



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)



2020 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, 2020 prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2020

	Notes	Six months ended June 30, 2020 RMB'000 (unaudited)	Six months ended June 30, 2019 RMB'000 (unaudited)
Revenue			
Aviation information technology services		996,322	2,223,994
Accounting, settlement and clearing services		217,756	302,480
System integration services		413,581	478,037
Data network services		193,094	243,301
Others		465,798	596,457
Total revenue	4	2,286,551	3,844,269
Operating expenses			
Business taxes and other surcharges		(33,665)	(36,967)
Depreciation and amortisation		(473,299)	(414,537)
Network usage fees		(26,475)	(40,789)
Personnel expenses		(687,787)	(746,676)
Technical support and maintenance fees		(296,977)	(315,244)
Commission and promotion expenses		(166,714)	(380,553)
Costs of software and hardware sold		(211,795)	(256,102)
Other operating expenses		(779,369)	(100,339)
Total operating expenses		(2,676,081)	(2,291,207)
Operating (loss)/profit		(389,530)	1,553,062
Finance income, net		109,863	105,793
Government grants		17,400	9,739
Share of results of associated companies		6,978	20,311
Gain on deemed disposal of a subsidiary		–	5,147
(Loss)/profit before taxation	5	(255,289)	1,694,052
Taxation	6	(51,005)	(251,501)
(Loss)/profit after taxation		(306,294)	1,442,551

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

For the six months ended June 30, 2020

	Notes	Six months ended June 30, 2020 RMB'000 (unaudited)	Six months ended June 30, 2019 RMB'000 (unaudited)
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences		2,751	2,172
Other comprehensive income for the period, net of tax		2,751	2,172
Total comprehensive income for the period		(303,543)	1,444,723
(Loss)/profit after taxation attributable to			
Owners of the Company		(323,189)	1,422,997
Non-controlling interests		16,895	19,554
		(306,294)	1,442,551
Total comprehensive income attributable to			
Owners of the Company		(320,438)	1,425,169
Non-controlling interests		16,895	19,554
		(303,543)	1,444,723
(Losses)/earnings per share for profit attributable to owners of the Company			
Basic and diluted (RMB)	7	(0.11)	0.49

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2020

	Notes	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	10	4,557,461	4,472,546
Investment properties		114,272	118,541
Right-of-use assets	11	1,648,242	1,681,754
Intangible assets		470,721	527,459
Goodwill		153,459	156,250
Investments in associated companies		395,166	388,188
Deferred income tax assets		211,535	209,722
Other long-term assets	12	53,076	53,074
Financial assets at amortised cost	13	521,903	1,019,420
Financial assets at fair value through other comprehensive income	14	883,750	883,750
Total non-current assets		9,009,585	9,510,704
Current assets			
Inventories		102,162	48,232
Trade and bills receivables	15	1,146,624	1,378,241
Contract assets		9,234	9,739
Due from related parties	16	3,647,346	3,719,963
Due from associated companies		109,385	97,783
Income tax recoverable		20,801	18,297
Prepayments and other current assets		633,648	1,213,297
Financial assets at amortised cost	13	2,114,264	3,103,337
Financial assets at fair value through profit or loss		3,853	–
Cash and cash equivalents		5,442,627	4,546,791
Total current assets		13,229,944	14,135,680
Total assets		22,239,529	23,646,384

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at June 30, 2020

	Notes	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital		2,926,209	2,926,209
Reserves		5,423,138	5,209,049
Retained earnings		9,261,745	10,641,947
		17,611,092	18,777,205
Non-controlling interests		472,857	456,311
Total equity		18,083,949	19,233,516
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		39,262	39,960
Deferred government grants		91,886	91,886
Lease liabilities		60,799	80,409
Total non-current liabilities		191,947	212,255
Current liabilities			
Trade payables and accrued liabilities	17	2,706,263	3,499,384
Contract liabilities		171,942	178,171
Due to related parties and associated companies		977,634	399,455
Lease liabilities		79,390	72,448
Income tax payable		28,404	51,155
Total current liabilities		3,963,633	4,200,613
Total liabilities		4,155,580	4,412,868
Total equity and liabilities		22,239,529	23,646,384
Net current assets		9,266,311	9,935,067
Total assets less current liabilities		18,275,896	19,445,771

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020

	Attributable to owners of the Company			Non-controlling interests	Total equity
	Share capital	Reserves	Retained earnings		
	RMB'000	RMB'000	RMB'000		
At January 1, 2019 (audited)	2,926,209	4,790,317	9,294,058	416,976	17,427,560
Total comprehensive income for the period ended June 30, 2019	–	2,172	1,422,997	19,554	1,444,723
Dividends relating to 2018	–	–	(787,150)	(1,577)	(788,727)
Appropriation to reserves	–	196,484	(196,484)	–	–
Deemed disposal of a subsidiary	–	–	–	(8,001)	(8,001)
At June 30, 2019 (unaudited)	2,926,209	4,988,973	9,733,421	426,952	18,075,555

	Notes	Attributable to owners of the Company				Total equity
		Share capital	Reserves	Retained earnings	Non-controlling interests	
		RMB'000	RMB'000	RMB'000	RMB'000	
At January 1, 2020 (audited)		2,926,209	5,209,049	10,641,947	456,311	19,233,516
Total comprehensive income for the period ended June 30, 2020		–	2,751	(323,189)	16,895	(303,543)
Dividends relating to 2019	9	–	–	(845,675)	(349)	(846,024)
Appropriation to reserves	8	–	211,338	(211,338)	–	–
At June 30, 2020 (unaudited)		2,926,209	5,423,138	9,261,745	472,857	18,083,949

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2020

	Notes	Six months ended June 30, 2020 RMB'000 (unaudited)	Six months ended June 30, 2019 RMB'000 (unaudited)
Net cash (used in)/provided by operating activities	19	(206,252)	1,136,530
Cash flows from investing activities			
Purchases of property, plant, equipment, intangible assets, lease prepayment for land use right and other long-term assets		(425,089)	(159,057)
Proceeds from disposal of property, plant and equipment		202	423
Purchase of financial asset at amortised cost		(3,202,483)	(3,334,482)
Redemption of financial asset at amortised cost		4,689,073	1,874,858
Interest received		88,575	101,596
Cash outflow on deemed disposal of a subsidiary		–	(34)
Purchase of financial asset at fair value through profit or loss		(3,853)	–
Net cash generated from/(used in) investing activities		1,146,425	(1,516,696)
Cash flows from financing activities			
Dividends paid to the Company's shareholders		–	(67,880)
Dividend paid to non-controlling shareholders of subsidiaries		(349)	(5,574)
Payment of lease liabilities		(48,429)	(46,803)
Net cash used in financing activities		(48,778)	(120,257)
Net increase/(decrease) in cash and cash equivalents		891,395	(500,423)
Cash and cash equivalents at beginning of the period		4,546,791	4,346,496
Effect of foreign exchange rate changes on cash and cash equivalents		4,441	1,435
Cash and cash equivalents at end of the period		5,442,627	3,847,508

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2020

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 service and related services in the PRC.

The Company is a state-owned enterprises and the ultimately holding company is China TravelSky Holding Company Limited, which is also a state-owned enterprise.

The Company was listed on The Stock Exchange of Hong Kong Limited on February 7, 2001. The address of its registered office is 7 Yu Min Da Street, Houshayu Town, Shunyi District, Beijing 101308, PRC.

The Company and its subsidiaries (hereafter referred to as the “**Group**”) were principally engaged in provision of aviation information technology service, distribution information technology service, clearing and accounting and settlement service for aviation industry, etc.

The condensed consolidated interim financial statements have not been audited and were approved for issue by the board of directors on August 27, 2020.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

Except for the application of new or revised accounting standards as described below, the accounting policies and methods of computation used in the reporting of the condensed consolidated interim financial statements for the six months ended June 30, 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2019.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, interpretation and amendments to International Financial Reporting Standards ("IFRSs") that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendments to IFRS 16	Covid-19-Related Rent Concessions
Conceptual Framework for Financial Reporting (Revised)	

The Directors of the Company considered that the adoption of these new or amended IFRSs that are effective from January 1, 2020 did not have any material impact on the Group's accounting policies.

4. SEGMENT REPORTING

(a) BUSINESS SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and general manager of the Company.

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 decision maker for operation is the Group's general manager. The information reviewed by the general manager is identical to the information presented in the condensed consolidated statement of profit or loss and other comprehensive income. Accordingly, no segment analysis information is presented for the period ended June 30, 2020 and 2019.

