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# 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)

## ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2011

The board of directors (the “**Board**”) of TravelSky Technology Limited (the “**Company**”) hereby presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended June 30, 2011.

### CONDENSED CONSOLIDATED BALANCE SHEET

(Amounts expressed in thousands of Renminbi)

	<i>Note</i>	As at June 30, 2011 <i>Unaudited</i>	As at December 31, 2010 <i>Audited</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net	7	936,824	1,058,531
Intangible assets, net		72,613	104,413
Lease prepayment for land use right, net		2,006,917	2,032,855
Investments in associated companies		142,211	130,855
Other long-term assets		4,573	4,570
Deferred income tax assets		11,062	11,085
		<b>3,174,200</b>	3,342,309
<b>Current assets</b>			
Inventories		7,795	7,948
Accounts receivable, net	8	259,175	226,757
Due from associated companies		14,679	17,000
Due from related parties, net	9	1,616,787	1,384,156
Income tax receivable		-	49,120
Prepayments and other current assets		319,920	216,089
Short-term bank deposits		1,938,608	1,738,834
Cash and cash equivalents		1,263,891	899,144
		<b>5,420,855</b>	4,539,048
<b>Total assets</b>		<b>8,595,055</b>	7,881,357

		As at June 30, 2011	As at December 31, 2010
	<i>Note</i>	<i>Unaudited</i>	<i>Audited</i>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders</b>			
Paid in capital		1,950,806	1,950,806
Reserves	5	2,653,293	2,577,213
Retained earnings			
– Proposed final cash dividend	6	–	306,277
– Others		2,330,135	1,849,077
		<u>6,934,234</u>	<u>6,683,373</u>
<b>Non-controlling interests</b>		<b>137,545</b>	<b>124,472</b>
		<u>7,071,779</u>	<u>6,807,845</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		48	49
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	10	1,161,031	911,441
Due to related parties		326,898	121,065
Income tax payable		23,527	7,305
Deferred revenue		11,772	33,652
		<u>1,523,228</u>	<u>1,073,463</u>
<b>Total liabilities</b>		<b>1,523,276</b>	<b>1,073,512</b>
		<u>8,595,055</u>	<u>7,881,357</u>
<b>Total equity and liabilities</b>		<b>8,595,055</b>	<b>7,881,357</b>
<b>Net current assets</b>		<b>3,897,627</b>	<b>3,465,585</b>
<b>Total assets less current liabilities</b>		<b>7,071,827</b>	<b>6,807,894</b>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

		Unaudited	
		Six months ended June 30,	
	Note	2011	2010
<b>Revenues</b>			
Aviation information technology services		1,099,118	1,028,580
Accounting, settlement and clearing services		181,723	144,376
Data network and others		414,239	279,308
		<u>1,695,080</u>	<u>1,452,264</u>
<b>Total revenues</b>	2	<u>1,695,080</u>	<u>1,452,264</u>
<b>Operating expenses</b>			
Business taxes and other surcharges		(61,467)	(51,390)
Depreciation and amortisation		(204,207)	(183,174)
Network usage		(41,844)	(43,509)
Personnel		(245,390)	(219,442)
Operating lease rentals		(44,863)	(45,722)
Technical support and maintenance fees		(89,098)	(80,211)
Commission and promotion expenses		(180,467)	(165,387)
Other operating expenses		(189,783)	(124,299)
		<u>(1,057,119)</u>	<u>(913,134)</u>
<b>Total operating expenses</b>		<u>(1,057,119)</u>	<u>(913,134)</u>
<b>Operating profit</b>		637,961	539,130
Financial income, net		22,714	19,914
Share of results of associated companies		14,495	13,333
		<u>675,170</u>	<u>572,377</u>
<b>Profit before taxation</b>		675,170	572,377
Income tax	3	(101,677)	(88,440)
		<u>573,493</u>	<u>483,937</u>
<b>Profit after taxation</b>		<u>573,493</u>	<u>483,937</u>

