



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 : 00696)



2017

Interim Report

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, 2017 prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts expressed in thousands of Renminbi)

	Note	As at June 30, 2017 Unaudited	As at December 31, 2016 Audited
ASSETS			
Non-current assets			
Property, plant and equipment, net	10	3,610,907	3,401,218
Lease prepayment for land use right, net		1,729,476	1,755,842
Intangible assets, net		349,972	423,583
Goodwill		148,399	141,466
Investments in associated companies		227,691	209,623
Deferred income tax assets		134,094	134,095
Other long-term assets	11	884,377	48,555
Available-for-sale financial assets	12	865,355	1,180,000
Deposits with banks with original maturity date over three months		323,612	320,174
Restricted bank deposits		4,943	5,893
		8,278,826	7,620,449
Current assets			
Inventories		48,176	36,967
Trade receivables, net	13	1,034,286	1,096,241
Due from related parties, net	14	2,529,038	2,518,302
Due from associated companies		29,061	31,663
Income tax recoverable		1,826	1,399
Prepayments and other current assets		698,218	608,703
Held-to-maturity financial assets		1,150,000	840,000
Available-for-sale financial assets	12	335,460	–
Deposits with banks with original maturity date over three months		1,607,735	1,582,336
Restricted bank deposits		63,061	462,470
Cash and cash equivalents		3,685,384	3,332,134
		11,182,245	10,510,215
Total assets		19,461,071	18,130,664

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(Amounts expressed in thousands of Renminbi)

	Note	As at June 30, 2017 Unaudited	As at December 31, 2016 Audited
EQUITY			
Capital and reserves attributable to Owner of the Parent			
Paid-In capital		2,926,209	2,926,209
Reserves	8	4,236,956	4,002,547
Retained earnings	9	7,191,844	6,856,345
		14,355,009	13,785,101
Non-controlling interests		408,261	379,809
Total equity		14,763,270	14,164,910
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		35,483	35,087
Deferred revenue		7,545	10,045
		43,028	45,132
Current liabilities			
Trade payables and accrued liabilities	16	4,039,703	3,503,630
Due to related parties		382,163	136,123
Income tax payable		135,125	249,099
Deferred revenue		97,782	31,770
		4,654,773	3,920,622
Total liabilities		4,697,801	3,965,754
Total equity and liabilities		19,461,071	18,130,664
Net current assets		6,527,472	6,589,593
Total assets less current liabilities		14,806,298	14,210,042

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

		Unaudited	
		Six months ended June 30,	
	Note	2017	2016
Revenue			
Aviation information technology services		1,900,098	1,688,549
Accounting, settlement and clearing services		272,195	246,245
System integration services		230,658	207,848
Data network and others		720,548	591,003
Total revenue	3	3,123,499	2,733,645
Operating expenses			
Business taxes and other surcharges		(12,430)	(12,359)
Depreciation and amortisation		(239,964)	(216,085)
Network usage fees		(39,931)	(25,269)
Personnel expenses		(589,341)	(516,144)
Operating lease payments		(87,891)	(95,784)
Technical support and maintenance fees		(216,252)	(148,861)
Commission and promotion expenses		(299,616)	(271,548)
Costs of software and hardware sold		(159,157)	(97,476)
Other operating expenses		(105,594)	(167,732)
Total operating expenses		(1,750,176)	(1,551,258)
Operating profit			
Financial income, net		41,779	93,371
Government grant	4	–	500,000
Share of results of associated companies		18,068	12,148
Profit before taxation	5	1,433,170	1,787,906
Taxation	6	(214,342)	(270,169)
Profit after taxation		1,218,828	1,517,737

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

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

	Note	Unaudited Six months ended June 30, 2017	2016
Other comprehensive income/(expense):			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		8,826	(5,435)
Changes in fair value of available-for-sale financial assets		20,815	–
Other comprehensive income/(expense) for the period, net of tax		29,641	(5,435)
Total comprehensive income for the period		1,248,469	1,512,302
Profit after taxation attributable to			
Owner of the Parent		1,189,886	1,489,894
Non-controlling interests		28,942	27,843
		1,218,828	1,517,737
Total comprehensive income attributable to			
Owner of the Parent		1,219,527	1,484,459
Non-controlling interests		28,942	27,843
		1,248,469	1,512,302
Earnings per share for profit attributable to Owner of the Parent			
Basic and diluted (RMB)	7	0.41	0.51

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					Total
	Attributable to Owner of the Parent					
	Note	Paid-In capital	Reserves	Retained earnings	Non-controlling interests	
Balance at January 1, 2016		2,926,209	3,641,176	5,282,968	330,732	12,181,085
Total comprehensive income for the period ended June 30, 2016		–	(5,435)	1,489,894	27,843	1,512,302
Dividends relating to 2015		–	–	(485,751)	(981)	(486,732)
Appropriation to reserves		–	156,277	(156,277)	–	–
Balance at June 30, 2016		2,926,209	3,792,018	6,130,834	357,594	13,206,655

	Unaudited					Total
	Attributable to Owner of the Parent					
	Note	Paid-In capital	Reserves	Retained earnings	Non-controlling interests	
Balance at January 1, 2017		2,926,209	4,002,547	6,856,345	379,809	14,164,910
Total comprehensive income for the period ended June 30, 2017		–	29,641	1,189,886	28,942	1,248,469
Dividends relating to 2016	9	–	–	(649,619)	(490)	(650,109)
Appropriation to reserves	8	–	204,768	(204,768)	–	–
Balance at June 30, 2017		2,926,209	4,236,956	7,191,844	408,261	14,763,270

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)

		Unaudited	
		Six months ended June 30,	
	Note	2017	2016
Cash flows from operating activities			
Cash generated from operations	18	2,485,770	1,954,777
Refund of enterprise income tax		4,628	42
Enterprise income tax paid		(332,974)	(234,474)
Net cash provided by operating activities		2,157,424	1,720,345
Cash flows from investing activities			
Purchases of property, plant, equipment, intangible assets, lease prepayment for land use right and other long-term assets		(367,268)	(220,656)
Proceeds from disposal of property, plant and equipment		350	1,035
Deposit paid for acquisition of available-for-sale financial assets		(875,000)	–
Maturities of deposits with banks with original maturity date over three months		265,005	495,742
Placements of deposits with banks with original maturity date over three months		(293,842)	(687,787)
Interest received		30,589	71,213
Net cash paid for acquisition of a subsidiary		–	(234,907)
(Increase)/decrease in held-to-maturity financial assets		(310,000)	170,000
Decrease/(increase) in restricted bank deposits		400,359	(144,491)
Net cash used in investing activities		(1,149,807)	(549,851)
Cash flows from financing activities			
Proceeds from bank borrowings		–	274,355
Dividends paid to the Group shareholders		(649,619)	(485,751)
Dividend paid to non-controlling shareholders of subsidiaries		(490)	(981)
Net cash used in financing activities		(650,109)	(212,377)
Net increase in cash and cash equivalents		357,508	958,117
Cash and cash equivalents at beginning of the period		3,332,134	2,242,661
Cash and cash equivalents attributable to held-for-sales assets		–	(490)
Effect of foreign exchange rate changes on cash and cash equivalents		(4,258)	1,865
Cash and cash equivalents at end of the period		3,685,384	3,202,153

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 since 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 were approved for issue by the board of directors on August 25, 2017.