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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

4. SEGMENT REPORTING (CONTINUED)

(b) DISAGGREGATION OF REVENUE

In the following table, revenue is disaggregated by timing of recognition and primary geographical market as below:

	Six months ended June 30, 2020 RMB'000 (unaudited)	Six months ended June 30, 2019 RMB'000 (unaudited)
Timing of revenue recognition		
Transferred over time		
– Aviation information technology services	996,322	2,223,994
– Accounting, settlement and clearing services	217,756	302,480
– System integration services	37,453	32,253
– Data network services	193,094	243,301
– Others	465,798	596,457
	1,910,423	3,398,485
At a point in time		
– Sale of equipment	376,128	445,784
	2,286,551	3,844,269

Primary geographical markets

The Group's operations are mainly located in the PRC.

All of the Group's revenue is mainly generated from related parties and external customers in PRC.

Revenue is disaggregated by major products/services and disclosed in the condensed consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

5. (LOSS)/PROFIT BEFORE TAXATION

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

	Six months ended June 30, 2020 RMB'000 (unaudited)	Six months ended June 30, 2019 RMB'000 (unaudited)
After charging:		
Depreciation of property, plant and equipment	252,149	214,602
Depreciation of investment properties	4,269	147
Depreciation of right-of-use assets – lease prepayment for land use rights	25,223	26,367
Depreciation of right-of-use assets – properties	44,815	44,168
Depreciation of right-of-use assets – equipment	566	8
Amortisation of intangible assets	146,277	129,245
Gain on disposal of property, plant and equipment	(84)	(209)
Provision for/(reversal of) impairment of receivables	663,333	(38,382)
Cost of software and hardware sold	211,795	256,102
Retirement benefits	61,542	100,477
Contribution to housing benefits	56,867	52,188
Cash-settled share-based payment	16,683	–
Research and development expenses	268,561	424,019
Interest expense on lease liabilities	3,437	4,054
After crediting:		
Interest income	(88,575)	(98,173)
Exchange gain, net	(24,629)	(14,144)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

6. TAXATION

Taxation of the Group, except for companies not incorporated in the PRC, 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 year at the rates of taxation in applicable jurisdictions prevailing in the locations in which the Group operates.

The Company's subsidiaries in the PRC are entitled to different corporate income tax rates, ranging from 15% to 25% under the Corporate Income Tax Law of the People's Republic of China (the "**CIT Law**").

UNCERTAINTY OVER INCOME TAX TREATMENTS:

High and New Technology Enterprise

Under the 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 2017, 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 2017 to Year 2019 as a "High and New Technology Enterprise". As of June 30, 2020, the Company is in process of reapplying for its "High and New Technology Enterprises" certification, based on the historical experience and no significant change of the Company's situation, the Company performed an assessment in accordance with relevant regulatory requirements and are of the opinion that the application will be approved and certified by relevant authorities. Thus, the Company has calculated the corporate income tax expense at the preferential tax rate of 15% for the six months ended June 30, 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

6. TAXATION (CONTINUED)

UNCERTAINTY OVER INCOME TAX TREATMENTS: (CONTINUED)

Important Software Enterprise

In addition to the recognised identification of “High and New Technology Enterprise” and entitlement of 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 year, 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.

Application for a preferential tax rate of 10% regarding to the “Important Software Enterprise” for Year 2019 was conducted in Year 2020. Thus, the Company has calculated the corporate income tax expense at the preferential tax rate of 15% for Year 2019. As at June 30, 2020, the Company is in process of applying for a preference tax rate of 10% regarding to the “Important Software Enterprise” to the relevant authority for Year 2019.

The Company will continue to apply for a preferential tax rate of 10% for Year 2020. The amount of tax refund of 5% for the six months ended June 30, 2020 has not been recognised in these condensed consolidated interim financial statements because the Company believes that the application is approved on a year-by-year basis with reference to the evaluation of the completion satisfaction or output for the research effort put by the Group and there are no conclusive evidence that the tax authority will approve such deduction for the six months ended June 30, 2020. Therefore, the Company should accruals the corporate income tax expense at the preferential tax rate of 15% for the period ended June 30, 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

7. (LOSSES)/EARNINGS PER SHARE

The calculation of the basic and diluted (losses)/earnings per share attributable to the owners of the Company is based on the following:

	(Unaudited) Six months ended June 30,	
	2020	2019
(Losses)/earnings (RMB'000)		
(Losses)/earnings for the purpose of calculating the basic and diluted (losses)/earnings per share	(323,189)	1,422,997
Numbers of shares ('000)		
Weighted average number of ordinary shares in issue	2,926,209	2,926,209
(Losses)/earnings per share (RMB)		
Basic and diluted	(0.11)	0.49

There were no potential dilutive ordinary shares outstanding during the period ended June 30, 2020 and 2019.

8. RESERVES

The appropriation to the discretionary surplus reserve fund for the Year 2019 was approved in the annual general meeting held on June 18, 2020. Therefore, 10% of the Company's net profit of Year 2019 (approximately RMB211.3 million), was transferred to the discretionary surplus reserve fund for the six months ended June 30, 2020.

9. DIVIDEND DISTRIBUTION

The shareholders in the annual general meeting of the Company held on June 18, 2020 approved the distribution of a final cash dividend of RMB0.289 per share, in the aggregate sum of RMB845.7 million for Year 2019. The amount was accounted for in shareholders' equity as an appropriation of retained earnings for the six months ended June 30, 2020.

10. PROPERTY, PLANT AND EQUIPMENT

For the six months ended June 30, 2020, the Group acquired property, plant and equipment amounting to approximately RMB338 million (for the year ended December 31, 2019: approximately RMB591 million) in total.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

11. RIGHT-OF-USE ASSETS

The recognised right-of-use assets relate to the following types of assets:

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Lease prepayment for land use rights	1,504,974	1,530,197
Properties	142,296	149,497
Equipment	972	2,060
Total	1,648,242	1,681,754

12. OTHER LONG-TERM ASSETS

For the six months ended June 30, 2020, other long-term assets for the Group mainly comprised of deposits paid for acquisition of property, plant and equipment and intangible assets.

13. FINANCIAL ASSETS AT AMORTISED COST

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Non-current assets		
<i>Financial assets at amortised cost</i>		
Deposits with banks with original maturity date over three months	502,483	100,000
Restricted bank deposits	19,420	19,420
Certificate of deposits	–	900,000
	521,903	1,019,420
Current assets		
<i>Financial assets at amortised cost</i>		
Deposits with banks with original maturity date over three months	202,211	580,139
Restricted bank deposits	12,053	23,198
Structural deposits	1,900,000	1,100,000
Certificate of deposits	–	1,400,000
	2,114,264	3,103,337

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Unlisted equity investment	883,750	883,750

The unlisted equity investment represents 13.26% equity interest in CMRH Life at a fair value of RMB884 million. The Directors designated the investment as financial asset at fair value through other comprehensive income, since the Group has no intention to hold the investment for trading purpose.

15. TRADE AND BILLS RECEIVABLES

The Group has a policy allowing its customers credit periods normally ranging from 10 to 90 days. The Group does not hold any collateral as security.

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period.

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Within 6 months	523,409	857,935
Over 6 months but within 1 year	393,492	150,789
Over 1 year but within 2 years	140,054	207,405
Over 2 year but within 3 years	77,380	74,067
Trade receivables	1,134,335	1,290,196
Bills receivables	12,289	88,045
Total	1,146,624	1,378,241

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

16. DUE FROM RELATED PARTIES

The ageing analysis of the amount due from related parties, based on invoice dates, is as follows:

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Within 6 months	1,161,597	1,902,997
Over 6 months but within 1 year	1,082,096	771,495
Over 1 year but within 2 years	1,099,535	728,092
Over 2 year but within 3 years	304,118	14,779
Due from related parties	3,647,346	3,417,363
Bills receivables	–	302,600
Total	3,647,346	3,719,963

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

17. TRADE PAYABLES AND ACCRUED LIABILITIES

Details of the ageing analysis of trade payables and accrued liabilities, based on invoice dates, is as follows:

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Within 6 months	445,137	441,371
Over 6 months but within 1 year	96,406	141,590
Over 1 year but within 2 years	62,505	74,060
Over 2 year but within 3 years	35,626	21,341
Over 3 years	47,340	46,602
Trade payables	687,014	724,964
Accrued liabilities and other liabilities	2,019,249	2,774,420
Total	2,706,263	3,499,384

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

18. 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

18. FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE (CONTINUED)

(I) FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE (CONTINUED)

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

At June 30, 2020

Assets	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at fair value through profit or loss				
Unlisted equity investment	-	-	3,853	3,853
Financial assets at fair value through other comprehensive income				
Unlisted equity investment	-	-	883,750	883,750

At December 31, 2019

Assets	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at fair value through other comprehensive income				
Unlisted equity investment	-	-	883,750	883,750

During the six months ended June 30, 2020 and year ended December 31, 2019, there were no transfers between the Level 1 and Level 2 fair value measurements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

18. FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE (CONTINUED)

(I) FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE (CONTINUED)

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
As at January 1	883,750	1,036,944
Addition	3,853	–
Sales	–	(161,944)
Fair value changes	–	8,750
As at June 30/December 31	887,603	883,750

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, financial assets at amortised cost, trade and bills receivables, other current assets, due from related parties and associated companies, trade payables, accrued liabilities and due to related parties and associated companies.

