



*CEO*

**Mr. Zhu Xiaoxing**

As the leading provider of information technology solutions for the China's aviation and travel industry, the Company stands at a core tache along the value chain of China's aviation and travel service distribution. While the Company provides advanced aviation information technology and related services to the Chinese commercial airlines, it also distributes commercial airlines products and services and provides information technology solutions to travel agents, travel service distributors, ticketing offices, corporate clients and individual consumers, and is taking a leading role. With more than two decades of continuous development, the Company has preliminarily built up product lines of relatively 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 SERVICES

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 290 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 solutions 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 2005, revenue generated from the AIT services in Year 2006 increased by approximately 12.7% to approximately RMB1,395.2 million, representing approximately 81.5% of the Group's total revenue.

The aviation industry is taking a more important role across the world, amid the deepening of economic globalization, the ever increasing international trade, the accelerated mobility of productive elements and industrial shift. The aviation industry of the PRC is enjoying a rapid growth thanks to the globalized and rapidly growing PRC economy. As the dominant supplier of information technology solutions in the PRC aviation and travel industry, the Company's ETD system processed approximately 173.0 million bookings on domestic and overseas commercial airlines in 2006, representing an increase of approximately 14.3% over Year 2005. Among which, bookings on Chinese commercial airlines increased by approximately 14.1%, while that on foreign and regional commercial airlines increased by approximately 16.9%.

In the recent years, facing the international competition in China's aviation and travel industry, commercial airlines are calling for higher-level information technology solutions to diversify marketing channels, streamline business workflows, improve service modes and decrease operation costs. Rooted in China's aviation and travel industry, the Group has been focusing on product lines like seat management, distribution information technology solutions and fare solutions for commercial airlines, to perfect and improve its AIT and extended services. The Company's self-developed electronic ticketing system has been adopted among the major Chinese commercial airlines including two new users China Eastern Airlines Corporation Limited and China Southern Airlines Company Limited in 2006. 13 foreign and regional commercial airlines like American Airlines and Korean Airlines also began sale of electronic tickets under the technical support of the Company. Electronic tickets sold amounted to approximately 71.6 million segments in 2006 by domestic airlines through the Company's BSP (Billing and Settlement Plan) electronic ticketing, Airline Direct-sale electronic ticketing and Airline Online electronic ticketing. Such amount in percentage to flight bookings reached 81.4% at the end of 2006, and China has become the second largest user of electronic tickets only next to the U.S.A.. Corresponding to the Company's progressive success in technical preparation for system supports to Chinese commercial airlines in joining the airline alliance in 2006, the Company continued to perfect the air fare release system Easyfare which was widely used in Chinese commercial airlines, thus increasing the accuracy of their fare release. Moreover, the Company's self-developed virtual flight products were applied to commercial airline to innovate their commercial cooperation modes. With the transfer passenger management system, the workflows and efficiency of transfer service were improved for commercial airlines.

## BUSINESS REVIEW

In 2006, the Company's self-developed new generation APP (NewAPP) front system was further installed in several domestic airports including Beijing Capital Airport and Pudong Airport in Shanghai. As a result, 45 domestic airports are now using the Company's NewAPP front system, which helped establish its leading position at domestic large and medium airports. To support Chinese commercial airlines' overseas promotion of transfer, through check-in and e-ticket services, the Company made efforts in promoting the APP system and its installations and operations in overseas or regional airports. With the installation of the APP system in Frankfurt Airport and Singapore Airport by Air China Limited and China Southern Airlines Company Limited, overseas or regional airports using the Company's APP system increased to 15 and passenger departures processed amounted to approximately 5.2 million in 2006. In 2006, overseas and regional commercial airlines using the Company's APP systems increased to 29. Together with those accesses from overseas and regional commercial airlines to the Company's multi-host connecting program, a total of 2.4 million of passenger departures were processed. The Company's self-developed Common Use Self Service (CUSS) which meets the IATA standard was installed in Beijing Capital Airport and Kunming Airport to streamline the business workflows of commercial airlines for civil passengers' convenience. In addition, the airport data service system to aid airports' decision-making was installed in Xi'an airport, Qingdao airport and others.