2. Principal accounting policies and basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, except for the available-for-sale financial assets which are stated at fair values and in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”, and have been reviewed by the Audit and Risk Management 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, 2016.

The Group has adopted new and amended standards and interpretations of International Financial Reporting Standards (“IFRSs”) that are effective for accounting period beginning on or after January 1, 2017. 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, 2016.

3. Revenue

Revenue mainly comprises the fees earned by the Group for the provision of aviation information technology services, accounting, settlement and clearing services, system integration services and related data network services. A major portion of these revenue was generated from the shareholders of the Company. For the six months ended June 30, 2017, revenue generated from the significant recurring transactions carried out with the Group’s related parties amounted to approximately RMB1,359 million (for the six months ended June 30, 2016: approximately RMB1,181 million).

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

4. Government grant

	Unaudited	
	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Government grant	–	500,000

Government grant was awarded to the Group by the local government agencies as incentive primarily to encourage and support the Group for the provision of aviation information technology services business development on Beijing Shunyi District Houshayu Town. It was a one-off grant and the grant was not aimed to compensate any expenses or losses and/or assets associated with the relevant business activities.

5. Profit before taxation

Profit before taxation is arrived at after charging/(crediting) the following:

	Unaudited	
	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
After charging:		
Depreciation	113,411	86,723
Amortisation of intangible assets	97,622	97,334
Amortisation of leasehold improvements	2,565	5,662
Amortisation of lease prepayments for land use right	26,366	26,366
Loss on disposal of property, plant and equipment	131	35
(Reversal of)/provision for impairment of receivables	(3,624)	33,667
Reversal of impairment of property, plant and equipment	–	(709)
Cost of software and hardware sold	159,157	97,476
Retirement benefits	70,974	59,182
Contribution to housing benefits	41,989	36,585
Research and development expenses	160,163	164,505
After crediting:		
Interest income	(40,056)	(68,740)
Exchange gain, net	(1,724)	(26,031)

Note:

For the six months ended June 30, 2017, operating lease rentals for lease of properties from China TravelSky Holding Company (“CTHC”), the ultimate holding company, amounted to approximately RMB25 million (for the six months ended June 30, 2016: approximately RMB25 million). The pricing of operating lease rentals for buildings is based on agreed rates with CTHC.

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

6. Taxation

Taxation of the Group except for TravelSky Technology (Hong Kong) Limited, TravelSky Technology (Singapore) Limited, TravelSky Technology (Japan) Limited, TravelSky Technology (Korea) Limited, TravelSky Technology (Europe) GmbH, TravelSky Technology (USA) Ltd., TravelSky R&D USA, INC., Taiwan TravelSky Limited Company, TravelSky Technology Australia Pty. Ltd., OpenJaw Technologies Limited, OpenJaw Technologies Iberica S.L., OpenJaw Technologies Polska Sp. Z.O.O. and OpenJaw Technologies AsiaPac Ltd is provided based on the tax laws and regulations applicable to the PRC enterprises. The Group provides for the PRC enterprise income tax on the basis of its income for statutory financial reporting purposes, adjusted for income and expense items that are not assessable or deductible for tax purposes. Taxation on overseas profit has been calculated on the assessable profit for the period at the rates of taxation prevailing in the locations in which the Group operates.

Under the Corporate Income Tax Law of the People's Republic of China ("CIT Law"), in general, the applicable income tax rate of enterprises in China is 25%. Pursuant to relevant requirements, enterprises recognised as "High and New Technology Enterprises" are entitled to a preferential corporate income tax rate of 15% according to the CIT Law. The Company was approved and certified by relevant authorities as a "High and New Technology Enterprise" since its establishment, and was reviewed to renew the identification of "High and New Technology Enterprise" in accordance with relevant regulatory requirements.

The latest review was conducted in October 2014, pursuant to which the Company was granted the written certification by the relevant tax authorities, maintained its status as the "High and New Technology Enterprise", and was entitled to the preferential corporate income tax rate of 15% from Year 2014 to Year 2016 and as at June 30, 2017 as a "High and New Technology Enterprise". The Company is applying for renewal the identification of "High and New Technology Enterprise".

In addition to the recognised "High and New Technology Enterprise", enjoying a preferential income tax rate of 15%, if an enterprise is approved and certified by relevant regulatory authorities as "Important Software Enterprise" under the National Planning Layout for the period, it can further enjoy a preferential tax rate of 10%. According to the relevant regulations, the difference between the tax amount paid at the rate of 15% and the tax amount calculated at the preferential corporate income tax rate of 10% will be refunded to the relevant enterprises after the relevant period, and will be correspondingly reflected in the profit or loss account of the enterprise when it is refunded.

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

6. Taxation *(Continued)*

Pursuant to the notice of the Cai Shui [2016] No. 49 issued by the Ministry of Finance, the State Administration of Taxation, National Development and Reform Commission of the PRC and Ministry of Industry and Information Technology of the PRC on May 4, 2016, the Company has applied for a preferential tax rate of 10% for Year 2015 regarding to the “Important Software Enterprise” to the relevant authority. As at November 9, 2016, the difference between the tax amount paid at the rate of 15% for Year 2015 and the tax amount calculated at the preferential corporate income tax rate of 10% was refunded and reflected in the profit or loss account in Year 2016.

Application for a preferential tax rate of 10% regarding to the “Important Software Enterprise” for Year 2016 was conducted in Year 2017. Thus, the Company has calculated the corporate income tax expense at the preferential tax rate of 15% for Year 2016. As at June 30, 2017, the Company has applied for a preference tax rate of 10% regarding to the “Important Software Enterprise” to the relevant authority for Year 2016. As at August 24, 2017, the difference between the tax amount paid at the rate of 15% and the tax amount calculated at the preferential income tax rate of 10% has been received. The amount will be reflected in the Company’s financial statements in Year 2017. Details of the relevant information are set out in the Company’s announcement dated August 24, 2017.

According to the relevant requirements, application for a preference tax rate of 10% regarding to the “Important Software Enterprise” of this year will be conducted in next year. Thus, refer to paragraph 3 of this note, pursuant to the relevant regulatory requirement, the Company has calculated the corporate income tax expense at the preferential tax rate of 15% for the six months ended June 30, 2017.

The Company’s subsidiaries in the PRC are entitled to different corporate income tax rates, ranging from 15% to 25% under the CIT Law.