The carrying amounts of the Group's financial instruments carried at other than fair value approximated their fair values as at June 30, 2020 because of the short-term maturities of these instruments.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

19. CASH GENERATE FROM OPERATIONS

	Six months ended June 30, 2020 RMB'000 (unaudited)	Six months ended June 30, 2019 RMB'000 (unaudited)
(Loss)/profit before taxation	(255,289)	1,694,052
Adjustments for:		
Depreciation and amortisation	473,299	414,537
Gain on disposal of property, plant and equipment	(84)	(209)
Interest income	(88,575)	(98,173)
Provision for/(reversal of) impairment of receivables	663,333	(38,382)
Share of results of associated companies	(6,978)	(20,311)
Foreign exchange gain	(1,864)	(14,404)
Decrease/(increase) in current assets:		
Trade and bills receivables	57,695	96,250
Inventories	(53,930)	(22,473)
Prepayments and other current assets	579,649	(3,941)
Due from associated companies and related parties	(428,396)	(413,156)
Financial assets at fair value through profit or loss	-	161,944
Contract asset	505	(6,488)
Increase/(decrease) in current liabilities:		
Trade payables and accrued liabilities	(1,062,631)	(530,777)
Contract liabilities	(6,229)	41,432
Due to related parties and associated companies	2,014	88,563
Cash (used in)/generated from operating activities	(127,481)	1,348,464
Refund of enterprise income tax	221	1,563
Enterprise income of tax	(78,992)	(213,497)
Net cash (used in)/provided by operating activities	(206,252)	1,136,530

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

20. COMMITMENTS

(a) CAPITAL COMMITMENTS

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

	June 30, 2020 RMB'000 (unaudited)	December 31, 2019 RMB'000 (audited)
Contracted but not provided for:		
– Computer system and others (note (i))	95,625	102,992
– Assets under constructions (note (i))	129,000	399,796
– Unlisted investment fund (note (ii))	996,147	–
Total	1,220,772	502,788

Note (i):

The above capital commitments mainly used for the Company's daily operation, maintenance, research and development and upgrading of computer system, and the capital commitment of the new operating centre in Beijing for the construction of Phase I project.

Note (ii):

As stated in the announcement of the Company dated April 16, 2020, the Company entered into the limited partnership agreement (the "**Agreement**") in relation to the formation of China Mobile Equity Fund (Hebei Xiongan) Partnership (Limited Partnership)* (中移股權基金(河北雄安)合夥企業(有限合夥)) (the "**Fund**") with China Mobile Capital Holding Co., Ltd.* (中移資本控股有限責任公司), other investors (together with the Company and China Mobile Capital Holding Co., Ltd., as the limited partners) and China Mobile Fund Co., Ltd.* (中移股權基金管理有限公司) (as the general partner), pursuant to which, the Company agreed to contribute RMB1 billion in cash to the Fund during the term of the Agreement. The Fund will mainly invest in 5th-generation and information communication industry chain, ecosystem and the empowerment industry.

As of June 30, 2020, the Company has actually contributed (included management fee to the Fund) of RMB3.9 million pursuant to the Agreement.

(b) EQUIPMENT MAINTENANCE FEE COMMITMENTS

As at June 30, 2020, the Group had equipment maintenance fee commitments of approximately RMB132.7 million (At December 31, 2019: RMB135.0 million).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2020

21. EVENT AFTER THE REPORTING PERIOD

REFUND OF CORPORATE INCOME TAX

As disclosed in the announcement of the Company on July 22, 2020, on the same date, the excess tax amount paid by the Company in the financial year 2019 (being the difference between the tax amount paid at the rate of 15% and the tax amount calculated at the rate of 10% under the Important Software Enterprise (as described in note 6)) has been refunded, as such event is a non-adjusting event, thus the refund has not been recognised in these condensed consolidated interim financial statements.

DEEMED DISPOSAL OF A SUBSIDIARY

As disclosed in the announcement of the Company on June 12, 2020, on the same date, the Company entered into the capital increase agreement (the “**New Capital Increase Agreement I**”) with TravelSky Mobile Technology Limited (“**TravelSky Mobile Tech**”), China Southern Airlines Group Capital Holding Limited (“**Southern Airlines Capital**”), Eastern Airlines Industry Investment Company Limited (“**Eastern Airlines Investment**”), Air Traffic Management Investment Corporation (“**Air Traffic Investment Company**”), and TravelSky Capital Management Limited (“**TravelSky Capital**”), pursuant to which Southern Airlines Capital, Eastern Airlines Investment, Air Traffic Investment Company and TravelSky Capital have agreed to make a capital contribution of RMB241,062,954.75 in total to TravelSky Mobile Tech.

On the same day, the Company entered into the capital increase agreement (the “**New Capital Increase Agreement II**”) with TravelSky Mobile Tech and Tianjin Yicheng Technology Partnership (Limited Partnership) (“**Yicheng Technology**”), pursuant to which Yicheng Technology has agreed to make a capital contribution of RMB33,708,636.51 to TravelSky Mobile Tech.

As at June 30, 2020, TravelSky Mobile Tech is a wholly-owned subsidiary and an insignificant subsidiary of the Company. Upon the completion of the Capital Increase, the registered capital of TravelSky Mobile Tech will be increased from RMB60,000,000 to RMB189,813,350 and TravelSky Mobile Tech will be held as to 31.61% by the Company, 8.39% by Yicheng Technology, 12% by Southern Airlines Capital, 12% by Eastern Airlines Investment, 12% by Air Traffic Investment Company and 24% by TravelSky Capital, respectively. TravelSky Mobile Tech will then cease to be a subsidiary of the Company and the financial results of TravelSky Mobile Tech will cease to be consolidated into the consolidated financial statements of the Company.

Up to the date of this interim report, the above mentioned deemed disposal have not been completed.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE

Business Review for the First Half of 2020

In the first half of 2020, the Novel Coronavirus Pneumonia Epidemic (the “**Epidemic**”) continued to spread globally, which caused a serious impact on the air transportation industry. As the leading provider of information technology solutions for China’s aviation and travel industry, the Group also faced unprecedented challenges in various businesses. The Group’s Electronic Travel Distribution (ETD) system (including Inventory Control System services (“**ICS**”) and Computer Reservation System services (“**CRS**”)) processed approximately 148.6 million flight bookings of domestic and overseas commercial airlines, representing a decrease of approximately 55.9% over the same period in 2019. Among them, the processed flight bookings of commercial airlines in China decreased by approximately 54.6%, while those of foreign and regional commercial airlines decreased by approximately 90.5%. The number of foreign and regional commercial airlines using the Group’s Airport Passenger Processing System service (“**APP**”), multi-host connecting service and the self-developed Angel Cue platform connecting service was 144, with approximately 2.0 million of passenger departures processed in 80 airports, representing a decrease of approximately 78.9% over the same period in 2019. Meanwhile, the number of foreign and regional commercial airlines with direct links to the Group’s CRS remained at 151 with the sales percentage through direct links increased to approximately 99.8%.

In the first half of 2020, the Group made concentrated efforts to improve aviation information technology and its extended services to strongly support the demand of commercial airlines for the information technology services on passengers convenience, e-commerce, auxiliary services, and the Epidemic prevention and control. As a strategic cooperation partner of the “Fast Travel” Project of the International Air Transport Association (“**IATA**”), the commonly used self-service check-in system (CUSS), the Group’s self-developed product that conforms to IATA standards, has been launched in 178 major domestic and overseas airports, and the online check-in service has been applied in 331 domestic and foreign airports. Such products and services, together with the mobile check-in product and the SMS check-in product, processed a total of approximately 78 million departing passengers. “Baggage Travel”, a full-process baggage tracking platform, accomplished the security work with high quality of the pilot routes of the Civil Aviation Administration of China proposed at the National People’s Congress (NPC) of the People’s Republic of China and the Chinese People’s Political Consultative Conference (CPPCC), and successfully realized the connection with more than 10 airlines such as the four major airlines and more than 20 airports such as Beijing Capital, Daxing, Shanghai Hongqiao and Wuhan. The Group accelerated the construction of the first phase of the new distribution capability (NDC) PLUS project, with an aim to build a passenger-oriented basic platform of passenger service system with sales, service and delivery services integrated. The Group steadily carried out the upgrading and rebuilding of e-commerce platforms, and advanced the second phase construction of digital retail platform for airlines so as to fully support solutions to service and retail transformation of airlines.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Business Review for the First Half of 2020 (Continued)

In the first half of 2020, business of accounting, settlement and clearing services of the Group was also adversely affected. In this regard, the Group actively adjusted business strategies to respond to market changes. It expedited product capacity construction, with focus on the product research and development of the third-generation passengers transport revenue management platform products. Continued efforts were made to consolidate the market of accounting, settlement and clearing services, and the settlement solutions to ONE Order helped Singapore Airlines become the world's leading commercial airline that realized combined transport based on ONE Order of the IATA. The Group successfully signed with Shanghai Pudong International Airport for real time settlement platform for airports' service charges. In the first half of 2020, there were approximately 343.9 million transactions processed with the Group's accounting, settlement and clearing system. The total amount of all kinds of business processed by the Group's accounting, settlement and clearing system exceeded USD3.1 billion, and the transaction amount processed by the electronic payment system was approximately RMB25.5 billion.