The Company's new generation traveler service system, a traveler-oriented platform targeting to support commercial airlines to compete and operate in the market, can flexibly support each commercial activity of the value chain of aviation and travel industry so as to keep in line with the development trend of the industry. Under the new generation system framework, the Company completed the interface of the middle-ware system to open-platform business and the transition of electronic ticketing database to an open platform, and proposed new generation T-OSF (TravelSky Open System Framework) in 2006, thus laid a foundation for smooth transition from a core system to an open platform.

### DISTRIBUTION INFORMATION TECHNOLOGY SERVICES

The Group's travel distribution network comprises approximately 58 thousand sales terminals owned by more than 6,500 travel agencies or travel service distributors, with high-level networking and direct links to all GDS around the world and 29 foreign and regional commercial airlines through SITA networks, covering over 400 domestic and overseas cities. The Group rendered technology support and localised services to travel agencies and travel service distributors through more than 30 local distribution centers across China and four overseas distribution centers in Hong Kong, Singapore, Japan and South Korea, the network processed over 112.6 million transactions during the year with transaction amounting to over RMB150.5 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 content on a timely basis to travel agencies and travel service distributors, so as to support their flexible distribution modes and convenient operation flows.

As to front end solution plans, the Group continued to perfect the E-Term products and Web-based new generation GDS front end product series, while providing travel agencies and travel service distributors with self-developed IBE (Internet Booking Engine) as well as ASP (Application Service Provider) integrating frequent flight management and online schedule services, and supporting commercial airlines' marketing through their respective corporate websites, thus advancing the online distribution business in China's aviation and travel industry. In 2006, tickets sold through e-commerce system amounted to 5.9 million segments with transaction amounting to approximately RMB4.1 billion. As to intermediary level solution plans, the Group developed data analysis products, marketing management tools, information release and business workflow platforms, aiding the travel agencies or travel service distributors in market analysis, customer management and business operations. As to back-office solution plans, by employing a friendly graphic user interface to rich data resources of the mainframe, the Group designed and developed the agent sale management system to increase travel agencies' or travel service distributors' operational efficiency.

## TRAVEL PRODUCT DISTRIBUTION SERVICE

In 2006, China remained as the fourth largest inbound tourist destination, the largest outbound tourist market in Asia and the world's largest domestic tourist market, providing a favourable opportunity for the Group to develop its travel product distribution service including hotel reservation, "hotel + air ticket" packages, car rental and business trip insurance products. In 2006, the Group kept perfecting the hotel distribution system to actively cooperate with the upstream travel product providers and the downstream travel service distributors. Throughout the year, the Company successfully distributed 230.4 thousand hotels' room-nights, representing a year-on-year increase of 4.5 times. The Group also cooperated with a number of domestic insurance brokerage institutions to develop information technology solutions for distribution of insurance products like air-travel personal accident injury insurance.

## INFORMATION TECHNOLOGY INTEGRATION SERVICE

In 2006, capturing opportunities arising from the increasing demands for China's aviation information safety, the Group proactively expanded its information technology integration service to promote its business in the field. Desirable progresses were seen in the Company's self-developed information management system APSIS (Aviation Passenger Security Information System) first used in Beijing Capital Airport which was designed for civil passengers' safety, the USAP (Uni-Service for Airport Passenger), an airport passenger service platform system designed for high-end customer services first used in Shenzhen Airport and Kunming Airport, and the civil passenger luggage checking system specially developed for irregular luggage first used by Air China Limited. Meanwhile, the Group has completed certain information technology integration projects of governmental security departments, accelerating its business development on information safety of aviation in China.

## INFRASTRUCTURE

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

In 2006, the Group successfully transited the three core mainframe systems of ICS, DCS and CRS with upgraded software and optimized performance without compromise to production safety. Performance of infrastructure was stable with enhanced system guarantee capability due to the implementation of several technological renovation projects such as OMSE resource capacity expansion, network centralized monitoring and data center security reconstruction. System processing capability was also strengthened by alignment of certain system modules, implementation of SAVE technology and on-streaming of TA software. Moreover, operation costs were saved with application of MATIP technology. In 2006, the availability ratios of the Company's ICS, CRS and APP mainframe systems were approximately 99.9%, 99.9% and 99.9% respectively.