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

7. 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,	
	2017	2016
Earnings (RMB'000)		
Earnings for the purpose of calculating the basic and diluted earnings per share	1,189,886	1,489,894
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	0.41	0.51

There were no potential dilutive ordinary shares outstanding during the period ended June 30, 2017 and 2016.

8. Reserves

The appropriation to the discretionary surplus reserve fund for the Year 2016 was approved in the annual general meeting held on June 27, 2017. Therefore, 10% of the Company's net profit of year 2016 (approximately RMB204.8 million), was transferred to the discretionary surplus reserve fund for the six months ended June 30, 2017.

9. Dividend distribution

The shareholders in the annual general meeting of the Company held on June 27, 2017 approved the distribution of a final cash dividend of RMB0.222 per share, in the aggregate sum of RMB649.6 million for Year 2016. The amount was accounted for in shareholders' equity as an appropriation of retained earnings for the six months ended June 30, 2017.

10. Property, plant and equipment, net

For the six months ended June 30, 2017, the Group acquired property, plant and equipment amounting to approximately RMB326 million (for the year ended December 31, 2016: approximately RMB855 million) in total.

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

11. Other long-term assets

For the six months ended June 30, 2017, other long-term assets for the Group mainly comprised of deposits paid for acquisition of property, plant and equipment, intangible assets and available-for-sale financial assets.

During the six months ended June 30, 2017, the Company contributed a deposit of RMB875 million to China Merchants RenHe Life Insurance Company Limited ("CMRH Life"). CMRH Life has been subsequently established on July 4, 2017 and the Company holds 17.5% equity interest in CMRH Life. Such deposit will be subsequently reclassified into available-for-sale financial assets upon the completion of the investment transaction. For details, please refer to Note 21.

12. Available-for-sale financial assets

	June 30, 2017 Unaudited RMB'000	December 31, 2016 Audited RMB'000
Managed fund, the PRC	1,200,815	1,180,000
The carrying amount of available-for-sale financial assets are analysed as follows:		
Non-current portion	865,355	1,180,000
Current portion	335,460	–
	1,200,815	1,180,000

For the six months ended June 30, 2017, the Group held the entrusted wealth management product issued by Bosera Asset Management Company Ltd. with principal amount of RMB850 million and the Company expects annual rate of return approximately 4.5%, and held the commercial bank wealth management product issued by the Bank of Hangzhou Co., Ltd. with principal amount of RMB330 million and the Company expects annual rate of return approximately 3.3%.

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

13. Trade receivables, net

The group has a policy allowing its customers credit periods normally ranging from 10 to 90 days.

The ageing analysis of trade receivables is as follows:

	June 30, 2017 Unaudited RMB'000	December 31, 2016 Audited RMB'000
Within 6 months	796,500	907,413
Over 6 months but within 1 year	176,846	107,119
Over 1 year but within 2 years	124,359	128,254
Over 2 years but within 3 years	48,826	52,696
Over 3 years	54,036	70,664
Total trade receivables	1,200,567	1,266,146
Provision for impairment of trade receivables	(166,281)	(169,905)
Trade receivables, net	1,034,286	1,096,241

14. Due from related parties, net

These balances with related parties are trade related, interest free, unsecured and generally repayable within six months.

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

	June 30, 2017 Unaudited RMB'000	December 31, 2016 Audited RMB'000
Within 6 months	1,620,002	1,529,257
Over 6 months but within 1 year	582,903	499,689
Over 1 year but within 2 years	312,956	473,437
Over 2 years but within 3 years	635	1,531
Over 3 years	12,542	14,388
Total due from related parties	2,529,038	2,518,302
Provision for impairment of receivables	–	–
Due from related parties, net	2,529,038	2,518,302

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

15. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables RMB'000	Available- for-sale RMB'000	Total RMB'000
June 30, 2017			
Assets as per condensed consolidated statement of financial position:			
Available-for-sale financial assets (Note 12)	–	1,200,815	1,200,815
Trade receivables, net (Note 13)	1,034,286	–	1,034,286
Due from related parties, net (Note 14)	2,529,038	–	2,529,038
Due from associated companies	29,061	–	29,061
Interest receivable and other current assets	584,517	–	584,517
Held-to-maturity financial assets	1,150,000	–	1,150,000
Deposits with banks with original maturity date over three months	1,931,347	–	1,931,347
Restricted bank deposits	68,004	–	68,004
Cash and cash equivalents	3,685,384	–	3,685,384
Total	11,011,637	1,200,815	12,212,452

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per condensed consolidated statement of financial position:		
Trade payables and accrued liabilities (Note 16)	4,039,703	4,039,703
Due to related parties	382,163	382,163
Total	4,421,866	4,421,866

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

15. Financial instruments by category *(Continued)*

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables RMB'000	Available- for-sale RMB'000	Total RMB'000
December 31, 2016			
Assets as per audited consolidated statement of financial position:			
Available-for-sale financial assets (Note 12)	–	1,180,000	1,180,000
Trade receivables, net (Note 13)	1,096,241	–	1,096,241
Due from related parties, net (Note 14)	2,518,302	–	2,518,302
Due from associated companies	31,663	–	31,663
Interest receivable and other current assets	542,836	–	542,836
Held-to-maturity financial assets	840,000	–	840,000
Deposits with banks with original maturity date over three months	1,902,510	–	1,902,510
Restricted bank deposits	468,363	–	468,363
Cash and cash equivalents	3,332,134	–	3,332,134
Total	10,732,049	1,180,000	11,912,049
		Financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per audited consolidated statement of financial position:			
Trade payables and accrued liabilities (Note 16)		3,503,630	3,503,630
Due to related parties		136,123	136,123
Total		3,639,753	3,639,753

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

16. Trade payables and accrued liabilities

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

	June 30, 2017 Unaudited RMB'000	December 31, 2016 Audited RMB'000
Within 6 months	353,475	392,222
Over 6 months but within 1 year	202,072	23,600
Over 1 year but within 2 years	142,302	159,284
Over 2 years but within 3 years	32,926	46,279
Over 3 years	47,318	22,946
Total trade payables	778,093	644,331
Accrued liabilities and other liabilities	3,261,610	2,859,299
Total trade payables and accrued liabilities	4,039,703	3,503,630

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

17. Financial instruments carried at fair value

(i) FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The following table presents 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 13, Fair value measurement, 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.

The following table presents the Group's assets that are measured at fair value at the end of the reporting periods:

At June 30, 2017

Assets	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale financial assets	–	–	1,200,815	1,200,815

At December 31, 2016

Assets	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale financial assets	–	–	1,180,000	1,180,000

During the six months ended June 30, 2017 and year ended December 31, 2016, there were no transfers between the Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 from or to Level 1 or Level 2 fair value measurements.

