中國民航信息網絡股份有限公司

TravelSky Technology Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0696)

# Interim Report 2013

The board of directors (the "**Board**") of TravelSky Technology Limited (the "**Company**") hereby presents the unaudited interim report of the Company and its subsidiaries (the "**Group**") for the six months ended June 30, 2013 prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts expressed in thousands of Renminbi)

| | Note | June 30, 2013 Unaudited | December 31, 2012 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment, net | 9 | 1,290,253 | 896,951 |
| Lease prepayment for land use right, net | | 1,940,405 | 1,966,772 |
| Intangible assets, net | | 228,813 | 62,613 |
| Goodwill | | 4,166 | 4,166 |
| Investments in associated companies | | 169,016 | 163,140 |
| Deferred income tax assets | | 24,578 | 24,588 |
| Other long-term assets | | 96,262 | 191,585 |
| | | 3,753,493 | 3,309,815 |
| **Current assets** | | | |
| Inventories | | 50,669 | 29,323 |
| Trade receivables, net | 10 | 648,418 | 590,791 |
| Due from related parties, net | 11 | 1,803,158 | 1,910,716 |
| Due from associated companies | | 66,016 | 41,483 |
| Income tax recoverable | | 70,587 | 74,491 |
| Prepayments and other current assets | | 463,680 | 353,699 |
| Held-to-maturity financial assets | | 750,000 | 800,000 |
| Short-term bank deposits | | 1,205,112 | 1,031,362 |
| Cash and cash equivalents | | 1,966,682 | 1,739,232 |
| | | 7,024,322 | 6,571,097 |
| **Total assets** | | 10,777,815 | 9,880,912 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(Amounts expressed in thousands of Renminbi)

| | Note | June 30, 2013 Unaudited | December 31, 2012 Audited |
|---|---|---|---|
| **Equity** | | | |
| **Capital and reserves attributable to owners of the Parent** | | | |
| Paid-In capital | | 2,926,209 | 2,926,209 |
| Reserves | 7 | 2,987,275 | 2,891,879 |
| Retained earnings | | | |
| – Proposed final cash dividend | 8 | – | 389,186 |
| – Others | | 2,593,249 | 2,055,944 |
| | | 8,506,733 | 8,263,218 |
| **Non-controlling interests** | | 183,821 | 168,430 |
| **Total equity** | | 8,690,554 | 8,431,648 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | 16,886 | 16,961 |
| **Current liabilities** | | | |
| Trade payables and accrued liabilities | 12 | 1,438,239 | 1,226,449 |
| Due to related parties | | 594,136 | 181,607 |
| Income tax payable | | 6,608 | 13,853 |
| Deferred revenue | | 31,392 | 10,394 |
| | | 2,070,375 | 1,432,303 |
| **Total liabilities** | | 2,087,261 | 1,449,264 |
| **Total equity and liabilities** | | 10,777,815 | 9,880,912 |
| **Net current assets** | | 4,953,947 | 5,138,794 |
| **Total assets less current liabilities** | | 8,707,440 | 8,448,609 |

The accompanying notes are an integral part of this condensed consolidated interim financial information.


# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts expressed in thousands of Renminbi, except per share data)

| | Note | Unaudited<br>Six months ended June 30,<br>2013 | 2012 |
|---|---|---|---|
| **Revenues** | | | |
| Aviation information technology services | | 1,241,805 | 1,202,652 |
| Accounting, settlement and clearing services | | 199,115 | 187,912 |
| Data network and others | | 535,503 | 431,686 |
| **Total revenues** | 3 | 1,976,423 | 1,822,250 |
| **Operating expenses** | | | |
| Business taxes and other surcharges | | (13,096) | (68,833) |
| Depreciation and amortisation | | (192,487) | (174,870) |
| Network usage fees | | (26,212) | (43,504) |
| Personnel expenses | | (368,881) | (330,849) |
| Operating lease payments | | (65,134) | (54,173) |
| Technical support and maintenance fees | | (108,383) | (110,608) |
| Commission and promotion expenses | | (235,274) | (215,879) |
| Other operating expenses | | (252,150) | (185,955) |
| **Total operating expenses** | | (1,261,617) | (1,184,671) |
| **Operating profit** | | 714,806 | 637,579 |
| Financial income, net | | 37,651 | 55,402 |
| Share of results of associated companies | | 5,876 | 13,683 |
| **Profit before taxation** | 4 | 758,333 | 706,664 |
| Taxation | 5 | (111,173) | (108,811) |
| **Profit after taxation** | | 647,160 | 597,853 |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

(Amounts expressed in thousands of Renminbi, except per share data)

| | Note | Unaudited Six months ended June 30, 2013 | 2012 |
|---|---|---|---|
| **Other comprehensive income:** | | | |
| Currency translation differences | | (2,005) | 108 |
| **Other comprehensive income for the period, net of tax** | | (2,005) | 108 |
| **Total comprehensive income for the period** | | 645,155 | 597,961 |
| **Profit attributable to:** | | | |
| Owners of the Parent | | 634,706 | 581,998 |
| Non-controlling interests | | 12,454 | 15,855 |
| | | 647,160 | 597,853 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Parent | | 632,701 | 582,106 |
| Non-controlling interests | | 12,454 | 15,855 |
| | | 645,155 | 597,961 |
| **Earnings per share for profit attributable to owners of the Parent** | | | |
| Basic and diluted (RMB) | 6 | 0.22 | 0.20 |

The accompanying notes are an integral part of this condensed consolidated interim financial information.


# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts expressed in thousands of Renminbi)

| | Unaudited | | | | |
|---|---|---|---|---|---|
| | Attributable to owners of the Parent | | | | |
| | Paid-In capital | Reserves | Retained earnings | Non-controlling interests | Total |
| Balance at January 1, 2012 | 2,926,209 | 2,705,429 | 1,849,718 | 145,486 | 7,626,842 |
| Total comprehensive income for the period ended June 30, 2012 | – | 108 | 581,998 | 15,855 | 597,961 |
| Dividends relating to 2011 | – | – | (351,145) | – | (351,145) |
| Appropriation to reserves | – | 87,994 | (87,994) | – | – |
| Balance at June 30, 2012 | 2,926,209 | 2,793,531 | 1,992,577 | 161,341 | 7,873,658 |

| | | **Unaudited** | | | | |
|---|---|---|---|---|---|---|
| | | **Attributable to owners of the Parent** | | | | |
| | Note | **Paid-In capital** | **Reserves** | **Retained earnings** | **Non-controlling interests** | **Total** |
| **Balance at January 1, 2013** | | **2,926,209** | **2,891,879** | **2,445,130** | **168,430** | **8,431,648** |
| **Total comprehensive income for the period ended June 30, 2013** | | **–** | **(2,005)** | **634,706** | **12,454** | **645,155** |
| Capital injection from non-controlling interests | | **–** | **–** | **–** | **5,420** | **5,420** |
| Dividends relating to 2012 | 8 | **–** | **–** | **(389,186)** | **(2,483)** | **(391,669)** |
| Appropriation to reserves | 7 | **–** | **97,401** | **(97,401)** | **–** | **–** |
| **Balance at June 30, 2013** | | **2,926,209** | **2,987,275** | **2,593,249** | **183,821** | **8,690,554** |