In the first half of 2020, the Group promoted the research and development and production of, and expanded the market of, the key products of distribution of information technology services. The new-generation distribution system construction project completed the verification of NDC production system in foreign airlines such as Singapore Airlines and Iberia Airlines, and introduced downstream the API that conformed to the NDC standard to support agent customers to realize the sales of NDC products by foreign airlines. Faced with an overall downturn in the overseas sales market, the Group stepped up efforts to consolidate our overseas sales base. Efforts were made to accelerate the certification of overseas Billing and Settlement Plan (“**BSP**”), complete the certification of BSP in 6 countries including France and Italy, and reach overseas sales cooperation with Air China Limited in 6 countries including South Korea and Singapore.

In the first half of 2020, while making unremitting efforts to secure the market share of the traditional departure front end services and products, and actively participate in projects such as construction of “airports with four characteristics” of “safety”, “green”, “smart” and “humanity”, the Group kept abreast of airport construction, and enhanced update and promotion of airport information technology services and products. “Baggage Travel”, smart airport ground operation products, smart transit products and smart travel products have achieved actual effect in airports which have passengers with over ten million, and the security work on the second transit of Beijing Daxing International Airport was completed. The departure front end system of the new-generation APP dominated China's large and medium-sized airports. Furthermore, the system assisted commercial airlines in providing various services for passengers, such as, boarding, transit and connection, in 148 overseas or regional airports. The number of departure passengers receiving such services reached approximately 5.2 million, accounting for approximately 90% of the number of passengers returning from overseas of such commercial airlines of China.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Business Review for the First Half of 2020 (Continued)

In the first half of 2020, the Group devoted its resource to promote business synergy, and seize information technology service opportunities in the fields of public information, aviation logistics and general aviation. To enhance the market influence of “TravelSky Cloud Data” on civil aviation industry and governmental enterprises, we actively expanded customers for “TravelSky Cloud Data” in civil aviation industry to further promote cloud platform service of civil aviation industry. The Group accelerated the promotion of electronic waybills business and the processed system capacity on electronic waybills reached 450,000 in the first half of the year. It continued to expand the general aviation information technology service market with more than 60 general aviation companies and airports using general aviation systems.

In the first half of 2020, holding on to the bottom line that “system is not stopped, business is not suspended, and pressure is not abated”, the Group actively fulfilled its social responsibilities, gave full play to its own advantages, and worked hard to improve quality and efficiency, as a way to provide strong technical support and service guarantee for scientific and technological anti-epidemic and resumption of work and production. On the one hand, the Group made every effort to ensure the stability of ICS, CRS, APP, and core open systems, and realized 7×24-hour real-time responses of technology and commercial services to escort the peak of passenger refund. To assist in joint prevention and control for the Epidemic, the Group successfully completed the safe operation of the civil aviation passenger information system during the Chinese Spring Festival travel rush, the NPC and CPPCC sessions. On the other hand, the Group increased our research and development efforts in basic platforms, core systems, key applications, and key products, enhanced the comprehensive development ability of the research and development system software, and obtained the highest level of CMMI5 certification. The construction of the “double-mode” infrastructure cloud platform progressed steadily, and the productization process was accelerated to gradually put products into use. The construction of disaster recovery system was continuously promoted, with commencement of the data-level disaster recovery synchronization of core business. Intensified efforts were made to strengthen the energy saving and consumption reduction transformation of the data center.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Financial Conditions and Operational Performance for the First Half of 2020

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 2020, the Group achieved a profit before tax of RMB-255.3 million, representing a decrease of 115.1% compared to the first half of 2019. Earnings before interest and tax, depreciation and amortization (EBITDA) amounted to RMB132.9 million, representing a decrease of 93.4% compared to the first half of 2019. Profit attributable to equity holders of the Company was RMB-323.2 million, representing a decrease of 122.7% compared to the first half of 2019.

As stated in the announcements of the Company dated March 20, June 29, July 17, July 28, 2020, the significant decrease of the profit of the Group was mainly due to the influence of the Epidemic on the business of the Group. And the significant decline in the number of passenger transportation in civil aviation industry resulted in a sharp drop in the revenue of the Group. Although the Group has strictly controlled the operating expenses, the profit before tax in the first half of 2020 still decreased by 115.1% compared to the first half of 2019.

The revenue and results of the operation of the Group were mainly derived from its operations in the PRC. The losses per share of the Group were RMB0.11 for the first half of 2020.

TOTAL REVENUE

The total revenue of the Group in the first half of 2020 amounted to RMB2,286.6 million, representing a decrease of RMB1,557.7 million or 40.5% from RMB3,844.3 million in the first half of 2019. Such decrease in total revenue was mainly attributable to the significant decrease in the business volume of the Group as affected by the Epidemic. The decrease in total revenue is reflected as follows:

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Financial Conditions and Operational Performance for the First Half of 2020 (Continued)

TOTAL REVENUE (Continued)

- Revenue from aviation information technology services accounted for 43.6% of the Group's total revenue in the first half of 2020, as compared to 57.9% in the first half of 2019. Revenue from aviation information technology services decreased by 55.2% to RMB996.3 million in the first half of 2020 from RMB2,224.0 million in the first half of 2019. The main sources of the revenue were ICS, CRS, APP, as well as other extended information technology services related to the above core businesses provided by the Group to commercial airlines. The decrease in revenue was mainly due to the significant decrease in the number of air travellers as affected by the Epidemic.
- Revenue from accounting, settlement and clearing services accounted for 9.5% of the Group's total revenue in the first half of 2020, as compared to 7.9% for the first half of 2019. Revenue from accounting, settlement and clearing services decreased by 28.0% to RMB217.8 million in the first half of 2020 from RMB302.5 million for the first half of 2019. The main sources of the revenue were accounting, settlement and clearing services provided by the Group to third parties including commercial airlines, airports, agencies and government bodies. The decrease in revenue was mainly due to the significant decrease in the business volume of accounting, settlement and clearing services.
- Revenue from system integration services accounted for 18.1% of the Group's total revenue in the first half of 2020, as compared to 12.4% for the first half of 2019. Revenue from system integration services decreased by 13.5% to RMB413.6 million in the first half of 2020 from RMB478.0 million for the first half of 2019. The main sources of the revenue were the hardware integration, software integration and data and information integration services provided by the Group to airports, commercial airlines and other corporate clients. The decrease in revenue was primarily due to the decrease in the number of contracted projects and the delay of construction period as affected by the Epidemic.
- Revenue from data network accounted for 8.4% of the Group's total revenue in the first half of 2020, as compared to 6.3% for the first half of 2019. Revenue from data network decreased by 20.6% to RMB193.1 million in the first half of 2020 from RMB243.3 million for the first half of 2019. The main sources of the revenue were distribution information technology services provided by the Group to agencies. The decrease in revenue was mainly due to the decrease in the business volume of distribution information technology services.
- Other revenue accounted for 20.4% of the Group's total revenue in the first half of 2020, as compared to 15.5% for the first half of 2019. Other revenue decreased by 21.9% to RMB465.8 million in the first half of 2020 from RMB596.5 million for the first half of 2019. The sources of other revenue were technology services, payment business, room tenancy and other services provided by the Group. The decrease in other revenue was mainly due to the decrease in other technology services and payment business as affected by the Epidemic.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Financial Conditions and Operational Performance for the First Half of 2020 (Continued)

OPERATING EXPENSES

Total operating expenses for the first half of 2020 amounted to RMB2,676.1 million, representing an increase of RMB384.9 million or 16.8%, as compared to RMB2,291.2 million for the first half of 2019. The changes in operating expenses are also reflected as follows:

- Commission and promotion expenses decreased by 56.2%, mainly due to the decrease in business promotion of the Group as affected by the Epidemic;
- Selling costs of software and hardware decreased by 17.3%, mainly due to the decrease in the number of contracted projects and the delay of construction period as affected by the Epidemic;
- Staff costs decreased by 7.9%, mainly due to the reduction and exemption of social insurance of the Group;
- Depreciation and amortization increased by 14.2%, mainly due to the increase in fixed assets and intangible assets of the Group, leading to the increase in depreciation and amortization; and
- Other operating expenses increased by approximately 676.7%, among which, the expected credit loss increased by approximately RMB0.7 billion compared with the same period last year, and the remaining expenses decreased by approximately 16.3% compared with the same period last year excluding the above expected credit loss.