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

17. Financial instruments carried at fair value *(Continued)*

(i) FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE *(Continued)*

The movements of Level 3 financial instruments for six months ended June 30, 2017 and year ended December 31, 2016 are summarised as follows:

	June 30, 2017 Unaudited RMB'000	December 31, 2016 Audited RMB'000
As at January 1	1,180,000	–
Purchases	–	1,180,000
Fair value changes	20,815	–
As at June 30/December 31	1,200,815	1,180,000

The fair value of financial assets that are grouped under Level 3 is determined by using valuation techniques. In determining the fair value, specific valuation techniques are used, include comparing the fair value of the underlying financial assets within the portfolio and the investment return relevant to those financial assets.

Changing unobservable inputs used in the Level 3 valuation to reasonable alternative assumptions would not have a significant impact on the Group's profit or loss.

(ii) FINANCIAL INSTRUMENTS CARRIED AT OTHER THAN FAIR VALUE

The Group's financial instruments carried at other than fair value mainly consist of cash and cash equivalents, deposits with banks with original maturity date over three months, restricted bank deposits, held-to-maturity financial assets, trade receivables, prepayments, due from associated and related parties, trade payables, accrued liabilities and due to related parties.

The carrying amounts of the Group's financial instruments carried at other than fair value approximated their fair values as at June 30, 2017 because of the short-term maturities of these instruments.

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

18. Cash generated from operations

	Unaudited	
	Six months ended June 30,	
	2017	2016
	RMB'000	RMB'000
Profit before taxation	1,433,170	1,787,906
Adjustments for:		
Depreciation and amortisation	239,964	216,085
Loss on disposal of property, plant and equipment	131	35
Interest income	(40,056)	(68,740)
Reversal of impairment of property, plant and equipment	–	(709)
(Reversal of)/provision for impairment of receivables	(3,624)	33,667
Share of results of associated companies	(18,068)	(12,148)
Foreign exchange gain	(1,014)	(5,138)
(Increase)/decrease in current assets:		
Trade receivables	66,722	(76,508)
Inventories	(11,209)	(3,387)
Prepayments and other current assets	(80,048)	(528,936)
Due from associated companies and related parties	(8,134)	(471,390)
Increase/(decrease) in current liabilities:		
Trade payables and accrued liabilities	598,384	722,202
Deferred revenue	63,512	17,413
Due to related parties	246,040	344,425
Cash generated from operating activities	2,485,770	1,954,777

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

19. Commitments

(a) CAPITAL COMMITMENTS

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

	June 30, 2017 Unaudited RMB'000	December 31, 2016 Audited RMB'000
Authorised and contracted for		
– Computer System and others	94,473	79,202
– Assets under constructions	1,320,512	1,475,459
– Furniture, fixtures and other equipment	923	1,688
– Available-for-sale financial assets	875,000	1,750,000
Authorised but not contracted for		
– Computer System and others	690,325	703,908
Total	2,981,233	4,010,257

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

An amount of approximately RMB59.9 million of capital commitments (At December 31, 2016: RMB60.6 million) has been contracted for at June 30, 2017 which 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:

	June 30, 2017 Unaudited RMB'000	December 31, 2016 Audited RMB'000
Within one year	103,662	139,484
Over 1 year but within 5 years	37,669	67,120
Total	141,331	206,604

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

19. Commitments *(Continued)*

(c) EQUIPMENT MAINTENANCE FEE COMMITMENTS

As at June 30, 2017, the Group had equipment maintenance fee commitments of approximately RMB159.4 million (At December 31, 2016: RMB182.3 million).

20. 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 statement of profit or loss and other comprehensive income. No segment report has been prepared by the Group for the six months ended June 30, 2017 and 2016.

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

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

Main customers	Unaudited Six months ended June 30,			
	2017		2016	
	RMB'000	%	RMB'000	%
Air China Limited (a)	360,043	12%	333,582	12%
China Eastern Airlines Corporation Limited (a)	408,812	13%	362,493	13%
China Southern Airlines Company Limited (a)	344,335	11%	318,923	12%

a. Included its subsidiaries.

21. Events after the end of the reporting period

On May 20, 2016, the Company entered into share subscription agreements separately in relation to the formation of joint ventures, namely CMRH Life and China Merchants RenHe Property and Casualty Insurance Company Limited (“CMRH P&C”). For details, please refer to the Company’s announcement dated May 20, 2016. The registered capital of CMRH Life and CMRH P&C are both RMB5 billion, which will be contributed by the shareholders of each of the two joint ventures in cash. The Company contributed RMB875 million to CMRH Life during the six months ended June 30, 2017. CMRH Life has been subsequently established on July 4, 2017 and the Company holds 17.5% equity interest on CMRH Life. The Company will contribute RMB875 million to CMRH P&C and will hold 17.5% of equity interest in CMRH P&C upon completion of such transaction. The formation of CMRH P&C is conditional upon obtaining the approval by regulatory authorities and the completion of other applicable approval procedures. As at the date of this interim report, the abovementioned procedures are still in progress.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE

Business review for the first half of 2017

As the leading provider of information technology solutions for China's aviation and travel industry, the Group benefited from the robust demand in China's aviation market in the first half of 2017. The Group's Electronic Travel Distribution (ETD) system (including Inventory Control System ("ICS") services and Computer Reservation System ("CRS") services) has processed approximately 280.9 million flight bookings on domestic and overseas commercial airlines, representing an increase of approximately 11.9% over the same period in 2016. Among which, the processed flight bookings on commercial airlines in China increased by approximately 12.2%, while those on foreign and regional commercial airlines increased by approximately 5.4%. More foreign and regional commercial airlines were using the Group's Airport Passenger Processing (APP) system service, multi-host connecting program service and the self-developed Angel Cue platform connecting service, resulting in the increase of the number of such users to 100, with approximately 7.3 million of passenger departures processed in 103 airports. Meanwhile, the number of foreign and regional commercial airlines with direct links to the Group's Computer Reservation System (CRS) increased to 143 with the sales percentage through direct links increased to approximately 99.8%.

In the first half of 2017, apart from actively expanding its customer base among domestic and overseas commercial airlines, the Group also further improved the aviation information technology and its extended services, with an aim to strongly support the demand of commercial airlines for the information technology solutions on travel convenience, e-commerce and auxiliary services. As a strategic partner of the Fast Travel Project of International Air Transport Association (IATA), our self-developed self-help luggage check-in processing system that has been introduced recently has already been put into operation in 4 airports for 5 commercial airlines in China. The commonly used self-service check-in system (CUSS), the Company's self-developed product that conforms to IATA standards, has been launched in 151 major domestic and overseas airports, and the online check-in service has been applied in 274 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 105.9 million departing passengers. In the first half of 2017, the Group provided whole-process fast and convenient clearance technology solution for commercial airlines in China, helping to enhance the service experience of travelers in areas such as security inspection and boarding. Our self-developed mobile application, "Umetrip" witnessed stable growth in numbers of users and introduced new functions such as international travel online check-in of several international itineraries. The Group provided a general direct sales solution for commercial airlines and optimized products including the Carriers Direct Platform (CDP) and B2C e-commerce solutions (Travel Retail Platform) for commercial airlines. The Group assisted commercial airlines in providing neutralized auxiliary services at reception desks in airports, realizing sales functions including piece count and billing of luggage exceeding weight limit, payment, sales of luggage of round trip passengers and multi-scenario ticket refund.