The accompanying notes are an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts expressed in thousands of Renminbi)

| | Note | Unaudited Six months ended June 30, 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 13 | 1,010,175 | 324,043 |
| Enterprise income tax paid | | (114,579) | (166,721) |
| **Net cash provided by operating activities** | | 895,596 | 157,322 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant, equipment and intangible assets | | (589,695) | (261,855) |
| Proceeds from disposal of property, plant and equipment | | 180 | – |
| Maturities of short-term bank deposits | | 463,709 | 1,900,275 |
| Placements of short-term bank deposits | | (637,513) | (936,000) |
| Interest received | | 42,182 | 8,319 |
| Dividends received from associated companies | | – | 4,100 |
| Decrease/(increase) in held-to-maturity financial assets | | 50,000 | (780,000) |
| **Net cash used in investing activities** | | (671,137) | (65,161) |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (2,483) | – |
| Capital injection from non-controlling interests | | 5,420 | – |
| **Net cash generated from financing activities** | | 2,937 | – |
| **Net increase in cash and cash equivalents** | | 227,396 | 92,161 |
| **Cash and cash equivalents at beginning of the period** | | 1,739,232 | 890,174 |
| **Effect of foreign exchange rate changes on cash and cash equivalents** | | 54 | 108 |
| **Cash and cash equivalents at end of the period** | | 1,966,682 | 982,443 |

The accompanying notes are an integral part of this condensed consolidated interim financial information.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. General information

TravelSky Technology Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on October 18, 2000 to engage in the provision of aviation information technology services and related services in the PRC. The Company was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on February 7, 2001.

The address of its registered office is 7 Yu Min Da Street, Houshayu Town, Shunyi District, Beijing 101308, the PRC.

The condensed consolidated interim financial statements have not been audited and was approved for issue on August 29, 2013.

## 2. Principal accounting policies and basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention and in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting", and have been reviewed by the Audit Committee of the Company. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012.

The Group has adopted new and amended standards and interpretations of International Financial Reporting Standards ("IFRSs") that are effective for accounting period beginning on January 1, 2013. Except as described below, the accounting policies applied for the preparation of these condensed consolidated financial statements are consistent with those of the annual financial statements for the year ended December 31, 2012.

- **AMENDMENTS TO IAS 1, CHANGE OF GROUPING OF ITEMS PRESENTED IN OTHER COMPREHENSIVE INCOME**
  Amendments to IAS 1 aim to present items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings).

- **IFRS 9 "FINANCIAL INSTRUMENTS", CLASSIFICATION, MEASUREMENT AND RECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**
  IFRS 9 was issued by International Accounting Standards Board in November 2009 and revised in October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination of the above classification is made at initial recognition of the financial assets. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch in profit or loss.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

## 2. Principal accounting policies and basis of preparation *(Continued)*

- **IFRS 10 "CONSOLIDATED FINANCIAL STATEMENTS"**
  IFRS 10 builds on existing principles by identifying a new concept of control (e.g. "de facto" control) as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The accounting requirements in the existing IAS 27 on other consolidated related matters are carried forward unchanged. IFRS 10 is applied retrospectively subject to certain transitional provisions.

- **IFRS 12 "DISCLOSURES OF INTERESTS IN OTHER ENTITIES"**
  IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, subsidiaries, special purpose entities and other off balance sheet entities.

- **IFRS 13 "FAIR VALUE MEASUREMENT"**
  IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements of the standard, which are largely aligned between the requirements of IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how fair value accounting should be applied where its use is already permitted by other standards within IFRSs and US GAAP.

These amendments do not have material impact on the Group's financial statements.

## 3. Revenue

Revenue mainly comprises the fees earned by the Group for the provision of aviation information technology services and related services. A substantial portion of these fees was generated from the shareholders of the Company.


# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

## 4. Profit before taxation

Profit before taxation is arrived at after charging and crediting the following:

| | Unaudited Six months ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **After charging:** | | |
| Depreciation | **100,434** | 122,017 |
| Amortisation of intangible assets | **56,108** | 23,256 |
| Amortisation of leasehold improvements | **9,578** | 3,231 |
| Amortisation of lease prepayments for land use right | **26,367** | 26,366 |
| Loss on disposal of property, plant and equipment | **55** | 51 |
| Provision for impairment of trade receivables | **8,431** | 6,962 |
| Cost of equipment sold | **84,654** | 79,649 |
| Retirement benefits | **49,046** | 40,276 |
| Contribution to housing benefits | **32,065** | 20,119 |
| Exchange loss, net | **1,130** | – |
| Research and development expenses | **220,584** | 214,431 |
| Staff costs arising from share appreciation rights | **3,710** | 1,778 |
| **After crediting:** | | |
| Interest income | **38,781** | 49,357 |
| Exchange gain, net | **–** | 6,045 |

## 5. Taxation

In general, the statutory corporate income tax rate applicable to enterprises in China is 25% under the New Corporate Income Tax Law of the PRC ("new CIT Law") enacted from January 1, 2008. Pursuant to relevant requirements, enterprises recognised as "High and New Technology Enterprise" are entitled to a favourable corporate income tax rate of 15% under the new CIT Law. In September 2011, the Company applied for and was approved in principle by relevant authorities as a "High and New Technology Enterprise" and obtained the High and New Technology Enterprise certification in July 2012, and continues to be entitled to the preferential tax rate of 15% from 2011 to 2013.

In addition to the recognised "High and New Technology Enterprise" status, enterprises being approved and certified by relevant authorities as "Important Software Enterprise" can further enjoy a preferential corporate income tax rate of 10%. According to the relevant regulations, the differences that resulted from the tax paid at the rate of 15% over this preferential tax rate of 10% should be returned to the relevant enterprises subsequently. The "Important Software Enterprise" certification under the National Planning Layout is subject to an annual assessment and approval by the relevant authorities in China. The Company applied for and obtained its "Important Software Enterprise" approval from the relevant regulatory authorities from 2006 to 2010. On March 21, 2013, the Company has obtained its Important Software Enterprise certification under the National Planning Layout for year 2011 and 2012 from the relevant regulatory authorities.

Pursuant to relevant requirements, the Company has applied and confirmed with the relevant tax regulatory authorities and the corporate income tax be paid at the preferential tax rate of 10% for the financial year 2012. As the Company has paid its corporate income tax at the tax rate of 15% (i.e. the preferential corporate income tax rate applicable to High and New Technology Enterprise) for the financial year 2011, the Company has applied for the refund of overpayment of 5% income tax in the financial year 2011 from relevant tax regulatory authorities. Its impact will be reflected in the Company's financial statements for the year when the tax refund has been actually received.