	<i>Note</i>	<b>Unaudited</b>	
		<b>Six months ended June 30,</b>	
		<b>2011</b>	<b>2010</b>
<b>Other Comprehensive income:</b>			
Currency translation differences		<u>(342)</u>	<u>(1,034)</u>
<b>Other Comprehensive income for the period, net of tax</b>		<u>(342)</u>	<u>(1,034)</u>
<b>Total comprehensive income for the period</b>		<u><b>573,151</b></u>	<u><b>482,903</b></u>
<b>Profit attributable to:</b>			
Equity holders of the Company		<u>557,480</u>	<u>472,700</u>
Non-controlling interests		<u>16,013</u>	<u>11,237</u>
		<u><b>573,493</b></u>	<u><b>483,937</b></u>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Company		<u>557,138</u>	<u>471,666</u>
Non-controlling interests		<u>16,013</u>	<u>11,237</u>
		<u><b>573,151</b></u>	<u><b>482,903</b></u>
<b>Earnings per share for profit attributable to the equity holders of the Company</b>			
Basic and diluted ( <i>RMB</i> )	4	<u><b>0.19</b></u>	<u><b>0.16</b></u>

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*(Amounts expressed in Renminbi ( "RMB" ) unless otherwise stated)*

### 1. Principal accounting policies and basis of presentation

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention and in accordance with International Accounting Standard 34 "Interim Financial Reporting", and have been reviewed by the Audit Committee of the Company.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2010, as described in those annual financial statements.

- IAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
  - The name of the government and the nature of their relationship;
  - The nature and amount of any individually significant transactions; and
  - The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party.

This amendment does not have material impact on the Group's financial statements.

### 2. Revenue

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

### 3. Taxation

In general, the applicable income tax rate of enterprises in China is 25%. Pursuant to relevant requirements, enterprises recognized as "High and New Technology Enterprises" are entitled to a favorable statutory tax rate of 15%. In December 2008, the Company has been approved and certified by relevant authorities as a "High and New Technology Enterprise", and was entitled to the preferential tax of 15% from 2008 to 2010. As of June 30, 2011, the Company is in process of reapplying for its "High and New Technology Enterprises" certification and expects to obtain it during the second half of the year. Therefore, the Company continues to assess its corporate income tax at 15% for the six months ended June 30, 2011.

In addition to the recognised "High and New Technology Enterprise" status, enterprises being approved and certified by relevant authorities as an "Important Software Enterprise" can further enjoy a preferential income tax rate of 10%.

The Company was qualified as "Important Software Enterprise" in 2010, and it therefore enjoyed a preferential tax rate of 10% for 2010. As at June 30, 2011, the Company has not obtained its "Important Software Enterprise" certification for 2011. According to the relevant regulations, the Company should continue to account for its corporate income tax at 15% until it obtains the "Important Software Enterprise" certification. Therefore, the corporate income tax of the Company has been provided at the tax rate of 15% as described in the first paragraph in this note.

#### 4. 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:

	<b>Unaudited</b>	
	<b>Six months ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Earnings (RMB'000)</b>		
Earnings for the purpose of calculating the basic and dilutive earnings per share	<b>557,480</b>	472,700
<b>Numbers of shares ('000)</b>		
Weighted average number of ordinary shares in issue ( <i>Note</i> )	<b>2,926,210</b>	2,926,210
<b>Earnings per share (RMB)</b>		
Basic and dilutive	<b><u>0.19</u></b>	<b><u>0.16</u></b>

*Note:*

The shareholders in the annual general meeting of the Company held on June 28, 2011 approved the bonus issue of 975,403,196 new ordinary shares to its shareholders on the basis of one new ordinary share for every two ordinary shares held, by conversion of reserves and retained earnings into paid-in capital.

The Company has completed the legal procedures for the bonus issue on August 10, 2011. The total shares issued by the Company increased from 1,950,806,393 to 2,926,209,589 and the paid-in capital increased from RMB1,950,806,393 to RMB2,926,209,589.

Due to the bonus issue, the number of ordinary shares for the period ended June 30, 2010 and June 30, 2011 for the purpose of calculating earnings per share has been adjusted for the increase of ordinary shares.