**UMETRIP
YOUR COMPANION
IN THE AIR**



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

Business review for the first half of 2017 *(Continued)*

In the first half of 2017, the development of the new-generation passenger service system (the “**NG-PSS**”) researched and developed by the Group together with the major commercial airlines of China progressed at a steady pace. The new-generation flight management system has completed difference analysis works regarding function development, system consolidation, production transfer of major commercial airlines in China, laying technological foundation for production execution. The national CHB (Core electronic devices, High-end generic chips and Basic software) project has been completed and we have passed financial and technological testing in advance, which is of utmost significance to the upgrading, reformation, safety and security of the core information platform in civil aviation in China.

In the first half of 2017, the Group continued to consolidate and expand the market of accounting, settlement and clearing services and stepped up its efforts in researching and developing and commencing the operation of the key systems. For the project of IATA’s Billing and Settlement Plan software (IBSPs), we facilitated the development and relevant implementation work in groups and batches for data processing center of BSPs in Spain. In the first half of 2017, there were approximately 410.3 million transactions processed with our accounting, settlement and clearing system and approximately 172.9 million BSP tickets processed with our BSP data processing services. In the same period, passenger, cargo and mail sales revenues, miscellaneous fees as well as international and domestic clearing amount processed with our system amounted to approximately USD4.5 billion, and the transaction amount of the electronic payment system was approximately RMB32.17 billion.

In the first half of 2017, the Group pursued greater efforts in marketing, researching and developing the airport information technology service products and actively participated in the airport information system construction projects of domestic airports while persistently reinforcing its market share in the traditional departure front-end service product market. With a dominance in the middle-sized and large-sized airports in China, the new-generation APP departure front-end system facilitated commercial airlines to provide check-in, transit and connecting flight services to passengers in 141 overseas or regional airports, processing approximately 18.7 million passenger departures, accounting for approximately 90.1% of overseas returning passengers of China’s commercial airlines. We sought to develop and promote core products of production and service of smart airports, among which self-service luggage check-in system has been promoted to 7 airports including Capital, Chengdu and Qingdao. We won the bidding for airport operation command platform in airports including Changsha and Dalian.

In the first half of 2017, the Group continued to expand customer base in the public information technology service sector with an emphasis on state-owned enterprises, governmental authorities, financial and Internet enterprises, actively promoting business regarding high-level data center cooperation. Focusing on setting up a group purchase platform for business trips of state-owned enterprises, the Group expedited the transformation of its travel product distribution business and took greater efforts in promoting business travel platform for small and medium enterprises overseas. We intensified the application of air freight logistics information technology services, including e-freight. The air freight logistics information system handled approximately 8.2 million air waybills, representing an increase of 2.5% as compared with the corresponding period in 2016.

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

Business review for the first half of 2017 (Continued)

In the first half of 2017, the Group's ICS, CRS, APP and the core open system have maintained stable operation. The construction and relocation work of Beijing Shunyi New Operating Centre progressed in an orderly manner. Relocation of some of our computer centers was completed successfully. At the same time, we continued to undertake detailed safety circumstance analyses, enhancing overall support capabilities of information security. Our usability analysis platform of construction business realized quantitative analysis and health status indication of business usability based on historical data. We undertook, in a target-oriented manner, the implementation of specific safety inspection and contingency skill drills which secured the safe operation of the civil aviation passenger information system in its daily operations and also during the heavy security period around Chinese New Year, the convention of meetings of the National People's Congress and the People's Political Consultative Conference, the Bo'ao Forum, and the "Belt and Road" Summit Forum.

Financial Conditions and Operational Performance for the First Half of 2017

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 2017, the Group achieved a profit before tax of RMB1,433.2 million, representing a decrease of 19.8% compared to the first half of 2016. Earnings before interest and tax, depreciation and amortization (EBITDA) amounted to RMB1,633.1 million, representing a decrease of 15.6% compared to the first half of 2016. Profit attributable to equity holders of the Company was RMB1,189.9 million, representing a decrease of 20.1% compared to the first half of 2016. The decrease in profit of the Group was mainly attributable to the fact that the Group had RMB500 million of government subsidies in the corresponding period of last year and eliminating the factor of subsidy, the profit before tax for the first half of 2017 increased by 11.3% compared to the first half of 2016.

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 were RMB0.41 for the first half of 2017.

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

Financial conditions and operational performance for the first half of 2017 *(Continued)*

TOTAL REVENUE

The total revenue of the Group in the first half of 2017 amounted to RMB3,123.5 million, representing an increase of RMB389.9 million or 14.3% from RMB2,733.6 million in the first half of 2016. 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 service revenue represented 60.8% of the Group's total revenue in the first half of 2017, as compared to 61.8% in the first half of 2016. AIT service revenue increased by 12.5% to RMB1,900.1 million in the first half of 2017 from RMB1,688.6 million in the first half of 2016. 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 travellers.
- Accounting, settlement and clearing services revenue accounted for 8.7% of the Group's total revenue in the first half of 2017, as compared to 9.0% for the first half of 2016. Accounting, settlement and clearing services revenue increased by 10.5% to RMB272.2 million in the first half of 2017 from RMB246.2 million for the first half of 2016. The main source of the revenue was accounting, settlement and clearing services provided by the Group to third parties including commercial airlines, airports, agencies and government bodies. The increase of revenue resulted primarily from the increase in business volume of accounting, settlement and clearing services.
- System integration service revenue accounted for 7.4% of the Group's total revenue in the first half of 2017, as compared to 7.6% for the first half of 2016. System integration service revenue increased by 11.0% to RMB230.7 million in the first half of 2017 from RMB207.8 million for the first half of 2016. The main source of the revenue was the hardware integration, software integration and data and information integration services provided by the Group to airports, commercial airlines and other corporate clients. The increase of revenue was primarily due to the increase in the number of contracted projects.
- Data network revenue and other revenue accounted for 23.1% of the Group's total revenue in the first half of 2017, as compared to 21.6% for the first half of 2016. Data network revenue and other revenue increased by 21.9% to RMB720.5 million in the first half of 2017 from RMB591.0 million for the first half of 2016. 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 and 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 revenue from other information technology services.