As stated in the first paragraph of this note, the Company's corporate income tax expense was provided for at the rate of 15% for the six months ended June 30, 2013 pursuant to the relevant requirements.

The Company's subsidiaries in the PRC are subject to different tax rates, ranging from 15% to 25% under the new CIT Law.

Pursuant to the relevant requirements, all of the Group's aviation information technology services and accounting and settlement and clearing services revenue generated in Beijing was subjected to Value Added Tax ("VAT") instead of Business Tax starting from September 1, 2012. For details of the business tax and VAT of the Group, please see Note 10 to the "Notes to the Consolidated Financial Statements" on P. 93 of the 2012 Annual Report.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

## 6. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following:

| | Unaudited Six months ended June 30, | |
|---|---|---|
| | **2013** | 2012 |
| Earnings (RMB'000) | | |
| Earnings for the purpose of calculating the basic and diluted earnings per share | **634,706** | 581,998 |
| Numbers of shares ('000) | | |
| Weighted average number of ordinary shares in issue | **2,926,209** | 2,926,209 |
| Earnings per share (RMB) | | |
| Basic and diluted | **0.22** | 0.20 |

There were no potential dilutive ordinary shares during the period ended June 30, 2013 and 2012.

## 7. Reserves

The appropriation to the discretionary surplus reserve fund for the year 2012 was approved in the annual general meeting held on June 18, 2013. Therefore, 10% of the Company's net profit of year 2012 (approximately RMB97.4 million), was transferred to the discretionary surplus reserve fund for the six months ended June 30, 2013.

## 8. Dividend distribution

The shareholders in the annual general meeting of the Company held on June 18, 2013 approved the distribution of a final cash dividend of RMB0.133 per share, in the aggregate sum of RMB389.2 million for Year 2012. The amount was accounted for in the shareholders' equity as an appropriation of retained earnings for the six months ended June 30, 2013.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

## 9. Property, plant and equipment, net

For the six months ended June 30, 2013, the Group acquired property, plant and equipment amounting to approximately RMB503.6 million (for the year ended December 31, 2012: approximately RMB185.8 million) in total.

## 10. Trade receivables, net

The credit period for trade receivables is generally six months after services are rendered.

The ageing analysis of trade receivables is as follows:

| | **June 30, 2013 Unaudited RMB'000** | December 31, 2012 Audited RMB'000 |
|---|---|---|
| Within 6 months | **566,354** | 547,816 |
| Over 6 months but within 1 year | **79,907** | 34,632 |
| Over 1 year but within 2 years | **37,882** | 26,493 |
| Over 2 years but within 3 years | **12,774** | 8,960 |
| Over 3 years | **7,253** | 20,275 |
| Total trade receivables | **704,170** | 638,176 |
| Provision for impairment of trade receivables | **(55,752)** | (47,385) |
| Trade receivables, net | **648,418** | 590,791 |

## 11. Due from related parties, net

These balances with related parties are trade related, unsecured, interest free and the credit period for these receivables is generally six months after services are rendered.

The ageing analysis of the amount due from related parties is as follows:

| | **June 30, 2013 Unaudited RMB'000** | December 31, 2012 Audited RMB'000 |
|---|---:|---:|
| Within 6 months | **1,212,355** | 1,358,720 |
| Over 6 months but within 1 year | **519,215** | 466,756 |
| Over 1 year but within 2 years | **66,342** | 69,575 |
| Over 2 years but within 3 years | **1,399** | 14,817 |
| Over 3 years | **3,847** | 848 |
| Due from related parties, net | **1,803,158** | 1,910,716 |

## 12. Trade payables and accrued liabilities

Details of the ageing analysis of trade payables and accrued liabilities is as follows:

| | **June 30, 2013 Unaudited RMB'000** | December 31, 2012 Audited RMB'000 |
|---|---:|---:|
| Within 6 months | **133,970** | 127,826 |
| Over 6 months but within 1 year | **34,742** | 14,300 |
| Over 1 year but within 2 years | **7,944** | 11,447 |
| Over 2 years but within 3 years | **6,802** | 12,325 |
| Over 3 years | **16,867** | 8,880 |
| Total trade payables | **200,325** | 174,778 |
| Accrued liabilities and other liabilities | **1,237,914** | 1,051,671 |
| Total trade payables and accrued liabilities | **1,438,239** | 1,226,449 |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

## 13. Cash generated from operations

| | Unaudited<br>Six months ended June 30,<br>2013<br>RMB'000 | <br><br>2012<br>RMB'000 |
|---|---|---|
| Profit before taxation | 758,333 | 706,664 |
| Adjustments for: | | |
| Depreciation and amortisation | 192,487 | 174,870 |
| Loss on disposal of property, plant and equipment | 55 | 51 |
| Interest income | (38,781) | (49,357) |
| Provision for impairment of trade receivables | 8,431 | 6,962 |
| Share of results of associated companies | (5,876) | (13,683) |
| Staff costs arising from share appreciation rights | 3,710 | 1,778 |
| Foreign exchange (gain)/loss | (966) | 878 |
| (Increase)/decrease in current assets: | | |
| Trade receivables | (66,058) | (51,711) |
| Inventories | (21,346) | (2,093) |
| Prepayments and other current assets | (113,382) | 20,945 |
| Due from associated companies and related parties | 83,025 | (528,410) |
| Increase/(decrease) in current liabilities: | | |
| Trade payables and accrued liabilities | 166,202 | (16,751) |
| Deferred revenue | 20,998 | (741) |
| Due to related parties | 23,343 | 74,641 |
| Cash generated from operating activities | 1,010,175 | 324,043 |


# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

## 14. Share Appreciation Rights Scheme

The Group implemented a share appreciation rights scheme for its executive directors, senior management, and key technical and managerial personnel to provide incentives to them. Under this scheme, share appreciation rights are granted in units with each unit representing one H share of the Company.

Under this scheme, all share appreciation rights had a contractual life of seven years from the date of its grant. A recipient of share appreciation rights shall not exercise the rights within the first two years after the date of its grant. As at each of the second, third and fourth anniversary of the date of each grant, one-third, two-third and all of the rights will become exercisable respectively, of the rights granted to such person.

Upon the exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding income tax, a cash payment in RMB, being an amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the exchange rate between RMB and Hong Kong dollars published by the People's Bank of China at the date of exercise of the share appreciation rights. The Company recognises the relevant expense of the share appreciation rights over the applicable vesting period.

Under this scheme, the share appreciation rights are not transferable, nor are there any voting rights attached. The operation of the scheme does not involve any issue of new shares of the Company, and the exercise of any share appreciation rights will not create any dilution effect on the Company's shareholding structure. The share appreciation rights which have not been exercised after the expiration of the terms of the scheme shall lapse.

The share appreciation rights scheme was approved by the State-Owned Assets Supervision and Administration Commission of the State Council on April 21, 2011, and approved by the annual general meeting of the Company on June 28, 2011.