CORPORATE INCOME TAX

For details of corporate income tax of the Group for the first half of 2020, please see note 6 to the unaudited condensed consolidated financial statements.

As stated in the announcement of the Company dated July 22, 2020, pursuant to the Notice on Issues Concerning Preferential Enterprise Income Tax Policies for Software and Integrated Circuit Industries (Cai Shui [2016] No. 49) (《關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》(財稅[2016]49號)) issued by the Ministry of Finance, the State Administration of Taxation, the National Development and Reform Commission and the Ministry of Industry and Information Technology of the People's Republic of China on May 4, 2016, the Company had made an application to the relevant authorities for a preferential corporate income tax rate of 10% for the financial year 2019. The excess income tax rate of 5% paid in the year 2019 has been refunded in July 2020 as approved by the relevant tax authorities, which will be reflected in the consolidated financial statements of the Company for the year 2020.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Financial Conditions and Operational Performance for the First Half of 2020 (Continued)

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 RMB1,746.2 million or 122.7% to RMB-323.2 million in the first half of 2020 from RMB1,423.0 million in the first half of 2019.

LIQUIDITY AND CAPITAL STRUCTURE

The Group's working capital for the first half of 2020 mainly came from investing activities. Net cash inflow from investing activities amounted to RMB1,146.4 million.

As at June 30, 2020, the Group did not have any short-term or long-term bank loans, nor used any financial instruments for hedging purposes.

As at June 30, 2020, cash and cash equivalents of the Group amounted to RMB5,442.6 million, of which 93.6%, 5.0% and 0.6% were denominated in Renminbi, US dollar and Euro, respectively.

RESTRICTED BANK DEPOSITS

As at June 30, 2020, restricted bank deposits in the amount of RMB31.5 million (December 31, 2019: RMB42.6 million) mainly refer to the deposits placed at designated bank accounts as guarantee deposits to secure, amongst others, procurement and installation work in relation to departure system of airports.

TRUST DEPOSITS AND IRRECOVERABLE OVERDUE TIME DEPOSITS

As at June 30, 2020, 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Financial Conditions and Operational Performance for the First Half of 2020 (Continued)

FINANCIAL ASSETS INVESTED

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

In the first half of 2020, the Group had the following financial assets:

(1) Financial Assets at Amortised Cost

As at June 30, 2020, the Group held structural deposits issued by Bank of Beijing, China Construction Bank and China Minsheng Bank of RMB0.1 billion, RMB0.9 billion and RMB0.9 billion, with total structural deposits of RMB1.9 billion. The annual interest rate of such structural deposits varied from 3.3% to 3.6%. Such structural deposits have a maturity period ranging from 185 to 397 days and are non-cancellable before maturity.

(2) Financial Assets at Fair Value through Other Comprehensive Income

Name of investment	Business nature	Percentage of	Percentage of	Fair value as at	Fair value as at	Gain as of	Gain as of
		shareholding	shareholding as				
		as at June 30,	at December 31,	June 30, 2020	December 31, 2019	June 30,	December 31,
		2020	2019	RMB'000	RMB'000	2020	2019
		%	%			RMB'000	RMB'000
Unlisted equity (measured at fair value)							
- CMRH Life	Life insurance	13.26	17.5	883,750	883,750	-	8,750

The performance and prospects of the financial assets "CMRH Life" during the period were as follows:

- a. Name of the company: China Merchants RenHe Life Insurance Company Limited ("CMRH Life")
- b. Business scope: general insurance (including life insurance and annuity insurance), health insurance, accident injury insurance, bonus insurance, omnipotent insurance, reinsurance of all of the above insurance businesses, the application of the insurance funds allowed by the state laws and regulations, and other businesses approved by the China Banking and Insurance Regulatory Commission.
- c. Investment cost of the Company: RMB875 million.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Financial Conditions and Operational Performance for the First Half of 2020 (Continued)

FINANCIAL ASSETS INVESTED (Continued)

(2) Financial Assets at Fair Value through Other Comprehensive Income (Continued)

- d. The percentage of the shareholding held by the Company: 13.26%.

Note: As stated in the announcement of the Company dated October 17, 2019, the Company decided not to participate in the capital increase of CMRH Life. The capital increase have been approved and agreed by the China Banking and Insurance Regulatory Commission and relevant industrial and commercial registration procedures of changes were completed on April 16, 2020. The shareholding of the Company in CMRH Life was diluted from 17.5% to 13.26%.

- e. The fair value and the scale relative to the total assets of the Group:

As at June 30, 2020, the Group invested a fair value of approximately RMB884 million in CMRH Life, accounting for 4.0% of the total assets of the Group.

- f. The performance in the first half of 2020:

According to the information provided by CMRH Life to the Company, it recorded a loss of RMB100.0 million in the first half of 2020, mainly because up-front costs are required for branch establishment and channel expansion and other aspects during the period of rapid business expansion for insurance company. Therefore, loss incurred by CMRH Life in the early stage of the development of business is in compliance with general operating rules in life insurance industry.

- g. Strategies of future investments and the prospects of such investments:

According to the information provided by CMRH Life to the Company, the insurance penetration and insurance density in the PRC life insurance industry remain relatively low when compared with that in overseas developed countries and regions. With GDP per capita exceeded US\$10,000, there is great potential in the PRC life insurance market. CMRH Life will continue to further synergize resources from shareholders, explore innovation and cooperation in medical and endowment, big data and Internet, and continue to drive the expansion of scale and rising of value under the operating guidance of “value leading, innovation driving, technology enabling, risk control assurance”.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Financial Conditions and Operational Performance for the First Half of 2020 (Continued)

FINANCIAL ASSETS INVESTED (Continued)

(3) Financial asset at fair value through profit or loss

China Mobile Equity Fund

As stated in the announcement of the Company dated April 16, 2020, the Company entered into the limited partnership agreement (the “**Agreement**”) in relation to the formation of China Mobile Equity Fund (Hebei Xiongan) Partnership (Limited Partnership)* (中移股權基金(河北雄安)合夥企業(有限合夥)) (the “**China Mobile Equity Fund**”) with China Mobile Capital Holding Co., Ltd.* (中移資本控股有限責任公司), other investors (together with the Company and China Mobile Capital Holding Co., Ltd., as the limited partners) and China Mobile Fund Co., Ltd.* (中移股權基金管理有限公司) (as the general partner), pursuant to which, the Company agreed to contribute RMB1 billion in cash to the China Mobile Equity Fund during the term of the Agreement. The China Mobile Equity Fund will mainly invest in 5th-generation and information communication industry chain, ecosystem and the empowerment industry.

As of June 30, 2020, the Company has actually contributed (including the fund management fee) RMB3.9 million pursuant to the Agreement.

DISPOSAL OF 68.39% EQUITY INTERESTS IN TRAVELSKY MOBILE TECH

As stated in the announcements of the Company dated May 27, 2020 and June 12, 2020, on June 12, 2020, the Company entered into the new capital increase agreement I with TravelSky Mobile Technology Limited* (中航信移動科技有限公司) (“**TravelSky Mobile Tech**”), China Southern Airlines Group Capital Holding Limited (中國南航集團資本控股有限公司) (“**Southern Airlines Capital**”), Eastern Airlines Industry Investment Company Limited* (東方航空產業投資有限公司) (“**Eastern Airlines Investment**”), Air Traffic Management Investment Corporation* (民航空管投資管理有限公司) (“**Air Traffic Investment Company**”) and TravelSky Capital Management Limited* (中航信啟航資本管理有限公司) (“**TravelSky Capital**”) to replace the original capital increase agreement I entered into by the Company and relevant investors on May 27, 2020, pursuant to which Southern Airlines Capital, Eastern Airlines Investment, Air Traffic Investment Company and TravelSky Capital have agreed to make a capital contribution of RMB241,062,954.75 in total to TravelSky Mobile Tech. On the same day, the Company entered into the new capital increase agreement II with TravelSky Mobile Tech and Tianjin Yicheng Technology Partnership (Limited Partnership)* (天津易程科技合夥企業(有限合夥)) (“**Yicheng Technology**”), pursuant to which Yicheng Technology has agreed to make a capital contribution of RMB33,708,636.51 to TravelSky Mobile Tech, and the original capital increase agreement II entered into by the Company, TravelSky Mobile Tech and Yicheng Technology on May 27, 2020 has been terminated.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Financial Conditions and Operational Performance for the First Half of 2020 (Continued)

DISPOSAL OF 68.39% EQUITY INTERESTS IN TRAVELSKY MOBILE TECH (Continued)

Before the completion of the capital increase, TravelSky Mobile Tech is a wholly-owned subsidiary of the Company. Immediately after the completion of the capital increase, TravelSky Mobile Tech will be held as to 31.61% by the Company, 8.39% by Yicheng Technology, 12% by Southern Airlines Capital, 12% by Eastern Airlines Investment, 12% by Air Traffic Investment Company and 24% by TravelSky Capital, respectively. It is expected that TravelSky Mobile Tech will cease to be a subsidiary of the Company and the financial results of TravelSky Mobile Tech will cease to be consolidated into the consolidated financial statements of the Company. Upon the completion of the capital increase, the registered capital of TravelSky Mobile Tech will be increased from RMB60,000,000 to RMB189,813,350 and the balance of the capital increase amounts of RMB144,958,241.26 will be contributed to the capital reserve of TravelSky Mobile Tech. Both of the above new capital increase agreements have taken effect after the new capital increase agreement I was approved by the State-owned Assets Supervision and Administration Commission of the State Council on June 29, 2020. As at the date of this report, the above investors have paid relevant capital contribution amount (including that Yicheng Technology has paid its capital contribution in the first instalment) and the relevant industrial and commercial registration procedures of changes in relation to the above capital increase are in progress.

