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If you have sold or transferred all your shares in **TravelSky Technology Limited**, you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**中國民航信息網絡股份有限公司**  
**TravelSky Technology Limited**

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

**(Stock Code: 0696)**

**CONTINUING CONNECTED TRANSACTIONS:  
SOUTHERN AIRLINES TRANSACTIONS AND  
EASTERN AIRLINES TRANSACTIONS  
AND  
WAIVER IN RELATION TO SUCH  
CONTINUING CONNECTED TRANSACTIONS**

**Independent financial adviser to  
the Independent Board Committee and the Independent Shareholders**

**OSK**

**OSK Capital Hong Kong Limited**

**僑豐融資有限公司**

A letter from the Board is set out on pages 5 to 18 of this circular. A letter from the Independent Board Committee is set out on page 19 of this circular. A letter from OSK Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 33 of this circular.

A notice convening the EGM to be held at Conference Room, Prime Hotel, 2 Wangfujing Ave., Dongcheng District, Beijing, the PRC at 9:30 a.m. on Wednesday, 16 January 2013, together with the form of proxy, has been despatched to the Shareholders on 30 November 2012. Whether or not you wish to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Hong Kong Registrars Limited., in 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (in case of holders of H Shares) or the registered office of the Company at 7 Yu Min Da Street, Houshayu Town, Shunyi District, Beijing 101308, the PRC (in case of holders of Domestic Shares), no later than 24 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not prevent you from attending, and voting at, the EGM or any adjournment thereof if you so wish.

21 December 2012

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## DEFINITIONS

*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

“ACCA”	Accounting Centre of China Aviation Limited Company (中國航空結算有限責任公司), a wholly-owned subsidiary of the Company
“Airlines”	Eastern Airlines and Southern Airlines
“Announcement”	the announcement of the Company dated 30 November 2012 in relation to, among other things, the Continuing Connected Transactions, the Waiver and the proposed Annual Caps
“Annual Cap(s)”	the expected maximum aggregate annual amounts of the Continuing Connected Transactions for each of the three years ending 31 December 2015, as set out in the section headed “Proposed Annual Caps and Basis for the Annual Caps” in this circular
“associate(s)”	have the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CAAC”	中國民用航空局 (Civil Aviation Administration of China)
“Company”	TravelSky Technology Limited, a company incorporated under the laws of the PRC whose shares are listed on the Main Board of the Stock Exchange and whose American depositary shares are traded on the over-the-counter market in the United States of America
“connected person”	has the same meaning as ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the Eastern Airlines Transactions and the Southern Airlines Transactions
“Directors”	the directors of the Company

## DEFINITIONS

“Eastern Airlines”	中國東方航空股份有限公司 (China Eastern Airlines Corporation Limited*), a subsidiary of Eastern Holding as at the Latest Practicable Date, and reference to Eastern Airlines in this circular shall include its subsidiaries and associates unless the context otherwise requires
“Eastern Airlines Transactions”	the continuing connected transactions between ACCA and Eastern Airlines in relation to the provision of (i) revenue accounting systems development and support services; (ii) passenger and cargo revenue accounting and settlement services; and (iii) commercial analysis and management products application services by ACCA to Eastern Airlines and its subsidiaries as set out in this circular
“Eastern Holding”	中國東方航空集團公司 (China Eastern Air Holding Limited*) which has a shareholding of 11.22% in the Company and is a substantial shareholder of the Company as at the Latest Practicable Date
“Eastern Wuhan Airlines”	China Eastern Airlines Wuhan Company Limited (中國東方航空武漢有限責任公司), a subsidiary of Eastern Holding with a shareholding of 0.13% in the Company as at the Latest Practicable Date
“EGM”	the extraordinary general meeting of the Company to be convened at 9:30 a.m. on Wednesday, 16 January 2013 for the purpose of, among other things, approving the Continuing Connected Transactions and the proposed Annual Caps mentioned in this circular by the Independent Shareholders, and the notice of which has been despatched to the Shareholders in 30 November 2012
“Group”	the Company and its subsidiaries, including ACCA
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region
“Independent Board Committee”	the independent board committee of the Company to be formed by the Company to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps as set out in this circular

## DEFINITIONS

“Independent Shareholders”	the shareholders of the Company who are not required to abstain from voting in respect of the relevant Continuing Connected Transactions at the EGM
“Latest Practicable Date”	18 December 2012, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“OSK Capital”	OSK Capital Hong Kong Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the proposed Annual Caps, and a licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“PRC”	the People’s Republic of China and, for the purpose of this circular, excludes the Hong Kong Special Administrative Region and the Macau Special Administrative Region
“Previous Waiver”	the previous waiver from strict compliance with the requirement of having written agreements under Rule 14A.35(1) of the Listing Rules granted by the Stock Exchange in 2009 in relation to the Continuing Connected Transactions
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholders of the Company
“Southern Airlines”	中國南方航空股份有限公司 (China Southern Airlines Company Limited*), a subsidiary of Southern Holding as at the Latest Practicable Date, and reference to Southern Airlines in this circular shall include its subsidiaries and associates unless the context otherwise requires

## DEFINITIONS

“Southern Airlines Transactions”	the continuing connected transactions between the Company and Southern Airlines in relation to the provision of the technology services by the Company to Southern Airlines and its subsidiaries as set out in this circular
“Southern Holding”	中國南方航空集團公司 (China Southern Air Holding Company*) which has a shareholding of 11.94% in the Company and is a substantial shareholder of the Company as at the Latest Practicable Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Waiver”	a waiver from strict compliance with the requirement of having written agreements under Rule 14A.35(1) of the Listing Rules with respect to the Continuing Connected Transactions. Such waiver is for a three-year term commencing from 1 January 2013 and ending on 31 December 2015
“Xiamen Airlines”	Xiamen Airlines Company Limited (廈門航空有限公司), a subsidiary of Southern Holding with a shareholding of 2.25% in the Company as at the Latest Practicable Date
“%”	per cent