On August 29, 2011, 14,004,000 units of the share appreciation rights were granted to 3 executive directors, 10 senior management and 43 key technical and managerial personnel of the Group by the Company at an exercise price calculated at the higher of the closing price of the H shares of the Company on August 29, 2011 and the average closing price of the H shares of the Company for five consecutive trading days prior to August 29, 2011. 14,004,000 units of share appreciation rights of the Company were outstanding and exercisable by staff as at June 30, 2013, and no rights granted was exercised or lapsed during the period.

For the six months ended June 30, 2013, the Group has recorded liabilities and expenses of RMB3.7 million in relation to the share appreciation rights. The liability and staff cost of share appreciation rights liability were recorded in accrued bonus and benefits under trade payables and accrued expenses and operating expenses, respectively.

The fair value of share appreciation rights of HKD1.34 per share appreciation right as at June 30, 2013 was determined by using the Binomial Model. The significant inputs into the model were fair value per share of HKD4.92 at June 30, 2013, exercise price shown above, share price volatility of 44.22%, dividend yield of 0%, share appreciation rights life of 5.2 years, and an annual risk-free interest rate of 1.16%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of weekly share prices of the Company over the last seven years.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

## 15. Commitments

### (A) CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

| | June 30, 2013 Unaudited RMB'000 | December 31, 2012 Audited RMB'000 |
|---|---|---|
| Authorised and contracted for | | |
| – Computer System | 99,873 | 10,538 |
| – Building | – | 9,428 |
| Authorised but not contracted for | | |
| – Computer System and others | 456,193 | 651,765 |
| – Land use right and building | 938,483 | 1,088,483 |
| Total | 1,494,549 | 1,760,214 |

The above capital commitments primarily relate to the construction of new operating center in Beijing and the development of new generation aviation passenger service information system and other new businesses.

An amount of approximately RMB88.4 million of capital commitments has been contracted for at June 30, 2013 was denominated in U.S. dollars.

### (B) OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had the following commitments under operating leases for the office rental of the Group:

| | June 30, 2013 Unaudited RMB'000 | December 31, 2012 Audited RMB'000 |
|---|---|---|
| Within one year | 118,811 | 53,995 |
| Over 1 year but within 5 years | 155,351 | 65,788 |
| Total | 274,162 | 119,783 |

### (C) EQUIPMENT MAINTENANCE FEE COMMITMENTS

As at June 30, 2013, the Group had equipment maintenance fee commitments of approximately RMB31.1 million (At December 31, 2012: RMB74.3 million).

## 16. Fair value measurement of financial instruments

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy as defined in IFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

**AS AT JUNE 30, 2013**

| | **Level 1 RMB'000** | **Level 2 RMB'000** | **Level 3 RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Share appreciation rights | – | 9,178 | – | 9,178 |

**AS AT DECEMBER 31, 2012**

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Share appreciation rights | – | 5,468 | – | 5,468 |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(Continued)*

## 17. Segment reporting

The Group conducts its business within one business segment – the business of providing aviation information technology and related services in the PRC. The Group's chief operating decision maker is the Group's general manager. The information reviewed by the general manager is identical to the information presented in the interim consolidated income statement. No segment report has been prepared by the Group for six months ended June 30, 2013 and 2012.

The Group also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented in these statements.

In the periods set out below, certain customers, accounted for greater than 10% of the Group's total revenues:

| | Unaudited Six months ended June 30, | | | |
|---|---|---|---|---|
| **Main customers** | **2013 RMB'000** | **%** | 2012 RMB'000 | % |
| Air China Limited (a) | **275,590** | **14%** | 280,501 | 15% |
| China Southern Airlines Company Limited (a) | **257,208** | **13%** | 266,829 | 15% |
| China Eastern Airlines Corporation Limited (a) | **290,191** | **15%** | 291,736 | 16% |

a. Included its subsidiaries.


# MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE

## Business Review for the first half of 2013

The Group is a leading provider of information technology solutions for China's aviation and travel industry. In the first half of 2013, the oil price remained at generally low levels and Renminbi continued to appreciate, both driving the steady growth of the aviation market in China, despite of the complex economic climate both at home and abroad. Against this background, the Group maintained prudent progress according to its established development strategy and pushed forward numerous key projects, thereby maintaining stable safe production in general, achieving initial success in enhancement in management, realizing a smooth and steady development in its core businesses and maintaining a steady growth in its operating results.

In the first half of 2013, the Group's Electronic Travel Distribution (ETD) system has processed approximately 183.2 million flight bookings on domestic and overseas commercial airlines, representing an increase of approximately 11.3% over the same period in 2012. Among which, the processed flight bookings on commercial airlines in China increased by approximately 10.7%, while those on foreign and regional commercial airlines increased by approximately 22.3%. More foreign and regional commercial airlines were using the Company's Airport Passenger Processing (APP) system service, multi-host connecting program service and the self-developed Angel Cue platform connecting service, resulting in the number of such users increased to 90, with approximately 3.5 million of passenger departures processed in 42 airports. Meanwhile, the number of foreign and regional commercial airlines with direct links to the Company's Computer Reservation System (CRS) increased to 111, with the sales percentage through direct links increased to approximately 99.8%.

In the first half of 2013, in addition to continuous provision of information technology products and services along the value chain of the aviation industry, ranging from booking, ticketing, check-in, boarding and load planning, accounting, settlement and clearing to value-added services for travelers, the Group also provided information technology solutions for major commercial airlines in China in respect of travel convenience, e-commerce and auxiliary services. As a strategic partner of the Fast Travel Project of International Air Transport Association (IATA), the monitoring and management approach of the kiosk and self-service system, as well as the mobile check-in and booking system and approach have both obtained national technology invention patent. The commonly used self-service check-in system (CUSS), the Company's self-developed product that conforms to IATA standards, has been launched in 89 major domestic and overseas airports, and the online check-in service has been applied in 129 airports at home and abroad. Such products and services together with the mobile check-in service and the SMS check-in service processed a total of approximately 28.9 million departing passengers. With the application of the newly developed "Emergency self-service flight change in the event of severe flight delay" function, travelers may complete their self-service flight tickets endorsement through various self-service check-in channels, thereby effectively alleviating the pressure at the airport counters of Air China Limited at Beijing Capital Airport and China Eastern Airlines Corporation Limited at Shanghai Pudong Airport when facing severe flight delay. The Company's domestic B2C and B2B e-commerce websites and E-Build (an e-commerce supporting platform) were newly launched at 3 domestic and regional commercial airlines. Sales support for auxiliary service, based on the Electronic Miscellaneous Document (EMD) system, were also applied in 13 domestic and regional commercial airlines. As the Company's exploration of mobile terminal products, leveraging on its authoritative and timely dissemination of information, our self-developed mobile application "Umetrip (航旅縱橫)" has enhanced passengers' travel experience with civil airlines and was well-received by the market. In the first half of 2013, the Company also stepped up its effort in research and development of new-generation aviation passenger service information system ("New Generation System") and launched key products and functions successively, including graphical front-end system for airlines business (Airline GUI) and load planning (LDP GUI), high performance seamless server which can support O&D revenue management, automatic flight schedule manager and revenue integration tools for groups.

# MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE *(Continued)*

## Business Review for the first half of 2013 *(Continued)*

In the first half of 2013, apart from continuously consolidating the existing market of accounting, settlement and clearing services, the Group also stepped up its effort in system research and development and market promotion. As a working team member for IATA's Simplify Interline Settlement (SIS) Project, the Group has helped 7 domestic commercial airlines (including Air China Limited, China Eastern Airlines Corporation Limited and China Southern Airlines Company Limited) and 3 overseas and regional commercial airlines (including Singapore Airlines and Air Macau) to bring SIS system into operation. The Group was the successful bidder of the e-commerce accounting and settlement management platform project of Air China Limited, which will also be provided the newly launched sales auditing services by the Group. Our self-developed agency bills online payment (BOP) business has significantly simplified the procedures for purchase of BSP bills by agents, thereby enhancing its operational efficiency. In the first half of 2013, there were approximately 298.8 million transactions and approximately 127.8 million BSP bills processed with our accounting, settlement and clearing system, and in the same period, passenger, cargo and postal revenues, miscellaneous fees as well as international and domestic clearing fees settled with our system amounted to approximately US$3.0 billion.

In the first half of 2013, the Group pursued greater efforts in product development and market promotion of its airport information technology services. The newly developed self-service boarding products have been promoted to 2 airports including Beijing Capital Airport and Shenzhen Airport, bringing convenience to passengers. Airport Message Broker (AMB) has been promoted to 5 airports including Ordos Airport and Xining Airport. Apart from its dominance in the middle-sized and large airports in China, the new generation APP departure front-end system also facilitated China's commercial airlines to launch passenger check-in, transit and connecting flight services in 101 overseas or regional airports, processing approximately 9.3 million passenger departures, and accounting for approximately 84.4% of overseas returning passengers of China's commercial airlines. The service of Angel Lite, a passenger front-end processing system designed and developed for small airports ranking beyond the top 60 airports in terms of passenger throughput in China, was extended to another 3 airports including Tonghua Airport and Bijie Airport.

In the first half of 2013, the Group continued its effort in the optimization and promotion of the product lines for distribution information technology services, launching new products such as Mobile Business Travel Solution (差旅移動) and Front-end Mobile (前端移動) designed for agents. It also developed new functions such as itinerary printing of international flight tickets and online booking tools (OBT) carbon emission statistics, which have enriched the offering covered by the fare of international flights, continued to optimize the In-House service system of major clients and gradually established a strategic customer service system, so as to strengthen the support for customer services.

In the first half of 2013, the Group continued to establish its systematic platforms and improve its products and services with multi-channels promotion, thereby promoting the development of new businesses including distribution service of travel products such as hotels, air freight logistics information technology service and public information technology service. The Group distributed 386,500 hotel's room nights through its hotel distribution platform-Sohoto.com, representing a decrease of 12.8% as compared with the corresponding period in 2012, and handled approximately 5.8 million air freight bills through its air freight logistics information system, representing an increase of 20.8% as compared with the corresponding period in 2012. The public information service continued to explore customers with a focus on central enterprises and governmental authorities. The self-developed Cloud Data Replication (CDR) products and Travel Cloud (TCD) products have been adopted by various customers.

# MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE *(Continued)*

## Business Review for the first half of 2013 *(Continued)*

In the first half of 2013, the Group's ICS (Inventory Control System), CRS, APP, the core open system and the accounting, settlement and clearing mainframe systems have maintained stable operation, and the construction of Beijing Shunyi New Operating Centre has achieved stable progress. With the full use of various technical and managerial means, the reliability, potential resources, processing ability and maintenance efficiency of production system have been further improved. The Group implemented high frequency and energy consumption reduction of ICS, APP mainframe systems, expanded open platform resources and optimized network major equipment resources, implemented centralized monitor of site projects and energy consumption reduction projects of engine rooms. The Group also optimized safe production management system, strengthened technology trainings and safety checking, stepped up its efforts in contingency skill drills, thereby securing the daily safe operation of the civil aviation passenger information system as well as during the peak travel time around Chinese New year and the convention of meetings of the National People's Congress and the People's Political Consultative Conference.

## Financial Conditions and Operational Performance for the first half of 2013

**SUMMARY**

The management's discussion and analysis on the financial conditions and operational performance of the Group are as follows:

For the first half of 2013, the Group achieved a profit before tax of RMB758.3 million, representing an increase of 7.3% compared to the first half of 2012. Earnings before interest and tax, depreciation and amortization (EBITDA) amounted to RMB912.0 million, representing an increase of 9.6% compared to the first half of 2012. Profit attributable to equity holders of the Company was RMB634.7 million, representing an increase of 9.1% compared to the first half of 2012. The increase in profit of the Group was mainly attributable to the strict control of operating expenses amid a growth in revenue.

The revenue and results of the operation of the Group were mainly derived from its operations in the PRC. The earnings per share of the Group was RMB0.22 for the first half of 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE *(Continued)*

## Financial Conditions and Operational Performance for the first half of 2013 *(Continued)*

**TOTAL REVENUE**

The total revenue of the Group in the first half of 2013 amounted to RMB1,976.4 million, representing an increase of RMB154.1 million or 8.5%, from that of RMB1,822.3 million in the first half of 2012. Such increase in total revenue was mainly attributable to the growth in the business volume of the Group. The increase in total revenue is reflected as follows:

- Aviation information technology ("AIT") service revenue represented 62.8% of the Group's total revenue in the first half of 2013, as compared to 66.0% in the first half of 2012. AIT service revenue increased by 3.3% to RMB1,241.8 million in the first half of 2013 from RMB1,202.7 million in the first half of 2012. The main sources of the revenue were 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 provided by the Group to commercial airlines. The increase of revenue resulted primarily from the growth in the number of air travelers.

- Accounting, settlement and clearing services revenue accounted for 10.1% of the Group's total revenue in the first half of 2013, as compared to 10.3% for the first half of 2012. Accounting, settlement and clearing services revenue increased by 6.0% to RMB199.1 million in the first half of 2013 from RMB187.9 million for the first half of 2012. The main source of the revenue was accounting, settlement and clearing services provided by the Group to the third parties including commercial airlines, airports, agencies and government bodies. The increase of revenue resulted primarily from the increase in business volume of international accounting, settlement and clearing services.

- Data network revenue and other revenue accounted for 27.1% of the Group's total revenue in the first half of 2013, as compared to 23.7% for the first half of 2012. Data network revenue and other revenue increased by 24.0% to RMB535.5 million in the first half of 2013 from RMB431.7 million for the first half of 2012. The main sources of the revenue were distribution information technology service provided to agencies, travel distribution service provided to travel product providers like hotels and air freight logistics information technology service provided to commercial airlines, airports, cargo shippers, as well as airport information technology service and other business etc. provided by the Group. The increase of revenue resulted primarily from the increase in the revenue from data network services.

# MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE *(Continued)*

## Financial Conditions and Operational Performance for the first half of 2013 *(Continued)*

### OPERATING EXPENSES

Total operating expenses for the first half of 2013 amounted to RMB1,261.6 million, representing an increase of RMB76.9 million or 6.5%, as compared to RMB1,184.7 million for the first half of 2012. The changes in operating expenses are reflected as follows:

- Business tax and surcharges decreased by 81.0%, mainly due to the gradual pilot practice of levying value-added tax in lieu of business tax in transport industry and certain modern service industry in various regions in Mainland China;

- Network usage fees decreased by 39.7%, mainly due to the Group's strenuous effort in circuits upgrade, enhancement of network capacities and consolidation of existing circuits;

- Operating lease payments increased by 20.2%, mainly due to the increase in operating leased area of the Group;

- Depreciation and amortization increased by 10.1%, mainly due to the Group's upgrade of equipment;

- Staff costs increased by 11.5%, primarily due to the increase in the number of staff for supporting the Group's business development.

### CORPORATE INCOME TAX

For details, please see Note 5 to the unaudited condensed consolidated interim financial statements.

### PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

As a result of the above factors, the profit attributable to equity holders of the Group increased by RMB52.7 million or 9.1% to RMB634.7 million in the first half of 2013 from RMB582.0 million in the first half of 2012.

### LIQUIDITY AND CAPITAL STRUCTURE

The Group's working capital for the first half of 2013 mainly came from operating activities. Net cash inflow from operating activities amounted to RMB895.6 million. During the first half of 2013, the Group neither had short-term or long-term bank loans nor used any financial instruments for hedging purposes. As at June 30, 2013, cash and cash equivalents of the Group amounted to RMB1,966.7 million, of which 98.2%, 1.1% and 0.2% were denominated in Renminbi, US dollars and Hong Kong dollars respectively.

### CHARGE ON ASSETS

As at June 30, 2013, the Group had no charge on its assets.

# MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE *(Continued)*

## Financial Conditions and Operational Performance for the first half of 2013 *(Continued)*

### CAPITAL EXPENDITURE

The total capital expenditure of the Group amounted to RMB725.9 million for the first half of 2013, representing an increase of RMB639.3 million as compared to that of RMB86.6 million for the first half of 2012. The capital expenditure of the Group for the first half of 2013 consisted principally of purchase of hardware and software and construction of infrastructure in accordance with the Group's development strategies.

The Board estimates that the Group's planned total capital expenditure for the year 2013 will amount to approximately RMB1,760.2 million, which is mainly for construction of the new operating centre in Beijing, development of the new generation of aviation passenger service information system and promotion of other new businesses. The sources of funding for the capital expenditure commitments will include existing cash on hand and internal cash flow generated from operations. The Board estimates that the sources of funding of the Group in 2013 will be sufficient for its capital expenditure commitments, daily operations and other purposes.

### EXCHANGE RISKS

The Group's foreign exchange risks arise from commercial transactions and assets and liabilities denominated in foreign currency. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

### GEARING RATIO

As at June 30, 2013, the gearing ratio of the Group was 19.4% (December 31, 2012: 14.7%), which was computed by dividing the total liabilities (no interest-bearing debts) by the total assets of the Group as at June 30, 2013.

### CONTINGENT LIABILITIES

As at June 30, 2013, the Group had no material contingent liabilities.

### TRUST DEPOSITS AND IRRECOVERABLE OVERDUE TIME DEPOSITS

As at June 30, 2013, the Group did not have any trust deposits and irrecoverable overdue time deposits. Cash deposits held by the Group are deposited with commercial banks and in accordance with the relevant laws and regulations.

### EMPLOYEES

As at June 30, 2013, the total number of employees of the Group was 5,556. Staff costs amounted to approximately RMB368.9 million for the first half of 2013, representing approximately 29.2% of the total operating expenses of the Group for the first half of 2013.

The Group has different rates of remuneration for different employees (including executive directors and staff representative supervisors), according to factors including their performance, experience and position in compliance with the relevant PRC laws and regulations, as amended from time to time. The remuneration of the employees of the Group includes salaries, bonuses, H share appreciation rights and fringe benefits provided in compliance with the relevant regulations in the PRC, as amended from time to time, such as medical insurance, pension insurance, unemployment insurance, maternity insurance, housing funds and corporate annuity.

# MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE *(Continued)*

## Financial Conditions and Operational Performance for the first half of 2013 *(Continued)*

**EMPLOYEES** *(Continued)*

Currently, none of the non-executive directors of the Company receive any remuneration. Nevertheless, any reasonable fees and expenses incurred by the non-executive directors during their tenure of service will be borne and indemnified by the Company. Independent non-executive directors of the Company receive director's fees and allowances, which are determined by reference to the requirements of the regulatory authorities, prevailing market price, their duties and personal qualifications and experiences, and that any reasonable fees and expenses incurred by independent non-executive directors during their tenure of service will be borne and indemnified by the Company. All directors of the Company (the "Director(s)") are entitled to liability insurance purchased by the Company for the Directors.

The Group also provides its employees with opportunities to acquire skills in areas such as the aviation and travel industry, computer information technologies and business administration, and provides training on the latest development in areas such as computer information technologies, personal qualities, laws, regulations and economics.

## Prospects for the second half of 2013

In the second half of 2013, taking every condition of the moment into consideration, the Group will steadily promote the progress in safe production, business development, management enhancement, system development and infrastructure construction according to its established development strategy with reform and innovation as its key drivers: continue to strengthen safety awareness and implement the safety responsibility system so as to maintain continuous safety; continue to strengthen its business development ability by focusing on market research and optimizing resources distribution, improving product management, with a view to specialize in traditional businesses and expand into new businesses; practically pursue management enhancement, promote specific enhancement of key areas, actively exploring system and mechanism to improve efficiency of operation and management; optimize the construction of research and development system, accelerate the progress of the research and development of the New Generation System, facilitating the relevant construction to achieve successful outcomes; strengthen the responsibility system of key projects, promoting the progress of the construction of major projects such as Beijing Shunyi New Operating Centre as planned with quality guaranteed.

## INTERIM DIVIDEND

The Board recommends the Company not to pay an interim dividend for the first half of 2013.

## SHARE CAPITAL STRUCTURE

The issued share capital of the Company as at June 30, 2013 was 2,926,209,589 shares, with a par value of RMB1 each. As at June 30, 2013, the share capital structure of the Company was as follows:

| Class of shares | Number of shares | Percentage to the total number of shares in issue (%) |
|---|---|---|
| Domestic shares | 1,993,647,589 | 68.13 |
| H shares | 932,562,000 | 31.87 |
| Total | 2,926,209,589 | 100 |

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

In the first half of 2013, the Group had not purchased, sold or redeemed any securities of the Company.