#### 5. Reserve

The appropriation to the discretionary surplus reserve fund for the year 2010 was approved in the annual general meeting held on June 28, 2011. Therefore, RMB76.4 million, representing 10% of the Company's net profit of year 2010, was transferred to the discretionary surplus reserve fund for the six months ended June 30, 2011.

#### 6. Dividend distribution

The equity holders in the annual general meeting of the Company held on June 28, 2011 approved the distribution of a final dividend of RMB306.3 million (RMB0.157 per share) for Year 2010. The amount was accounted for in shareholders' equity as an appropriation of retained earnings for the six months ended June 30, 2011.

#### 7. Property, plant and equipment, net

For the six months ended June 30, 2011, the Group acquired property, plant and equipment amounting to approximately RMB23.5 million in total.

## 8. Accounts receivable, net

The credit period for accounts receivable is generally six months after services are rendered.

The ageing analysis of accounts receivable is as follows:

	<b>June 30, 2011 <i>Unaudited</i> RMB'000</b>	December 31, 2010 <i>Audited</i> RMB'000
Within 6 months	<b>236,379</b>	206,499
Over 6 months but within 1 year	<b>19,732</b>	19,542
Over 1 year but within 2 years	<b>11,569</b>	11,666
Over 2 years but within 3 years	<b>24,097</b>	20,347
Over 3 years	<b>10,314</b>	4,658
	<hr/>	<hr/>
Accounts receivable	<b>302,091</b>	262,712
Provision for impairment of receivables	<b>(42,916)</b>	(35,955)
	<hr/>	<hr/>
Accounts receivable, net	<b>259,175</b>	226,757
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## 9. Due from related parties, net

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

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

	<b>June 30, 2011 <i>Unaudited</i> RMB'000</b>	December 31, 2010 <i>Audited</i> RMB'000
Within 6 months	<b>1,120,388</b>	1,070,512
Over 6 months but within 1 year	<b>408,112</b>	303,662
Over 1 year but within 2 years	<b>88,100</b>	9,804
Over 2 years but within 3 years	<b>68</b>	60
Over 3 years	<b>119</b>	118
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Due from related parties, net	<b>1,616,787</b>	1,384,156
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## 10. Accounts payable and accrued liabilities

The ageing analysis of accounts payable is as follows:

	<b>June 30, 2011</b>	December 31, 2010
	<i>Unaudited</i>	<i>Audited</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	27,631	42,156
Over 6 months but within 1 year	28,459	4,431
Over 1 year but within 2 years	6,309	2,474
Over 2 years but within 3 years	9,223	9,326
Over 3 years	9,348	19,097
	<hr/>	<hr/>
Total accounts payable	80,970	77,484
Accrued liabilities and other liabilities	1,080,061	833,957
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Total accounts payable and accrued liabilities	<b>1,161,031</b>	911,441
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## 11. 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 consolidated income statement. No segment report has been prepared by the Group for six months ended June 30, 2011 and 2010.

The Group operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC.

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

<b>Main customers</b>	<b>Unaudited</b>			
	<b>Six months ended June 30,</b>			
	<b>2011</b>	<b>%</b>	2010	<b>%</b>
	<i>RMB'000</i>		<i>RMB'000</i>	
Air China Limited	278,118	16%	242,567	17%
China Southern Airlines Company Limited	256,015	15%	227,054	16%
China Eastern Airlines Corporation Limited	270,711	16%	253,157	17%
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## **BUSINESS REVIEW FOR THE FIRST HALF OF 2011**

The Group is the leading provider of information technology solutions for aviation and travel industry in PRC. In the first half of 2011, China's stable economic development and high urbanization rate were the driving force behind the sustainable growth of aviation market in PRC, while a number of adverse factors, such as lethargic recovery in developed economies which led to weak external demand, impact of the "March 11" earthquake in Japan, geopolitical turmoil in international situations, soaring oil prices and rapidly expanding high-speed rail network, had slowed down the growth pace of the aviation market in PRC. Against this backdrop, the Group carefully studied the situation, optimized resources allocation, focused on market research and service improvement, ensured a safe and stable operation of production, and eventually realized a smooth development in its core business and maintained a steady growth in its operating results.