CHARGE ON ASSETS

As at June 30, 2020, the Group had no charge on its assets.

CONTINGENT LIABILITIES

As at June 30, 2020, the Group had no material contingent liabilities.

GEARING RATIO

As at June 30, 2020, the gearing ratio of the Group was 18.7% (as at December 31, 2019: 18.7%), which was computed by dividing the total liabilities by the total assets of the Group as at June 30, 2020.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Financial Conditions and Operational Performance for the First Half of 2020 (Continued)

MAJOR INVESTMENT OR FINANCING PLAN

As of June 30, 2020, the Group did not have any major investment or plan to acquire major capital assets. The Board estimates that the sources of funding of the Group in 2020 will be sufficient for the capital requirement of daily operations and the Group did not have any financing plan.

The total capital expenditure of the Group amounted to RMB429.0 million for the first half of 2020 (first half of 2019: RMB377.4 million), among which the capital expenditure of the new operating centre in Beijing for Phase I project amounted to approximately RMB292.7 million. Other was mainly used in the Company's daily operation.

As at June 30, 2020, the Group's capital expenditure commitment amounted to approximately RMB1,220.8 million, which will be mainly used for the Company's daily operation, maintenance, research and development and upgrading of computer system, China Mobile Equity Fund (an unlisted investment fund), and the capital expenditure commitment of the new operating centre in Beijing for the construction of Phase I project amounted to approximately RMB129.0 million. The sources of funding for such commitments will include existing cash on hand and internal cash flows generated from operating activities. For capital expenditure commitment, please refer to note 20 to the condensed consolidated financial statements.

EMPLOYEES

The Group has different rates of remuneration for different employees (including executive directors and staff 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 of the PRC, as amended from time to time, such as medical insurance, pension, unemployment insurance, maternity insurance and housing funds. The Group also provides its employees with opportunities to acquire skills in areas such as the aviation and travel industry, computer information technology and business administration, and provides training on the latest development in areas such as computer information technology, personal qualities, laws, regulations and economics. In 2007, the Group implemented a corporate annuity scheme (or supplementary pension plan) in accordance with relevant policies of the PRC. According to the corporate annuity scheme, the Group is required to make provision for monthly corporate annuity fees with reference to the total actual salary each month in the previous year and the ratio approved by the relevant authorities of the PRC. It also needs to deposit the annuities in the custody account of corporate annuity fund opened by its custodian.

Staff costs of the Group amounted to approximately RMB687.8 million for the first half of 2020, representing approximately 25.7% of the total operating expenses of the Group for the first half of 2020.

As at June 30, 2020, the total number of employees of the Group was 7,233.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Financial Conditions and Operational Performance for the First Half of 2020 (Continued)

ADOPTION OF PHASE II H SHARE APPRECIATION RIGHTS SCHEME

As disclosed in the announcement of the Company dated November 26, 2019 in relation to the proposed adoption of Phase II H share appreciation rights scheme (the “**Appreciation Rights Scheme**”) and the relevant initial grant proposal (the “**Initial Grant Proposal**”), the circular of the Company dated December 2, 2019 in relation to the proposed adoption of Appreciation Rights Scheme, the voluntary announcement of the Company dated January 3, 2020 in relation to the approval of the Appreciation Rights Scheme by the State-owned Assets Supervision and Administration Commission of the State Council and the announcement of the Company dated January 16, 2020 in relation to the poll results of the resolution passed at the extraordinary general meeting, the Appreciation Rights Scheme has been approved by the extraordinary general meeting convened by the Company on January 16, 2020 and taken effect on the same date.

As disclosed in the announcement of the Company dated January 16, 2020 in relation to the grant of the H share appreciation rights, the Initial Grant Proposal has taken effect on January 16, 2020 (the “**Initial Grant Date**”). On the Initial Grant Date, the Company granted 35,958,950 H share appreciation rights to 502 incentive recipients in total (including the key personnel having direct impacts on the operating results and sustainable development of the Company, which includes three members of senior management of the Company, excluding any current director, supervisor and general manager of the Company as at the Initial Grant Date) and the corresponding number of H shares would amount to approximately 1.23% of the total issued share capital of the Company as at the Initial Grant Date. The number of share appreciation rights per capita to be granted to incentive recipients will be divided into five levels. Incentive recipients do not actually hold shares, nor do they have the right as the shareholders. Incentive recipients shall not deal with the share appreciation rights granted under the Initial Grant Proposal without permissions. The share appreciation rights under the initial grant shall take effect in three equal instalments. When each batch of share appreciation rights become effective, the performance indicators of the Company for last financial year shall meet the performance target set by the Board which should be higher than performance indicators under initial grant and incentive recipients shall achieve their respective performance appraisal indicators, if not, the relevant share appreciation rights will not be effective or will be invalid. The details will be verified by the Board in accordance with the relevant rules of the Appreciation Rights Scheme and the Initial Grant Proposal.

Since the Appreciation Rights Scheme and the Initial Grant Proposal would not involve the grant of options in respect of new shares or other new securities in the Company or any of its subsidiaries, the Appreciation Rights Scheme and the Initial Grant Proposal are not subject to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

In the first half of 2020, the relevant fee of aforesaid Appreciation Rights Scheme was approximately RMB16.7 million, which has been reflected in the financial statements of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE (CONTINUED)

Prospects for the Second Half of 2020

In the second half of 2020, the Group will continue to focus on the development strategies firmly, grasp the current situation, combine with the industry characteristics, use high-quality development as the core, emphasize the key points, carry out the strategies accurately, try our best to prevent and control the Epidemic and each works under the reform and development: prevent and control the Epidemic strictly to ensure the orderly production; comprehensively deepen reform to stimulate internal vitality; strengthen technological innovation to enhance the core competition; push forward to improve the quality and efficiency to tap the deep potential; and adhere to service first to form a strong cohesion.

INTERIM DIVIDEND

The Board recommends the Company not to pay an interim dividend for the first half of 2020.

SHARE CAPITAL STRUCTURE

The issued share capital of the Company as at June 30, 2020 was 2,926,209,589 shares, with a par value of RMB1.00 each. As at June 30, 2020, the share capital structure of the Company was as follows:

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

In the first half of 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

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

As at June 30, 2020, 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	Class and number of shares (Note 2)	Capacity	Approximate percentage of respective class of share capital (Note 3)	Approximate percentage of total share capital (Note 3)
China TravelSky Holding Company Limited	857,226,589 domestic shares of RMB1 each (L)	Beneficial owner	43.00%	29.29%
China Eastern Air Holding Company Limited	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 4)	Interest of controlled corporation	1.26%	0.86%
	3,900,000 domestic shares of RMB1 each (L) (Note 5)	Interest of controlled corporation	0.20%	0.13%
China National Aviation Holding Company Limited	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 6)	Interest of controlled corporation	0.94%	0.64%
China Southern Air Holding Company Limited	202,781,500 domestic shares of RMB1 each (L)	Beneficial owner	10.17%	6.93%
	65,773,500 domestic shares of RMB1 each (L) (Note 7)	Interest of controlled corporation	3.30%	2.25%
China Mobile Capital Holding Co., Ltd.	146,600,000 domestic shares of RMB1 each (L)	Beneficial owner	7.35%	5.01%
Citigroup Inc.	64,024,998 H shares of RMB1 each (L) (Note 8)		6.86%	2.19%
	657,054 H shares (L)	Interest of corporation controlled by the substantial shareholder		
	900,000 H shares (L)	Person having a security interest in shares		

