billing and Settlement Plan) electronic ticketing, Airline Direct-sale electronic ticketing and Airline Online electronic ticketing, which were fully adopted by 9 Chinese commercial airlines including Air China and Hainan Airlines. The IET (Interline Electronic Ticketing) technology was used to facilitate sales of electronic tickets among Chinese commercial airlines and to establish through check-in services for connecting flights between foreign and regional commercial airlines. Electronic tickets sold amounted to approximately 9.8 million segments, where over RMB100 million of distribution costs was saved. The Group's self-developed virtual flight technology was applied in more than 170 flight routes of commercial airlines like China Eastern Airlines Corporation Limited and China Southern Airlines Company Limited, supporting them to increase the marketability of city-pairs and expand the distribution network. While Chinese commercial airlines are preparing to join the international aviation alliances, the Company also continued to perfect and promote check-in products for connecting flights, which led to increase of approximately 30% and 50% in domestic and international routing transfer travelers respectively, providing a strong support to the implementation of hub strategies of Chinese commercial airlines and airports. Efforts were continued in perfecting and promoting domestic fare products, which facilitated the electronization in collecting, distributing, managing and calculating the fares for Chinese commercial airlines with favourable market effectiveness. Through years of in-depth cultivation, data products and services series have become necessity tools in commercial airlines' revenue management and operational decision-making.

Further to its extensive application throughout domestic medium and small airports during the past two years, the Company's self-developed new generation APP front system was further applied in major airports in Chengdu, Dalian, Kunming and Wuhan. As a result, 38 airports are using the Company's new generation APP front system. The T3 terminal of the Beijing Capital Airport, which is being constructed to support the Beijing 2008 Olympic Games, also decided to adopt the Company's new generation APP front system, securing the Company's position in development and operation of airport front system. Furthermore, to support Chinese commercial airlines' overseas promotion of interchange, through check-in and e-ticket services, the Company made efforts in promoting its APP system and its operations in overseas airports. At the end of 2005, overseas airports using the Company's APP system increased to 8, and passenger departures processed amounted to approximately 4 million.

The Company's new generation traveler service system, a traveler-oriented platform targeting to support airlines to compete and operate in the market, can flexibly support each commercial service of the travel value chain so as to keep in line with the changing aviation and travel industry. In light of the strategy for new generation system structure with reference to overseas GDS technical architecture and experience, the Company defined its development plans and implementation approaches for intermediary system in 2005, and used the same as the foundation for determining the infrastructure models for all open application systems.

DISTRIBUTION INFORMATION TECHNOLOGY SERVICE

The Group's travel distribution network comprises more than 50,000 sales terminals owned by more than 6,000 travel agencies or travel service distributors, with high-level networking and direct links to all GDS around the world and 25 foreign and regional commercial airlines through SITA networks. Covering approximately 400 domestic and overseas cities, the network processed over 96 million transactions during the year with transaction amount to over RMB127 billion. The Group provides distribution information technology services mainly by offering solution plans at the front end, intermediary and back-office levels, aiming to delivering more diversified and accurate content and information to travel distribution networks, so to support flexible distribution modes and tailored solutions.

On front end solution plans, the Group's main effort is to perfect the already launched E-Term products and Windows-based Web products, so as to provide travel distribution network with powerful front end systems which enable air ticket sales, hotel reservation and car rental service to cater for customer needs. At intermediary level solution plans, the Group provides data analysis products, marketing management tools, information release and business workflow platforms, greatly aiding travel agencies or travel service distributors in market analysis, customer management and operations. As to back-office solution plans, the Group provides customised solution packages for distribution technology covering comprehensive business workflows of major travel agencies, tailored to their needs for paving their ways to domestic and international markets. For instance, the Company entered into a 3-year strategic cooperation agreement in 2005 with American Express, one of the largest global business travel management companies. The cooperation provided an access for American Express' customers worldwide to experience travel services in China under international standards. Meanwhile, it enhanced the Group's in-depth understanding into businesses and workflows of global leading business travel management company, laying a foundation for developing better information technology solutions to meet business needs of travel agencies and travel service distributions, and to satisfy market demands.

Another focus of the Company is the dedicated development of e-business solutions in support of travel distribution network. The Company's self-developed booking engine technology has been supporting e-business applications of travel agencies broadly, advancing online distribution business in China's aviation and travel industry. In 2005, approximately 3 million segments were sold through e-business with transaction amounting to approximately RMB1.6 billion.

The Company provides services to the distribution network through more than 30 local distribution centers throughout the nation, which are the contacting points of the Company's distribution system. In 2005, the Company established new regional distribution centers in Japan, Korea and Singapore to strengthen its services in overseas markets.

TRAVEL PRODUCT DISTRIBUTION SERVICE

One of the Group's established strategies is to dedicate itself in development of travel product distribution services including hotel reservation, "hotel + air ticket" packages, car rental and business trip insurance products. In 2005, the Company kept perfecting the hotel distribution system on open platform and by control measure, leading to a breakthrough in hotel reservation business. Throughout the year, the Company successfully distributed 51,000 hotels' room-nights, covering over 2,000 hotels in the Mainland, Hong Kong and Macau.

INFORMATION TECHNOLOGY INTEGRATION SERVICE

Progress was also made in the Group's information technology integration services in 2005. The Group's self-developed information technology integrated products were extensively used in airports throughout China, including security information system, airport automatic broadcasting system and baggage confirmation system. The Uni-Service for Airport Passenger, targeting high-end customers, has been used in airports of Guangzhou and Shenzhen with preliminary market recognition. With a contract successfully entered with the Beijing Capital Airport on APSIS (Aviation Passenger Security Information System) addressing travel safety of air passengers, the Company moved forward an important step towards information safety of aviation in China.

INFRASTRUCTURE

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

In 2005, the Company purchased a new mainframe of Dorado 280 which was smoothly installed and put into operation by the year end, with a view to satisfy China's aviation demand for system processing capabilities in relation to the ever-increasing volume of travelers. This resulted in a 40% expansion of mainframe capacity. At the same time, through technology innovations such as mainframe AV move-out, about 3.4% of system resources were saved. Meanwhile, infrastructure reliability was effectively enhanced through a series of technology improvements like same-city-different-location disaster backup system based on SRDF (Symmetrix Data Replication Facility) technologies, mainframe performance optimisation, data warehouse expansion and cross-backup over multiple lines of telecommunication operators. Further, operating cost of over RMB10 million was saved through the message transfer from the SITA network to the Company's network. In Year 2005, the availability ratios of Company's ICS, CRS and APP mainframe systems were approximately 99.9%, 99.9% and 99.9% respectively, with desirable operating performance in the core network and networking.