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

Financial conditions and operational performance for the first half of 2017 *(Continued)*

OPERATING EXPENSES

Total operating expenses for the first half of 2017 amounted to RMB1,750.2 million, representing an increase of RMB198.9 million or 12.8%, as compared to RMB1,551.3 million for the first half of 2016. The changes in operating expenses are also reflected as follows:

- Depreciation and amortization increased by 11.1%, mainly due to the increase of the Group's equipment resulting in an increase in depreciation;
- Operating lease payments decreased by 8.2%, mainly due to the reduction of the Group's leased office area;
- Technical support and maintenance fees increased by 45.3%, mainly due to the intensifying research and development efforts of the Group in new products and new technology;
- Commission and promotion expenses increased by 10.3%, mainly due to the business development and increase of system usage of the Group; and
- Cost of software and hardware sold increased by 63.3%, primarily due to the increase in newly-signed system integration projects of the Group.

CORPORATE INCOME TAX

For details, please see Note 6 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 decreased by RMB300.0 million or 20.1% to RMB1,189.9 million in the first half of 2017 from RMB1,489.9 million in the first half of 2016.

LIQUIDITY AND CAPITAL STRUCTURE

The Group's working capital for the first half of 2017 mainly came from operating activities. Net cash inflow from operating activities amounted to RMB2,157.4 million. The Group had not used any financial instruments for hedging purposes. As at June 30, 2017, cash and cash equivalents of the Group amounted to RMB3,685.4 million, of which 90.4%, 8.2% and 0.5% were denominated in Renminbi, US dollar and Hong Kong dollar, respectively.

CHARGE ON ASSETS

As at June 30, 2017, the Group had no charge on its assets.

RESTRICTED BANK DEPOSITS

As at June 30, 2017, restricted bank deposits in the amount of RMB68.0 million (December 31, 2016: RMB468.4 million) mainly refer to the deposit placed at designated bank accounts as guarantee deposits to secure, amongst others, the construction of the new operating centre in Beijing.

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

Financial conditions and operational performance for the first half of 2017 *(Continued)*

CAPITAL EXPENDITURE

The total capital expenditure of the Group amounted to RMB350.2 million for the first half of 2017, representing an increase of RMB127.9 million as compared to that of RMB222.3 million for the first half of 2016. The capital expenditure of the Group for the first half of 2017 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 2017 will amount to approximately RMB2,205.0 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. In particular, the expenditure to be incurred for the new operating centre in Beijing is estimated to be approximately RMB1.14 billion for 2017. 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 2017 will be sufficient for its capital expenditure commitments, daily operations and other purposes.

MAIN INVESTMENTS

• **DISCLOSEABLE TRANSACTIONS – FORMATION OF TWO JOINT VENTURES**

On May 20, 2016, the Company entered into the share subscription agreements in relation to the establishment of two joint ventures, namely China Merchants RenHe Life Insurance Company Limited (招商局仁和人壽保險股份有限公司) (“**CMRH Life**”) and China Merchants RenHe Property and Casualty Insurance Company Limited (招商局仁和財產保險股份有限公司) (“**CMRH P&C**”), respectively. The registered capital of each of CMRH Life and CMRH P&C shall be RMB5 billion, respectively, which will be contributed by the shareholders of each of the two joint ventures in cash. The Company will make capital contribution of RMB875 million to each of CMRH Life and CMRH P&C respectively, and will hold 17.5% equity interest in both CMRH Life and CMRH P&C after the completion of the transaction. The formation of such joint ventures is conditional upon obtaining the approval from regulatory authorities and other applicable approval procedures. As at June 30, 2017, the application of preparation of CMRH P&C was under process. The approval for business operation of CMRH Life was obtained from regulatory authorities, while the industry and commerce registration was completed on July 4, 2017. The capital contribution made by the Company amounted to RMB875 million.

INVESTMENT IN FINANCIAL ASSETS

With regard to capital management, based on the principles of prudence and soundness, the Group generally chooses principal-protected wealth management products higher than bank deposit interest rates for the same period, so that the Group can maximize its capital gains.

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

Financial conditions and operational performance for the first half of 2017 *(Continued)*

INVESTMENT IN FINANCIAL ASSETS *(Continued)*

During the period, the Group had the following financial assets:

• AVAILABLE-FOR-SALE FINANCIAL ASSETS

Name of investment	Business nature	Percentage of shareholding as at 30 June 2017	Percentage of shareholding as at 31 December 2016	Fair value as at 30 June 2017	Fair value as at 31 December 2016	Gain for the six months ended 30 June 2017	Gain for the six months ended 30 June 2016
		%	%	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted Investment fund (measured at fair value)							
- Bosera wealth management product	Fund	N/A	N/A	865,355	850,000	15,355	-
- Bank of Hangzhou wealth management product	Fund	N/A	N/A	335,460	330,000	5,460	-
Total				1,200,815	1,180,000	20,815	-

The performance and prospects of the aforementioned funds held by the Group during the period were as follows:

1. Bosera wealth management product

The Group held the entrusted wealth management products issued by Bosera Asset Management Company Ltd. with principal amount of RMB850 million. The Company expects that the annual rate of return amounted to approximately 4.5%. The investment portfolio of the fund mainly comprised of cash assets, monetary market fund, assets with fixed returns, etc. The Group expects to hold this fund for not less than one year.

2. Bank of Hangzhou wealth management product

The Group held the commercial bank wealth management products issued by Bank of Hangzhou Co., Ltd. with principal amount of RMB330 million. The Company expects that the annual rate of return amounted to approximately 3.3%. The investment portfolio of the fund mainly comprised of cash assets, assets with fixed returns, etc. The Group expects to hold this fund for less than one year.

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

Financial conditions and operational performance for the first half of 2017 *(Continued)*

INVESTMENT IN FINANCIAL ASSETS *(Continued)*

- **HELD-TO-MATURITY FINANCIAL ASSETS**

As at June 30, 2017, the Group held certificates of deposits issued by Industrial and Commercial Bank of China, China Everbright Bank, China Construction Bank and Bank of Beijing of RMB200 million, RMB450 million, RMB200 million and RMB300 million, respectively, with a total amount of RMB1,150 million, representing an increase of RMB310 million as compared with that on December 31, 2016. The annual interest rate of certificates of deposits varied from 3.3% to 4.45%. Such certificates of deposits have a maturity period ranging from 89 to 359 days and are non-cancellable before maturity.

FOREIGN 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, 2017, the gearing ratio of the Group was 24.1% (as at December 31, 2016: 21.9%), which was computed by dividing the total liabilities by the total assets of the Group as at June 30, 2017.

CONTINGENT LIABILITIES

As at June 30, 2017, the Group had no material contingent liabilities.

TRUST DEPOSITS AND IRRECOVERABLE OVERDUE TIME DEPOSITS

As at June 30, 2017, the Group did not have any trust deposits and irrecoverable overdue time deposits. All cash deposits held by the Group are deposited with commercial banks and in accordance with applicable laws and regulations.