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

Name of shareholder	Class and number of shares (Note 2)	Capacity	Approximate percentage of respective class of share capital (Note 3)	Approximate percentage of total share capital (Note 3)
	62,467,944 H shares (L)	Approved lending agent		
	19,000 H shares of RMB1 each (S) (Note 8)	Interest of corporation controlled by the substantial shareholder	0.00%	0.00%
	62,467,944 H shares of RMB1 each (P) (Note 8)	Approved lending agent	6.69%	2.13%
JPMorgan Chase & Co.	55,377,083 H shares of RMB1 each (L) (Note 9)		5.93%	1.89%
	4,195,954 H shares (L)	Interest of corporation controlled by the substantial shareholder		
	422,000 H shares (L)	Investment manager		
	2,236,060 H shares (L)	Person having a security interest in shares		
	48,523,069 H shares (L)	Approved lending agent		
	1,918,441 H shares of RMB1 each (S) (Note 9)	Interest of corporation controlled by the substantial shareholder	0.20%	0.07%
	48,523,069 H shares of RMB1 each (P) (Note 9)	Approved lending agent	5.20%	1.66%
BlackRock, Inc.	48,718,815 H shares of RMB1 each (L) (Note 10)	Interest of corporation controlled by the substantial shareholder	5.22%	1.66%
	3,520,000 H shares of RMB1 each (S) (Note 10)	Interest of corporation controlled by the substantial shareholder	0.38%	0.12%
Brown Brothers Harriman & Co.	46,742,523 H shares of RMB1 each (L) (Note 11)	Agent	5.01%	1.60%
	46,742,523 H shares of RMB1 each (P) (Note 11)	Agent	5.01%	1.60%

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

Note:

- (1) Interests and short positions in the shares and underlying shares of the Company disclosed in this section are based on the reasonable inquiries made by the Company and the data published on the website of Hong Kong Exchanges and Clearing Limited ("**HKEX**") (www.hkexnews.hk). 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 HKEX (www.hkexnews.hk).
- (2) (L) – Long position; (S) – Short position; (P) – Lending pool.
- (3) The percentage is calculated by the amount of shares held by relevant person/the total amount of relevant shares issued as at June 30, 2020. 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, 2020; 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, 2020.
- (4) These shares were held by China Eastern Airlines Corporation Limited, a subsidiary of China Eastern Air Holding Company Limited. China Eastern Air Holding Company Limited was deemed to be interested in the shares held by China Eastern Airlines Corporation Limited by virtue of the SFO.
- (5) These shares were held by China Eastern Airlines Wuhan Company Limited, a subsidiary of China Eastern Air Holding Company Limited. China Eastern Air Holding Company Limited was deemed to be interested in the shares held by China Eastern Airlines Wuhan Company Limited by virtue of the SFO.
- (6) These shares were held by Shenzhen Airlines Company Limited, a subsidiary of China National Aviation Holding Company Limited. China National Aviation Holding Company Limited was deemed to be interested in the shares held by Shenzhen Airlines Company Limited by virtue of the SFO.
- (7) These shares were held by Xiamen Airlines Company Limited, a subsidiary of China Southern Air Holding Company Limited. China Southern Air Holding Company Limited was deemed to be interested in the shares held by Xiamen Airlines Company Limited by virtue of the SFO.
- (8) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by Citigroup Inc. on June 22, 2020, Citigroup Inc. was deemed to be interested in 64,024,998 H shares (L), 19,000 H shares (S) and 62,467,944 H shares (P). These shares were held by Citicorp LLC, Citibank, N.A., Citigroup Global Markets Holdings Inc., Citigroup Financial Products Inc., Citigroup Global Markets Inc., Citigroup Global Markets Holdings Bahamas Limited, Citigroup Global Markets Limited, Citicorp Trust Delaware, National Association, Citicorp Trust South Dakota, 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.
- (9) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by JPMorgan Chase & Co. on June 5, 2020, JPMorgan Chase & Co. was deemed to be interested in 55,377,083 H shares (L), 1,918,441 H shares (S) and 48,523,069 H shares (P). These shares were held by JPMorgan Asset Management (Taiwan) Limited, J.P. Morgan Securities LLC, JPMORGAN CHASE BANK, N.A. – LONDON BRANCH, JPMorgan Asset Management (Asia Pacific) Limited, J.P. MORGAN SECURITIES PLC, JPMorgan Asset Management (Asia) Inc., JPMorgan Asset Management Holdings Inc., JPMorgan Chase Holdings LLC, J.P. Morgan Broker-Dealer Holdings Inc., JPMorgan Chase Bank, National Association, J.P. MORGAN CAPITAL HOLDINGS LIMITED, 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.

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

- (10) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by BlackRock, Inc. on July 1, 2020, BlackRock, Inc. was deemed to be interested in 48,718,815 H shares (L) and 3,520,000 H shares (S). 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 International Holdings, Inc., BR Jersey International Holdings L.P., BlackRock Lux Finco S.à.r.l., BlackRock Japan Holdings GK, BlackRock Japan Co., Ltd., BlackRock Holdco 3, LLC, 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 HK Holdco Limited, BlackRock Asset Management North Asia Limited, BlackRock Cayman 1 LP, BlackRock Cayman West Bay Finco Limited, BlackRock Cayman West Bay IV Limited, BlackRock Group Limited, BlackRock Finance Europe Limited, BlackRock (Netherlands) B.V., BlackRock Advisors (UK) Limited, BlackRock International Limited, BlackRock Group Limited-Luxembourg Branch, 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 UK Holdco Limited, 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.
- (11) Based on the Disclosure of the Interest of Corporate Substantial Shareholder Notice filed by Brown Brothers Harriman & Co. on June 26, 2020, Brown Brothers Harriman & Co. was deemed to be interested in 46,742,523 H shares (L) and 46,742,523 H shares (P).

Save as the mentioned above, to the best knowledge of the Company's directors, as at June 30, 2020, no person (other than directors, supervisors or chief executives of the Company) had any interests or short positions in the shares or underlying shares of the Company that are required to be recorded in the register kept by the Company under Section 336 of the SFO.

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, 2020, 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), that are required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited by the directors, supervisors or chief executives pursuant to the Model Code ("**Model Code**") as set out in Appendix 10 to the Listing Rules.

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, 2020.

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 2020.

CORPORATE GOVERNANCE (CONTINUED)

For the six months ended June 30, 2020, the Company has adopted Model Code and standards required thereof as the model code and the standards for conducting securities transactions by directors and supervisors of the Company. After making specific enquiries to all directors and supervisors, the Company confirmed that all directors and supervisors have acted in full compliance with Model Code and the requirements regarding directors' securities transactions required thereof during the six months ended June 30, 2020.

CHANGE OF REMUNERATION POLICY OF DIRECTORS

References are made to the circular dated January 10, 2020 of the Company and the poll results announcement of the Company dated February 27, 2020 in relation to, among other things, the remuneration standards for directors of the seventh session of the Board approved at the extraordinary general meeting (the "EGM"). In accordance with the relevant requirements of supervisory authorities, the Board intends to make the following adjustments to the remuneration standards of independent non-executive directors of the seventh session of the Board who are retired persons-in-charge of state-owned enterprises in accordance with the authorization of the EGM:

1. From 2020, the work subsidy standards for relevant independent non-executive directors shall be dynamically adjusted annually in accordance with the results of the annual performance appraisal;
2. From 2020, the work subsidy shall be provided by the Company in advance according to the monthly standard of RMB5,000 (before tax) per person in the current year, that is, RMB60,000 (before tax) per person per year;
3. From 2021, after determining the results of the annual performance appraisal in the previous year, the Company shall settle the balance of work subsidy according to the following specific standards: if she or he receives a excellent appraisal, she or he is entitled to receive an annual work subsidy of RMB100,000 (before tax) per person; if she or he receives a good appraisal, she or he is entitled to receive an annual work subsidy of RMB80,000 (before tax) per person; if she or he receives an appraisal of basically competent or less, she or he is entitled to receive an annual work subsidy of RMB60,000 (before tax) per person; and
4. If she or he has worked in the Company for less than one year, the work subsidy shall be calculated according to the actual number of months.

The above adjustments to the remuneration standards for independent non-executive directors of the seventh session of the Board have been approved and come into effect at the Board meeting held on August 27, 2020. Save as adjusted above, the other contents of the remuneration standards for directors of the seventh session of the Board remain unchanged.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee of the Company has discussed and reviewed the unaudited interim results of the Group for the six months ended June 30, 2020 with the Company's management, and has also discussed matters such as internal control, risk management and financial reporting.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND CHANGE IN INFORMATION

CHANGE OF STAFF SUPERVISORS

As stated in the announcement of the Company dated January 9, 2020, on January 9, 2020, the staff representative meeting of the Company has resolved that Mr. Huang Yuanchang and Mr. Xiao Wei ceased to serve as the staff representative supervisors of the Company. Accordingly, Mr. Huang also ceased to serve as the chairman of the supervisory committee of the Company. At the same time, the staff representative meeting has elected to appoint Mr. Ding Wanzhi and Ms. Liang Shuang as the staff representative supervisors of the Company.