In the first half of 2011, the Group's Electronic Travel Distribution (ETD) system has processed approximately 151.8 million flight bookings on domestic and overseas commercial airlines, representing an increase of approximately 10.4% over the same period in 2010. Among which, the processed flight bookings on commercial airlines in China increased by approximately 10.2%, while those on foreign and regional commercial airlines increased by approximately 14.6%. During the period, 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 63, with approximately 2.4 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 96, with the sales percentage through direct links increased to approximately 99.4%. By virtue of all the above, the Company's ability to tackle with various market risks has been strengthened.

In the first half of 2011, 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 has also provided information technology solutions for major commercial airlines in China in respect of travel convenience, launching e-commerce, competition and cooperation with high-speed railway and joining in aviation alliances. As a strategic partner of the Fast Travel project of International Air Transport Association (IATA), the Company implemented on schedule the Automatic Baggage Rules of IATA and maintained its leading position as one of the advanced suppliers for Fast Travel project of IATA. Besides, the establishment of Billing and Settlement Plan (BSP) Electronic Miscellaneous Document (EMD) schedule change process under EMD system and its intended formal inauguration in the operations of Air China Limited has created favourable conditions for passing the EMD full process authentication of IATA. The common use self-service check-in system (CUSS), the Company's self-developed product that conforms to IATA standards, has been launched in 60 major domestic airports, and the online check-in service has been applied in 99 airports at home and abroad. Together with the mobile check-in service, the number of departing passengers processed with above check-in services amounted to approximately 16.7 million. In the first half of 2011, the Company provided some important functions including Flight shopping of international fare and Air-and-rail Transport on its E-Build (an e-commerce supporting platform) and has put them into operation on the e-commerce websites owned by domestic commercial airlines including Hainan Airlines Company Limited.

In the first half of 2011, apart from consolidating its existing market share of accounting, settlement and clearing services, the Group also expanded its market scale and business scope while seeking new opportunities for further development. The new-generation revenue management system relating to international passenger was put into operation in Air China Limited and started trial running in China Eastern Airlines Corporation Limited and China Southern Airlines Company Limited. The Group also strengthened the strategic cooperation with its customers (mainly consisting of major domestic commercial airlines and airports) to develop the business of electronic payment and agent clearing platform. Adhering strictly to the principle of “Sharing resources to exploit complementary advantages”, the Group signed a strategic cooperation agreement with the clearing centre of Civil Aviation Administration of China which focuses on further cooperation and development in the fields of e-commerce, capital settlement and information technology service, etc. In the first half of 2011, there were approximately 227.8 million transactions and approximately 111.9 million BSP bills processed with our accounting, settlement and clearing system, and in the same period, passenger and cargo postal revenues, miscellaneous fees as well as international and domestic clearing fees settled with our system amounted to approximately US\$2.3 billion.

In the first half of 2011, the Group continued to improve its product lines for airport information technology services such as airport information service, airport ground operation, airport front-end service and terminal passenger service, and proactively participated in the bidding process for the construction of information systems for the renovation and expansion of airports. Airport information service products such as Airport Statistical Service System were launched in Urumchi Airport and Qingdao Airport, while airport ground operation products such as Airport Security Check Information System and Airport Message Broker (AMB) platform have been promoted to 6 domestic airports including Beijing Capital Airport, Manzhouli Airport and Xi’an Airport. Apart from its dominance in the middle-sized and large airports in China, the new generation APP front-end system also facilitated China’s commercial airlines to launch passenger check-in, transit and connecting flight services in 93 overseas or regional airports, processing approximately 7.3 million passenger departures, and accounting for approximately 80.1% 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 4 airports including Dongying Airport and Yining Airport, while the terminal passenger service products were launched in 7 airports including Changsha, Nanjing and Fuzhou, etc.