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

Financial conditions and operational performance for the first half of 2017 *(Continued)*

EMPLOYEES

As at June 30, 2017, the total number of employees of the Group was 7,286. Staff costs amounted to approximately RMB589.3 million for the first half of 2017, representing approximately 33.7% of the total operating expenses of the Group for the first half of 2017.

The Group has different rates of remuneration for different employees (including executive directors and staff representative supervisors), according to factors including their performance, qualifications and experiences and duties 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 and benefit programs 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.

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 any reasonable fees and expenses incurred by the 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 2017

In the second half of 2017, the Group will uphold the goal of "becoming one of the world's first-class comprehensive information service enterprises", strengthening its core businesses, developing new businesses, raising its capabilities and strengthening areas of weakness through pursuing its strategies and carrying out reforms. We will ensure that the relocation and operation of Beijing Shunyi New Operating Centre proceed smoothly, continually enhancing its support capabilities of operational safety and information security.

INTERIM DIVIDEND

The Board recommends the Company not to pay an interim dividend for the first half of 2017.

SHARE CAPITAL STRUCTURE

The issued share capital of the Company as at June 30, 2017 was 2,926,209,589 shares, with a par value of RMB1 each. As at June 30, 2017, the share capital structure of the Company was as follows:

Class of shares	Number of shares	Percentage of 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 2017, 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, 2017, 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)
JPMorgan Chase & Co.	100,738,934 H shares of RMB1 each (L) (Note 3):		10.80%	3.44%
	2,650,472 H shares (L)	Beneficial owner		
	13,551,000 H shares (L)	Investment manager		
	84,537,462 H shares (L)	Custodian-corporation/ approved lending agent		
	365,000 H shares of RMB1 each (S) (Note 3)	Beneficial owner	0.03%	0.01%
	84,537,462 H shares of RMB1 each (P) (Note 3)	Custodian-corporation/ approved lending agent	9.06%	2.89%
The Capital Group Companies, Inc.	74,727,456 H shares of RMB1 each (L) (Note 4)	Interest of corporation controlled by the substantial shareholder	8.01%	2.55%
Platinum International Fund	43,293,433 H shares of RMB1 each (L) (Note 5)	Beneficial owner	6.96%	1.48%

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)
Citigroup Inc.	64,446,638 H shares of RMB1 each (L) (Note 6):		6.91%	2.20%
	849,236 H shares (L)	Interest of corporation controlled by the substantial shareholder		
	63,597,402 H shares (L)	Custodian-corporation/ approved lending agent		
	429,262 H shares of RMB1 each (S) (Note 6)	Interest of corporation controlled by the substantial shareholder	0.05%	0.01%
	63,597,402 H shares of RMB1 each (P) (Note 6)	Custodian-corporation/ approved lending agent	6.82%	2.17%
Norges Bank	59,747,270 H shares of RMB1 each (L)	Beneficial owner	6.41%	2.04%
BlackRock, Inc.	55,293,589 H shares of RMB1 each (L) (Note 7)	Interest of corporation controlled by the substantial shareholder	5.93%	1.89%
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 8)	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 9)	Interest of controlled corporation	1.26%	0.86%
	3,900,000 domestic shares of RMB1 each (L) (Note 10)	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 11)	Interest of controlled corporation	0.94%	0.64%

Notes:

- (1) (L) – Long position; (S) – Short position; (P) – lending pool.
- (2) Percentage of total share capital is based on 2,926,209,589 shares of the total issued share capital of the Company as at June 30, 2017; percentage of 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, 2017.
- (3) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by JPMorgan Chase & Co. on June 14, 2017, JPMorgan Chase & Co. was deemed to be interested in 100,738,934 H shares (L), 365,000 H shares (S) and 84,537,462 H shares (P). These shares were held by J.P. Morgan Securities LLC, JPMorgan Asset Management (Taiwan) Limited, J.P. Morgan Investment Management Inc., J.P. Morgan Whitefriars Inc., J.P. Morgan Securities plc, JPMorgan Chase Bank, N.A., JPMorgan Asset Management (UK) Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., J.P. Morgan Chase International Holdings, J.P. Morgan Capital Financing Limited, J.P. Morgan Broker-Dealer Holdings Inc, J.P. Morgan Capital Holdings Limited, JPMorgan Asset Management Holdings Inc, JPMorgan Asset Management (Asia) Inc., J.P. Morgan Chase (UK) Holdings Limited, JPMorgan Asset Management Holdings (UK) Limited, J.P. Morgan Overseas Capital LLC, JPMorgan Asset Management International Limited, JPMorgan Chase Bank, N.A. and J.P. Morgan International Finance Limited, which were 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.
- (4) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by The Capital Group Companies, Inc. on June 28, 2017, The Capital Group Companies, Inc. was deemed to be interested in 74,727,456 H shares (L). These shares were held by Capital Research and Management Company, which was directly controlled by The Capital Group Companies, Inc. The Capital Group Companies, Inc. was deemed to be interested in the shares held by such company by virtue of the SFO.
- (5) 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 of shares and percentage of shareholding as of June 30, 2017 is uncertain. The number of shares and the approximate percentage of respective class of share capital of Platinum International Fund stated in the above table were based on the disclosure of information on November 12, 2010.