CHANGE OF SESSION OF DIRECTORS AND SUPERVISORS

As stated in the announcement of the Company dated February 27, 2020:

- (1) As at February 27, 2020, the extraordinary general meeting of the Company re-elected Mr. Cui Zhixiong and Mr. Xiao Yinhong, the former executive directors of the sixth session of the Board, as the executive directors of the seventh session of the Board; re-elected Mr. Zhao Xiaohang and Mr. Xi Sheng, the former non-executive directors of the sixth session of the Board, as the non-executive directors of the seventh session of the Board; appointed Mr. Luo Laijun as a non-executive director of the seventh session of the Board; re-elected Mr. Cao Shiqing, Dr. Ngai Wai Fung and Mr. Liu Xiangqun, the former independent non-executive directors of the sixth session of the Board, as the independent non-executive directors of the seventh session of the Board; re-elected Ms. Zeng Yiwei, the former shareholder representative supervisor of the sixth session of the supervisory committee, as the shareholder representative supervisor of the seventh session of the supervisory committee; and appointed Mr. Zhu Yan as the independent supervisor of the seventh session of the supervisory committee. After the extraordinary general meeting, Mr. Han Wensheng, a former non-executive director of the sixth session of the Board, ceased to be a non-executive director of the Company; meanwhile, Mr. He Haiyan, a former shareholder representative supervisor of the sixth session of the supervisory committee, ceased to be a shareholder representative supervisor of the Company; and Mr. Rao Geping, the former independent supervisor of the sixth session of the supervisory committee, ceased to be the independent supervisor of the Company.
- (2) After the extraordinary general meeting on February 27, 2020, Mr. Cui Zhixiong was re-elected as the chairman of the seventh session of the Board according to the resolution of the seventh session of the Board of the Company. The Board further resolved that, members of the special committees of the seventh session of the Board are as follows:
 - (i) Audit and Risk Management Committee: Dr. Ngai Wai Fung (Chairman), Mr. Cao Shiqing and Mr. Liu Xiangqun;
 - (ii) Remuneration and Evaluation Committee: Mr. Cao Shiqing (Chairman), Dr. Ngai Wai Fung and Mr. Liu Xiangqun;

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND CHANGE IN INFORMATION (CONTINUED)

CHANGE OF SESSION OF DIRECTORS AND SUPERVISORS (CONTINUED)

- (iii) Nomination Committee: Mr. Cui Zhixiong (Chairman), Mr. Cao Shiqing and Mr. Liu Xiangqun;
 - (iv) Strategy and Investment Committee (Legal Compliance Committee): Mr. Cui Zhixiong (Chairman), Mr. Xiao Yinhong, Mr. Zhao Xiaohang, Mr. Xi Sheng and Mr. Luo Laijun.
- (3) After the extraordinary general meeting on February 27, 2020, Mr. Ding Wanzhi was elected as the chairman of the seventh session of the supervisory committee according to the resolution of the seventh session of the supervisory committee of the Company.

CHANGE OF SENIOR MANAGEMENT

As stated in the announcement of the Company dated January 16, 2020, the Board has appointed Mr. Huang Yuanchang to act as a vice general manager of the Company.

As stated in the announcement of the Company dated July 23, 2020, the Board has appointed Mr. Yuan Leifeng to act as a vice general manager of the Company.

As stated in the announcement of the Company dated August 27, 2020, the Board has appointed Mr. Liang Haifeng and Mr. Wang Jinping to act as a vice general manager of the Company. Meanwhile, Mr. Wang Wei ceased to be a vice general manager of the Company due to his retirement.

CHANGE OF DIRECTORS' INFORMATION

Change in the information of directors or supervisors that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the publication of the Company's 2019 annual report is set out below:

Dr. Ngai Wai Fung, an independent non-executive director of the seventh session of the Board of the Company, ceased to be an independent director of LDK Solar Co., Limited in April 2020 and ceased to be an independent non-executive director of Health and Happiness (H&H) International Holdings Limited in May 2020.

By the order of the Board
Cui Zhixiong
Chairman

August 27, 2020

CORPORATE INFORMATION

(as of the issue date of this report)

BOARD

The seventh session of the Board of the Company established by election by shareholders on February 27, 2020 comprises:

Cui Zhixiong	The Chairman, Executive Director
Xiao Yinhong	Executive Director, General Manager
Zhao Xiaohang	Non-executive Director
Xi Sheng	Non-executive Director
Luo Laijun	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 seventh session of the Board of the Company on February 27, 2020 and comprises:

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

REMUNERATION AND EVALUATION COMMITTEE

Appointed by the seventh session of the Board of the Company on February 27, 2020 and comprises:

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

NOMINATION COMMITTEE

Appointed by the seventh session of the Board of the Company on February 27, 2020 and comprises:

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

CORPORATE INFORMATION (CONTINUED)

(as of the issue date of this report)

STRATEGY AND INVESTMENT COMMITTEE (LEGAL COMPLIANCE COMMITTEE)

Appointed by the seventh session of the Board of the Company on February 27, 2020 and comprises:

Cui Zhixiong	Chief Member (Chairman)
Xiao Yinhong	Member
Zhao Xiaohang	Member
Xi Sheng	Member
Luo Laijun	Member

DIRECTOR RESIGNED (INCLUDING HIS RESPECTIVE DUTY IN THE RELEVANT COMMITTEE)

Han Wensheng	Non-executive Director, Member of the Strategy and Investment Committee (Legal Compliance Committee) (appointed on August 29, 2018, resigned on February 27, 2020)
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SUPERVISORY COMMITTEE

The seventh session of the Supervisory Committee established by election by shareholders on February 27, 2020 (other than the staff representative supervisors) comprises:

Ding Wanzhi	Chairperson of the Supervisory Committee (appointed by the supervisory committee of the Company on February 27, 2020), Staff Representative Supervisor (appointed by the staff representative meeting of the Company on January 9, 2020)
Liang Shuang	Staff Representative Supervisor (appointed by the staff representative meeting of the Company on January 9, 2020)
Zeng Yiwei	Supervisor
Zhu Yan	Independent Supervisor

SUPERVISORS RESIGNED

Huang Yuanchang	Chairperson of the Supervisory Committee (appointed by the supervisory committee of the Company on October 18, 2016, resigned on January 9, 2020), Staff Representative Supervisor (re-appointed by the staff representative meeting of the Company on January 17, 2017, resigned on January 9, 2020)
Xiao Wei	Staff Representative Supervisor (appointed by the staff representative meeting of the Company on January 17, 2017, resigned on January 9, 2020)
He Haiyan	Supervisor (appointed on October 18, 2016, resigned on February 27, 2020)
Rao Geping	Independent Supervisor (appointed on October 18, 2016, resigned on February 27, 2020)

CORPORATE INFORMATION (CONTINUED)

(as of the issue date of this report)

SENIOR MANAGEMENT

Appointed by the Board of the Company and comprises:

Xiao Yinhong	General Manager (appointed on October 18, 2016), Executive Director
Rong Gang	Vice General Manager (appointed on October 18, 2016)
Li Jinsong	Vice General Manager, Chief Financial Officer (Chief Accountant, appointed on November 14, 2016)
Yuan Leifeng	Vice General Manager (appointed on July 23, 2020)
Liang Haifeng	Vice General Manager (appointed on August 27, 2020)
Wang Jinping	Vice General Manager (appointed on August 27, 2020)
Huang Yuanchang	Vice General Manager (appointed on January 16, 2020)
Zhu Xiaoxing	Vice General Manager (appointed on October 18, 2016)
Yu Xiaochun	Company Secretary (Secretary to the Board, appointed on October 18, 2016)

SENIOR MANAGEMENT RESIGNED

Wang Wei	Vice General Manager (appointed on October 18, 2016, resigned on August 27, 2020)
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REGISTERED ADDRESS

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

PLACE OF BUSINESS IN HONG KONG

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

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 00696

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

CORPORATE INFORMATION (CONTINUED)

(as of the issue date of this report)

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

AUDITORS

INTERNATIONAL AUDITORS:

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PRC AUDITORS:

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AS TO HONG KONG LAW:

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CORPORATE INFORMATION (CONTINUED)

(as of the issue date of this report)

AS TO THE PRC LAW:

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COMPANY'S WEBSITES

WEBSITE OF CONSOLIDATED INFORMATION OF THE COMPANY:

www.travelsky.cn

WEBSITE ESTABLISHED IN ACCORDANCE WITH RULE 2.07C(6)(a) OF THE LISTING RULES:

www.travelskyir.com

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