In the first half of 2011, the Group continued its effort in the construction and promotion of the product lines for distribution information technology services, established the decentralised product research and development and marketing system, launched value-added services such as the low-cost aviation distribution platform and advertisements release for foreign commercial airlines, improved the development model of TravelWeb front-end business system, LinkoSky comprehensive distribution platform and BlueSky, etc, and proactively promoted strategic cooperation with key customers. In addition, the LinkoSky comprehensive distribution platform was successfully promoted to large customers including China Post.

In the first half of 2011, the Group endeavoured to develop the hotel informationization platform, deepened its strategic cooperation with upstream hotel service suppliers in the areas of air travel services, hotel CRS construction and travel agency services, and streamlined the supply process towards downstream hotel distribution channels. As a result, the Group successfully distributed 540.4 thousand hotels’ room-nights, representing an increase of 1% as compared with the corresponding period of 2010.

In the first half of 2011, by capitalizing on the opportunities brought about by China's effort to invigorate the logistics industry, the Group further adjusted the air freight logistics information technology services, steadily promoted the construction of the air freight logistics information platform, the electronic customs declaration system for the European Union (EU), the air freight system of China Eastern Airlines Corporation Limited, and the terminal systems of the E-DATA system of Air China Cargo Co., Ltd., thus successfully launched those products in a number of airports. In the first half of 2011, these systems processed approximately 3.3 million cargo airway bills, representing an increase of 3.1% as compared with the corresponding period of 2010.

In the first half of 2011, on the basis of in-depth research of market development and the improvement of product service systems, the Group utilized various channels to promote its public information service brand, explored customers in various industries with a focus on central enterprises and governmental authorities, first undertook the information center entrustment and maintenance project of the Ministry of Civil Affairs, an outsourced entrustment project of large-scale information center at ministerial level of the state, and won the bidding for a next generation system framework consultation project from China Sports Lottery.

In the first half of 2011, the Group established a special R&D team, management coordination department and R&D management system for the new-generation aviation passenger service information system ("New Generation System"), thus offering organizational and policy support for accelerating the construction of the New Generation System. Based on the general principles of self-design and self-development as well as the adoption of the commercial cooperation model established jointly with major commercial airlines, the Group further carried out the research and development work of the New Generation System with major commercial airlines in China, and continued to promote the construction of fundamental technology framework for the New Generation System comprising of service integration platform, unified message platform and application service development interface, with a focus on the construction of the core system of the New Generation System. A great deal of development work had been done in such core system projects as the inventory management system, the unified front-end control system, the open platform e-ticket system and the flight inquiry system, with certain functions and modules being put into operation in commercial airlines.

In the first half of 2011, the Group utilized technical and managerial means to ensure safe production, explore system potential and improve systems' processing ability and maintenance efficiency. The Group expanded the capacity of mainframe system, implemented the 4-HOST technical innovation, applied the self-developed host monitoring platform and the system configuration intelligence management system, continued to promote the application of virtual technologies and reduce energy consumption in machine rooms, further improved the safe production management system and the safe audit work system, enhanced various workflow regulations and emergency exercise, and carried out civil aviation passenger information protection work for celebrating the 90th anniversary of the Communist Party of China. In the first half of 2011, the utilization ratios of the Group's ICS, CRS, APP, the core open systems and accounting, settlement and clearing mainframe systems were around 99.99%, 100%, 100%, 100% and 99.93% respectively.

## **FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE FOR THE FIRST HALF OF 2011**

### **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 2011, the Group achieved a profit before tax of RMB675.2 million, representing an increase of 18.0% compared to the first half of 2010. Earnings before interest and tax, depreciation and amortization (EBITDA) amounted to RMB854.4 million, representing an increase of 16.1% compared to the first half of 2010. Profit attributable to equity holders of the Company was RMB557.5 million, representing an increase of 17.9% compared to the first half of 2010. The increase in earnings 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 RMB0.19 for the first half of 2011.