## THE INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at June 30, 2013, the interests and short positions of any persons (other than Directors, supervisors or chief executives of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") are set out as follows:

| **Name of shareholder** | **Number and class of shares** (Note 1) | **Capacity** | **Approximate percentage of respective class of share capital** (Note 2) | **Approximate percentage of total share capital** (Note 2) |
|---|---|---|---|---|
| Templeton Asset Management Ltd. | 121,572,791 H shares of RMB1 each (L) | Investment manager | 13.04% | 4.15% |
| GMT Capital Corp. | 103,750,000 H shares of RMB1 each (L) (Note 3) | Beneficial owner | 11.13% | 3.55% |
| The Bank of New York Mellon Corporation | 75,713,840 H shares of RMB1 each (L) (P) (Note 4) | Interest of controlled corporation | 8.12% | 2.59% |
| JPMorgan Chase & Co. | 74,945,500 H shares of RMB1 each (L) (P) (Note 5) | Custodian-corporation/ approved lending agent | 8.04% | 2.56% |
| | 9,500 H shares of RMB1 each (L) (Note 5) | Beneficial owner | 0.001% | 0.0003% |
| Platinum International Fund | 43,293,433 H shares of RMB1 each (L) (Note 6) | Beneficial owner | 6.96% | 2.22% |
| Keywise Capital Management (HK) Limited | 50,369,000 H shares of RMB1 each (L) | Investment manager | 5.40% | 1.72% |
| China TravelSky Holding Company | 857,226,589 domestic shares of RMB1 each (L) | Beneficial owner | 43.00% | 29.29% |
| China Southern Air Holding Company | 349,381,500 domestic shares of RMB1 each (L) | Beneficial owner | 17.52% | 11.94% |
| | 65,773,500 domestic shares of RMB1 each (L) (Note 7) | Interest of controlled corporation | 3.30% | 2.25% |

## THE INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

| Name of shareholder | Number and class of shares (Note 1) | Capacity | Approximate percentage of respective class of share capital (Note 2) | Approximate percentage of total share capital (Note 2) |
|---|---|---|---|---|
| China Eastern Air Holding Company | 328,243,500 domestic shares of RMB1 each (L) | Beneficial owner | 16.46% | 11.22% |
| | 25,155,000 domestic shares of RMB1 each (L) (Note 8) | Interest of controlled corporation | 1.26% | 0.86% |
| | 3,900,000 domestic shares of RMB1 each (L) (Note 9) | Interest of controlled corporation | 0.20% | 0.13% |
| China National Aviation Holding Company | 268,300,500 domestic shares of RMB1 each (L) | Beneficial owner | 13.46% | 9.17% |
| | 18,720,000 domestic shares of RMB1 each (L) (Note 10) | Interest of controlled corporation | 0.94% | 0.64% |

Notes:

(1) (L) – Long position; (P) – Lending pool.

(2) Percentage of the total share capital is based on 2,926,209,589 shares representing the total issued share capital of the Company as at June 30, 2013. Percentage of the respective class of share capital is based on 1,993,647,589 domestic shares and 932,562,000 H shares of the Company as at June 30, 2013.

(3) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by GMT Capital Corp. on November 2, 2011, GMT Capital Corp. was deemed to be interested in 103,750,000 H shares. These shares were deemed to be held by GMT Capital Corp. through Bay II Resources Partners, LP, Bay Resources Partners, LP, Bay Offshore Resource Partners, Thomas E. Claugus and Lyxor (such companies were 100% controlled by GMT Capital Corp.).

(4) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by The Bank of New York Mellon Corporation on May 25, 2012, the 75,713,840 H shares in which The Bank of New York Mellon Corporation was deemed to be interested were held through The Bank of New York Mellon (which was 100% controlled by The Bank of New York Mellon Corporation).

(5) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by JPMorgan Chase & Co. on May 25, 2012, JPMorgan Chase & Co. was deemed to be interested in 74,955,000 H shares. These shares were held by JPMorgan Chase Bank, N.A., J.P. Morgan Whitefriars Inc., J.P. Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation and J.P. Morgan International Inc., which were 100% directly or indirectly controlled by JPMorgan Chase & Co.. JPMorgan Chase & Co. was deemed to be interested in the shares held by such companies by virtue of the SFO.

## THE INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

(6) As the latest filing date of Platinum International Fund was November 12, 2010 which was prior to the date of the distribution of bonus shares of the Company, the number of H shares held and the percentage of shareholding filed by it did not reflect the impact of the distribution of bonus shares of the Company in 2011, and its number and percentage of shareholding as of June 30, 2013 could not be identified.

(7) These shares were held by Xiamen Airlines Company Limited, a subsidiary of China Southern Air Holding Company. China Southern Air Holding Company was deemed to be interested in the shares held by Xiamen Airlines Company Limited by virtue of the SFO.

(8) These shares were held by China Eastern Airlines Corporation Limited, a subsidiary of China Eastern Air Holding Company. China Eastern Air Holding Company was deemed to be interested in the shares held by China Eastern Airlines Corporation Limited by virtue of the SFO.

(9) These shares were held by China Eastern Airlines Wuhan Company Limited, a subsidiary of China Eastern Air Holding Company. China Eastern Air Holding Company was deemed to be interested in the shares held by China Eastern Airlines Wuhan Company Limited by virtue of the SFO.

(10) These shares were held by Shenzhen Airlines Company Limited, a subsidiary of China National Aviation Holding Company. China National Aviation Holding Company was deemed to be interested in the shares held by Shenzhen Airlines Company Limited by virtue of the SFO.

(11) For the latest disclosure of interests filed by the substantial shareholders of the Company's H shares, please refer to the "Disclosure of Interests" section on the website of Hong Kong Exchanges and Clearing Limited ("HKEx") (www.hkexnews.hk).

## INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY OTHER ASSOCIATED CORPORATIONS

As at June 30, 2013, none of the Directors, supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code. None of the Directors, supervisors or chief executives of the Company or their respective associates had been granted or had exercised any rights to subscribe the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) for the six months ended June 30, 2013.

## AUDIT COMMITTEE

The Audit Committee of the Company has discussed and reviewed with the Company's management the unaudited interim results of the Group for the six months ended June 30, 2013, and has also discussed among themselves matters such as internal control, risk management and financial reporting.

# CORPORATE GOVERNANCE

The Company is committed to establishing and maintaining high level of corporate governance, as well as disclosing information to all the market participants and regulatory authorities in a timely, accurate, complete, and reliable manner to enhance the transparency of the Company. The Company has adopted the code provisions as stipulated in the "Corporate Governance Code" and "Corporate Governance Report" (the "Code Provisions") in Appendix 14 to the Listing Rules as the Company's code of corporate governance.