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

- (6) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by Citigroup Inc. on May 15, 2017, Citigroup Inc. was deemed to be interested in 64,446,638 H shares (L), 429,262 H shares (S) and 63,597,402 H shares (P). These shares were held by Citigroup Global Markets Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Inc., Morgan Stanley Smith Barney Holdings LLC, Citibank N.A., Citigroup Alternative Investments LLC, Automated Trading Desk Financial Services, LLC, Citigroup Trust – Delaware, National Association, Citicorp Trust, National Association, Citicorp Trust South Dakota, Citigroup Global Markets Asia Limited, Cititrust (Bahamas) Limited, Cititrust (Switzerland) Limited, Citigroup Global Markets Deutschland AG, Citigroup Derivatives Markets Inc., Citigroup First Investment Management Limited, Cititrust Jersey Limited, Citibank (Switzerland) AG, Citigroup Global Markets Funding Luxembourg SCA, Impulsora de Fondos Banamex S.A. de C.V., Acciones y Valores, S.A. de C.V., Citigroup Financial Products Inc., Citigroup Global Markets Holdings Inc., Citigroup Global Markets Europe Limited, Citigroup Global Markets (International) Finance AG, Citigroup Global Markets International LLC, Citigroup Global Markets Inc., Citicorp Holdings Inc., Citigroup Investments Inc., Automated Trading Desk, LLC, Automated Trading Desk Holdings, Inc., Citigroup Acquisition LLC, Citigroup Global Markets Hong Kong Holdings Ltd, Citigroup Global Markets Overseas Finance Limited, Citigroup Global Markets Switzerland Holding GmbH, Citigroup Participation Luxembourg Limited, Citigroup International Luxembourg Limited, Citigroup Overseas Investments Bahamas Inc., Citibank Overseas Investment Corporation, Citigroup Global Markets Hong Kong Holdings Limited, Grupo Financiero Banamex, S.A. de C.V., Citicorp (Mexico) Holdings LLC, NAMGK Mexico Holding, S. de R.L. de C.V., Citigroup Capital Partners Mexico, S. de R.L. de C.V., Citicorp Global Holdings, Inc., Citicorp Banking Corporation, Citigroup Global Markets Finance Corporation & Co. beschränkt haftende KG, Citigroup Global Markets Finance LLC, Acciones y Valores, S.A. de C.V., Citibank Canada and Citigroup Trust – Delaware, National Association, which were directly or indirectly controlled by Citigroup Inc.. Citigroup Inc. was deemed to be interested in the shares held by such companies by virtue of the SFO.
- (7) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by BlackRock, Inc. on December 12, 2016, BlackRock, Inc. was deemed to be interested in 55,293,589 H shares (L). These shares were held by Trident Merger, LLC, BlackRock Investment Management, LLC, BlackRock Holdco 2, Inc., BlackRock Financial Management, Inc., BlackRock Holdco 4, LLC, BlackRock Holdco 6, LLC, BlackRock Delaware Holdings Inc., BlackRock Institutional Trust Company, National Association, BlackRock Fund Advisors, BlackRock Capital Holdings, Inc., BlackRock Advisors, LLC, BlackRock International Holdings, Inc., BR Jersey International Holdings L.P., BlackRock Cayco Limited, BlackRock Trident Holding Company Limited, BlackRock Japan Holdings GK, BlackRock Japan Co., Ltd., BlackRock Canada Holdings LP, BlackRock Canada Holdings ULC, BlackRock Asset Management Canada Limited, BlackRock Australia Holdco Pty. Ltd., BlackRock Investment Management (Australia) Limited, BlackRock (Singapore) Holdco Pte. Ltd., BlackRock Asia-Pac Holdco, LLC, BlackRock HK Holdco Limited, BlackRock Asset Management North Asia Limited, BlackRock Group Limited, BlackRock (Netherlands) B.V., BlackRock Advisors (UK) Limited, BlackRock International Limited, BlackRock Luxembourg Holdco S.à r.l., BlackRock Investment Management Ireland Holdings Limited, BlackRock Asset Management Ireland Limited, BLACKROCK (Luxembourg) S.A., BlackRock Investment Management (UK) Limited, BlackRock Fund Managers Limited, BlackRock (Singapore) Limited, BlackRock UK Holdco Limited, and BlackRock Asset Management (Schweiz) AG, which were directly or indirectly controlled by BlackRock, Inc.. BlackRock, Inc. was deemed to be interested in the shares held by such companies by virtue of the SFO.
- (8) 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.
- (9) 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.
- (10) 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.
- (11) 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.
- (12) For the latest disclosure of interests filings of 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, 2017, 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 for 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, 2017.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management 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, 2017, 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.

The Company has fully complied with the Code Provisions in the first half of 2017. For the six months ended June 30, 2017, the Company has adopted a set of code of conduct based on the required standard as 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, 2017.

By order of the Board
Cui Zhixiong
Chairman

August 25, 2017

BOARD

The sixth session of the Board of the Company established by election by shareholders on October 18, 2016 comprises:

Cui Zhixiong	The Chairman, Executive Director
Xiao Yinhong	Executive Director, General Manager
Cao Jianxiong	Non-executive Director
Li Yangmin	Non-executive Director
Yuan Xin'an	Non-executive Director
Cao Shiqing	Independent Non-executive Director
Ngai Wai Fung	Independent Non-executive Director
Liu Xiangqun	Independent Non-executive Director

AUDIT AND RISK MANAGEMENT COMMITTEE

Appointed by the sixth session of the Board of the Company on October 18, 2016 and comprises:

Ngai Wai Fung	Chief Member (Chairman)
Cao Shiqing	Member
Liu Xiangqun	Member

REMUNERATION AND EVALUATION COMMITTEE

Appointed by the sixth session of the Board of the Company on October 18, 2016 and comprises:

Cao Shiqing	Chief Member (Chairman)
Ngai Wai Fung	Member
Liu Xiangqun	Member
Yuan Xin'an	Member

NOMINATION COMMITTEE

Appointed by the sixth session of the Board of the Company on October 18, 2016 and comprises:

Cui Zhixiong	Chief Member (Chairman)
Cao Shiqing	Member
Liu Xiangqun	Member

STRATEGIC COMMITTEE

Appointed by the sixth session of the Board of the Company on October 18, 2016 and comprises:

Cui Zhixiong	Chief Member (Chairman)
Xiao Yinhong	Member
Cao Jianxiong	Member
Li Yangmin	Member
Yuan Xin'an	Member

SUPERVISORY COMMITTEE

The sixth session of the Supervisory Committee established by election by shareholders on October 18, 2016 (other than the staff representative supervisors) comprises:

Huang Yuanchang	Chairperson of the Supervisory Committee, Staff Representative Supervisor (appointed by the staff representative committee of the Company on January 17, 2017)
Xiao Wei	Staff Representative Supervisor (appointed by the staff representative committee of the Company on January 17, 2017)
Zeng Yiwei	Supervisor
He Haiyan	Supervisor
Rao Geping	Independent Supervisor

SENIOR MANAGEMENT

Appointed by the sixth session of the Board of the Company on October 18, 2016 and comprises:

Xiao Yinhong	General Manager, Executive Director
Liu Jianping	Vice General Manager (appointed on May 5, 2017)
Rong Gang	Vice General Manager
Wang Wei	Vice General Manager
Sun Yongtao	Vice General Manager (Retired on August 25, 2017)
Li Jinsong	Vice General Manager, Chief Financial Officer (Chief Accountant, appointed on November 14, 2016)
Zhu Xiaoxing	Vice General Manager
Yu Xiaochun	Company Secretary (Secretary to the Board)

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
14th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong

as to the PRC law:

Guantao Law Firm
18/F, Tower B, Xincheng Plaza, 5 Finance Street,
Xicheng District, Beijing 100032, PRC

PUBLIC RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited
2401-02, Admiralty Centre I, 18 Harcourt Road, Hong Kong
Telephone: (852) 2527 1628
Facsimile: (852) 2527 1271
Email: sprg-travelsky@sprg.com.hk

CONTACT DETAILS FOR INVESTORS

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REGISTERED ADDRESS

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Beijing 101308, PRC

PLACE OF BUSINESS IN HONG KONG

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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 Mellon

Regular Mail:

BNY Mellon Shareowner Services
P.O. BOX 505000
Louisville, KY 40233-5000

Overnight Mail:

BNY Mellon Shareowner Services
462 South 4th Street, Suite 1600
Louisville, KY 40202

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

You may obtain the financial reports, announcements, circulars, operation data and results presentation of the Company through this website.