### **Total revenue**

The total revenue of the Group in the first half of 2011 amounted to RMB1,695.1 million, representing an increase of RMB242.8 million, or 16.7%, from that of RMB1,452.3 million in the first half of 2010. Such increase 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 65.0% of the Group's total revenue in the first half of 2011, as compared to 70.8% in the first half of 2010. AIT service revenue increased by 6.9% to RMB1,099.1 million in the first half of 2011 from RMB1,028.6 million in the first half of 2010. The increase of revenue resulted primarily from the growth in the number of air travelers.
- Accounting, settlement and clearing services revenue accounted for 10.7% of the Group's total revenue in the first half of 2011, as compared to 9.9% for the first half of 2010. Accounting, settlement and clearing services revenue increased by 25.9% to RMB181.7 million in the first half of 2011 from RMB144.4 million for the first half of 2010. 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 24.3% of the Group's total revenue in the first half of 2011, as compared to 19.2% for the first half of 2010. Data network revenue and other revenue increased by 48.3% to RMB414.2 million in the first half of 2011 from RMB279.3 million for the first half of 2010. The increase of revenue resulted primarily from the increase in the revenue from data network services.

## **Operating expenses**

Total operating expenses for the first half of 2011 amounted to RMB1,057.1 million, representing an increase of RMB144.0 million or 15.8%, as compared to RMB913.1 million for the first half of 2010. The changes in operating expenses are reflected as follows:

- Depreciation and amortization increased by 11.5%, mainly due to purchase of new equipments and land use rights.
- Commission and promotion expenses increased by 9.1%, mainly due to the business development of the Group and the increased usage of APP system;
- Technical support and maintenance fees increased by 11.1%, mainly due to the continuous efforts in research and development of new products and technologies of the Group;
- Staff costs increased by 11.8%, primarily due to the increase in the number of staff for supporting the Group's business development.

## **Enterprise income tax**

For details, please see Note 3 to the unaudited condensed consolidated 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 RMB84.8 million or 17.9% to RMB557.5 million in the first half of 2011 from RMB472.7 million in the first half of 2010.

## **Liquidity and capital structure**

The Group's working capital for the first half of 2011 mainly came from operating activities. Net cash inflow from operating activities amounted to RMB639.8 million. During the first half of 2011, the Group neither had short-term or long-term bank loan nor used any financial instruments for hedging purposes. As at June 30, 2011, cash and cash equivalents of the Group amounted to RMB1,263.9 million, of which 97.4%, 2.1% and 0.2% were denominated in Renminbi, US dollars and Hong Kong dollars respectively.

## **Charge on assets**

As at June 30, 2011, the Group had no charge on its assets.

## **Capital expenditure**

The total capital expenditure of the Group amounted to RMB95.1 million for the first half of 2011, representing a decrease of RMB1,850.8 million as compared to that of RMB1,945.9 million for the first half of 2010. The capital expenditure of the Group for the first half of 2011 consisted principally of purchase of hardware, 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 year 2011 will amount to approximately RMB1,049.5 million, which is mainly for construction of the new operating centre in Beijing, development of the new-generation 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 2011 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 foreign currency denominated assets and liabilities. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

### **Gearing ratio**

As at June 30, 2011, the gearing ratio of the Group was 17.7% (December 31, 2010: 13.6%), which was computed by dividing the total liabilities (no interest-bearing debts) by the total assets of the Group as at June 30, 2011.

### **Contingent liabilities**

As at June 30, 2011, the Group had no material contingent liabilities.

### **Employees**

As at June 30, 2011, the total number of employees of the Group was 4,364. Staff costs amounted to approximately RMB245.4 million for the first half of 2011, representing approximately 23.2% of the total operating expenses of the Group for the first half of 2011.

The Group has different rates of remuneration for different employees (including executive Directors and staff representative supervisors), according to their performance, experience, position and other factors 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 fringe benefits provided in compliance with relevant regulations in the PRC, as amended from time to time, such as medical insurance, pension, unemployment insurance, maternity insurance and housing funds.