Save as deviations from the Code Provisions D.1.1 and D.1.2, the Company has fully complied with the Code Provisions in the first half of 2013. The articles of association of the Company set out respective duties of the Board and the general manager. However, the Company has not formulated separate specific written guidelines for other duties and authorities delegated to the management, which is incompliance with from Code Provisions D.1.1 and D.1.2. Currently, the Board grants special mandates to the management for approval or execution of certain category of matters or events based on actual requirements and is of the opinion that the current arrangement does not prejudice the interests of the Company. Relevant details have been set out in the corporate governance report in the 2012 Annual Report of the Company.

For the six months ended June 30, 2013, the Company has adopted a code of conduct on the required standard set out in the Model Code. After making specific enquiries to all Directors, the Company confirms that all Directors have acted in full compliance with the requirements regarding directors' securities transactions set out in the provisions of the Model Code and the Company's code of conduct during the six months ended June 30, 2013.

By order of the Board
**Xu Qiang**
*Chairman*

August 29, 2013

## BOARD

The fifth session of the Board of the Company established by election by shareholders on June 18, 2013 comprises:

| | |
|---|---|
| Xu Qiang | Chairman (appointed on June 18, 2013), Executive Director |
| Cui Zhixiong | Executive Director |
| Xiao Yinhong | Executive Director, General Manager (appointed on June 18, 2013) |
| Wang Quanhua | Non-executive Director |
| Sun Yude | Non-executive Director |
| Cai, Kevin Yang | Non-executive Director |
| Cheung Yuk Ming | Independent Non-executive Director |
| Pan Chongyi | Independent Non-executive Director |
| Zhang Hainan | Independent Non-executive Director |

## AUDIT COMMITTEE

Appointed by the fifth session of the Board of the Company on June 18, 2013 and comprises:

| | |
|---|---|
| Cheung Yuk Ming | Chief Member (Chairman) |
| Pan Chongyi | Member |
| Zhang Hainan | Member |

## REMUNERATION AND EVALUATION COMMITTEE

Appointed by the fifth session of the Board of the Company on June 18, 2013 and comprises:

| | |
|---|---|
| Pan Chongyi | Chief Member (Chairman) |
| Cheung Yuk Ming | Member |
| Zhang Hainan | Member |
| Wang Quanhua | Member |

## NOMINATION COMMITTEE

Appointed by the fifth session of the Board of the Company on June 18, 2013 and comprises:

| | |
|---|---|
| Xu Qiang | Chief Member (Chairman) |
| Pan Chongyi | Member |
| Zhang Hainan | Member |

## STRATEGIC COMMITTEE

Appointed by the fifth session of the Board of the Company on June 18, 2013 and comprises:

| | |
|---|---|
| Xu Qiang | Chief Member (Chairman) |
| Cui Zhixiong | Member |
| Xiao Yinhong | Member |
| Wang Quanhua | Member |
| Sun Yude | Member |
| Cai, Kevin Yang | Member |

## EXECUTIVE COMMITTEE

Appointed by the fifth session of the Board of the Company on June 18, 2013 and comprises:

| | |
|---|---|
| Xu Qiang | Chief Member (Chairman) |
| Cui Zhixiong | Member |
| Xiao Yinhong | Member |

**Directors resigned on June 18, 2013 (including their respective duties in the relevant committee):**

| | |
|---|---|
| Xu Zhao | Non-executive Director, member of the Strategic Committee (appointed on June 5, 2012 and August 29, 2012, respectively) |
| Zhou Deqiang | Independent Non-executive Director, member of the Audit Committee, chief member of the Remuneration and Evaluation Committee and member of the Nomination Committee (all appointed on March 16, 2010) |

## SUPERVISORY COMMITTEE

The fifth session of the Supervisory Committee established by election by shareholders on June 18, 2013 (other than the staff representative supervisors) comprises:

| | |
|---|---|
| Li Xiaojun | Chairperson of the Supervisory Committee (appointed on June 18, 2013), Staff Representative Supervisor (appointed by the staff representative committee of the Company on March 16, 2010) |
| Xiao Wei | Staff Representative Supervisor (appointed by the staff representative committee of the Company on March 16, 2010) |
| Zeng Yiwei | Supervisor |
| He Haiyan | Supervisor |
| Rao Geping | Independent Supervisor |

**Supervisor resigned on June 18, 2013:**

| | |
|---|---|
| Yu Yanbing | Supervisor (appointed on March 16, 2010) |

# SENIOR MANAGEMENT

Appointed by the fifth session of the Board of the Company on June 18, 2013 and comprises:

| | |
|---|---|
| Rong Gang | Vice General Manager |
| Wang Wei | Vice General Manager |
| Sun Yongtao | Vice General Manager, Chief Financial Officer (Chief Accountant) |
| Zhu Xiaoxing | Vice General Manager |
| Huang Yuanchang | Vice General Manager |
| Li Jinsong | General Counsel |
| Yu Xiaochun | Company Secretary (Secretary to the Board) |

**Joint Company Secretary (resigned on March 15, 2013):**

| | |
|---|---|
| Liu Pui Yee | (appointed on March 16, 2010) |

# AUDITORS

## International auditors:

Baker Tilly Hong Kong Limited
2nd Floor, 625 King's Road, North Point, Hong Kong

## PRC auditors:

Baker Tilly China
Building 12, Foreign Cultural and Creative Garden, No. 19, Chegongzhuang West Road,
Haidian District, Beijing 100048, PRC

# LEGAL ADVISERS

## as to Hong Kong law:

Baker & McKenzie
23rd Floor, One Pacific Place, 88 Queensway, Central, Hong Kong

## as to the PRC law:

Guantao Law Firm
17/F, Tower 2, Yingtai Center
No. 28, Finance Street, Xicheng District, Beijing 100140, PRC

## CONTACT DETAILS FOR INVESTORS

| | |
|---|---|
| Postal address: | No.157 Dongsi West Street, Dongcheng District, Beijing 100010, PRC |
| Telephone: | (8610) 5765 0696 Secretarial Office to the Board |
| Facsimile: | (8610) 5765 0695 |
| E-mail: | ir@travelsky.com |

## REGISTERED ADDRESS

7 Yu Min Da Street, Houshayu Town, Shunyi District
Beijing 101308, PRC

## PLACE OF BUSINESS IN HONG KONG

Room 3606, 36/F., China Resources Building
26 Harbour Road, Wanchai
Hong Kong

## PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 00696

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Shops 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

## DEPOSITARY OF SPONSORED LEVEL I AMERICAN DEPOSITARY RECEIPT PROGRAMME

The Bank of New York
Shareholder
P.O. Box 11258
Church Street Station
New York, NY 10286–1258, U.S.A.

## COMPANY'S WEBSITES

### Website of consolidated information of the Company:

www.travelsky.net

### Website established in accordance with Rule 2.07C(6)(a) of the Listing Rules:

www.travelskyir.com

Shareholders can obtain a copy of this interim report through the website of the Company at www.travelskyir.com.