Currently, none of the Non-executive Directors 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 do receive director's fees, which are determined by reference to the prevailing market price, their duties and personal qualifications, 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 acquired by the Company for 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 2011**

Internationally, the global economic situation remains complicated due to downgrade of US credit rating, lingering European debt crisis and unsettled geopolitical turmoil. Domestically, the Chinese government continues to implement macroeconomic control policies, but supportive industry policies have yet to emerge, competition-and-cooperation between airlines and high-speed railway network has just begun and oil prices and exchange rates keep fluctuating. All these will cause uncertainties on the PRC air travel market in the second half of 2011. Against such background, as a core information service enterprise in the Chinese civil aviation industry, the Group will enhance self-assurance, overcome difficulties, conduct key works in accordance with existing development strategies and the work plan adopted at the beginning of the year, with an aim to make a good start in achieving development goals of the “Twelfth Five-year Plan”, namely: 1) to improve the sustainability and security technology standards by further improving the basis and awareness of safety in production, enhancing the relevant responsibility sense and accelerating the construction of our new operation centre in Shunyi, Beijing, which holds a domestically leading position and meets the international standards; 2) to grow our core businesses in both scale and strength by promoting technological innovation, focusing on the development of our new-generation aviation passenger service information system; 3) to develop new businesses and expand overseas markets by exploring innovative business models and service models and building our electronic payment services platform, integrated IT platform for airports, information platform for air cargo logistics, hotel distribution platform and information-sharing service platform; 4) to effectively improve operational efficiency by strengthening our corporate governance and implementing risk control and strict cost management measures; and 5) to stimulate cohesion and productivity of all staff by deepening institutional and organizational innovation and promoting the development of talented work forces and corporate culture.

## **CHANGE OF SHARE CAPITAL**

The bonus issue proposed in the Company’s circular dated May 12, 2011 was approved at the annual general meeting and the class meetings of the Company held on June 28, 2011 (as stated in the announcement made by the Company on June 28, 2011). In August 2011, the bonus shares were issued to the Company’s H shares and domestic shares holders whose names appeared on the Company’s register of members on June 28, 2011 and the relevant paid-in capital was raised accordingly. As at August 10, 2011, the total number of the Company’s issued shares was 2,926,209,589, of which 1,993,647,589 shares were domestic shares, representing 68.13% of the total issued shares; and 932,562,000 shares were H shares, representing 31.87% of the total issued shares.

## **INTERIM DIVIDEND**

The Board recommends the Company not to pay an interim dividend for the first half of 2011.

## **TRUST DEPOSITS AND OVERDUE TIME DEPOSITS**

As at June 30, 2011, the Group did not have any trust deposits or irrecoverable overdue time deposits. Cash held by the Group is deposited with commercial banks and in accordance with the relevant laws and regulations.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

In the first half of 2011, the Group did not purchase, sell or redeem any securities of the Company.

## 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, 2011, 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, 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 "Code on Corporate Governance Practices" (the "Code") in Appendix 14 to the Listing Rules as the Company's code of corporate governance practices.

Save as deviations from the code provisions D.1.1 and D.1.2, the Company has fully complied with the Code in the first half of 2011. The Company has set out respective duties of the Board and the General Manager in its articles of association. However, it has not formulated specific guidelines for other duties and authority delegated to the management, which is not in full compliance with the code provisions D.1.1 and D.1.2 of the Code. 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 Company's current arrangement does not prejudice the interests of the Company. Relevant details have been set out in the corporate governance report in the 2010 Annual Report of the Company.

For the six months ended June 30, 2011, the Company has adopted a code of conduct on terms no less exacting than 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, 2011.

By order of the Board  
**TravelSky Technology Limited**  
**Xu Qiang**  
*Chairman*

Beijing, the People's Republic of China  
August 26, 2011

As at the date of this announcement, the Board comprises:

<i>Executive Directors:</i>	Mr Xu Qiang ( <i>Chairman</i> ), Mr Cui Zhixiong and Mr Xiao Yinhong;
<i>Non-executive Directors:</i>	Mr Wang Quanhua, Mr Luo Chaogeng and Mr Sun Yude;
<i>Independent Non-executive Directors:</i>	Mr Cheung Yuk Ming, Mr Zhou Deqiang and Mr Pan Chongyi.