*For the purpose of this circular, unless otherwise indicated, the exchange rate at RMB1 = HK\$1.23 has been used, where applicable, for the purpose of illustration only and not constitute a representation that any amount have been, could have been or may be exchanged.*

LETTER FROM THE BOARD



中國民航信息網絡股份有限公司  
TravelSky Technology Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 0696)

*Executive Directors:*

Mr. Xu Qiang (*Chairman*)  
Mr. Cui Zhixiong  
Mr. Xiao Yinhong

*Non-executive Director:*

Mr. Wang Quanhua  
Mr. Sun Yude  
Mr. Xu Zhao

*Independent non-executive Directors:*

Mr. Cheung Yuk Ming  
Mr. Zhou Deqiang  
Mr. Pan Chongyi

*Registered Office:*

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

*Principal place of business  
in Hong Kong:*

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

21 December 2012

*To the Shareholders*

Dear Sir/Madam,

**CONTINUING CONNECTED TRANSACTIONS:  
SOUTHERN AIRLINES TRANSACTIONS AND  
EASTERN AIRLINES TRANSACTIONS  
AND  
WAIVER IN RELATION TO SUCH  
CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

Reference is made to the Announcement. The Stock Exchange has granted the Waiver from strict compliance with the requirement of having written agreements under Rule 14A.35(1) of the Listing Rules. The Waiver was granted on the conditions, among other things, that the Board seeks a general mandate with a three-year term from the Independent Shareholders to carry out the Continuing Connected Transactions under the Waiver. The general mandate that the Board proposes to seek from the Independent Shareholders is for a term of three years, commencing from 1 January 2013 to 31 December 2015. In the event that the terms of new written agreements to be subsequently entered into between the Company and the Airlines in relation to the Continuing Connected Transactions are materially different from those being approved by the Independent Shareholders, the Company will re-comply with the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## LETTER FROM THE BOARD

The purposes of this circular are to provide you with, among other things, (i) further details of the Continuing Connected Transactions; (ii) a letter from OSK Capital containing its advice to the Independent Board Committee and the Independent Shareholders on the Continuing Connected Transactions and the proposed Annual Caps; and (iii) the recommendation of the Independent Board Committee regarding the Continuing Connected Transactions and the proposed Annual Caps to the Independent Shareholders.

### **BACKGROUND AND REASONS FOR APPLICATION FOR THE WAIVER**

References are made to the announcements of the Company dated 2 September 2009 and 4 November 2009, respectively, and the circular of the Company dated 13 November 2009 in relation to, among other things, the Continuing Connected Transactions and the Previous Waiver. The Previous Waiver, together with the existing agreements between the Company and Southern Airlines in relation to the Southern Airlines Transactions and between ACCA and Eastern Airlines in relation to the Eastern Airlines Transactions, will expire on 31 December 2012. The Company and ACCA will continue such Continuing Connected Transactions after such date. However, the Company expects that new written agreements for the Continuing Connected Transactions between the Group and the Airlines may not be entered into on or before 31 December 2012.

The Group plays a strategic and critical role in the proper functioning of civil aviation in the PRC and the services provided by the Group are akin to public services. It is in no position to stop or even partially cease to provide its services simply for the absence of written agreements, as any such interruption would bring untold inconvenience and financial loss to all market participants including dependent industries such as tourism and hospitality sectors. It also constitutes a breach of its public service covenant with CAAC to provide stable, reliable and zero-interruption booking services for the PRC airline industry.

It has long been the situation that the Company faces a dilemma between, on the one part, the duties to comply with its public service covenant as well as to protect the interests of the Company and its Shareholders as a whole and, on the other part, the obligations to observe certain requirements under the Listing Rules. The requirement of having written agreements under Rule 14A.35(1) of the Listing Rules has been taken advantage by some of the airlines, which are also our connected persons, against the Group with respect to their negotiation of agreements with the Group in attempts to extract advantages, including without limitation to bargain for the provision of additional services by the Group free of charges. These airlines have been used to applying delay tactic in the negotiation process in the previous Continuing Connected Transactions agreement renewal process as they knew that the Group had little bargaining power due to the time constraint, in anticipation that the Group would be forced to accept detrimental terms offered by the Airlines for the sake of complying with such requirement under Rule 14A.35(1) of the Listing Rules. Furthermore, such agreement renewal process may also be delayed due to irresponsiveness of the airlines, which is beyond the control of the Group. In this situation, the Group is left with little option to force the airlines to respond as the Group is in no position to stop or even partially stop to provide its services to the airlines simply for the absence of written agreements.



## LETTER FROM THE BOARD

Therefore, the Company considers that strict compliance with the requirement of having written agreements under Rule 14A.35(1) of the Listing Rules would be unduly burdensome and impractical and, in the situation where airlines adopt delay tactics in attempts to extract advantages, would prejudice and seriously detriment the interests of the Group as the Group would be forced to accept detrimental terms offered by the Airlines for the sake of complying with such requirement.

In view of the foregoing, the Company has applied to the Stock Exchange for and the Stock Exchange has granted the Waiver from strict compliance with the requirement of having written agreements under Rule 14A.35(1) of the Listing Rules with respect to the following Continuing Connected Transactions. The Waiver is for a three-year term commencing from 1 January 2013 to 31 December 2015. The Waiver has been granted on conditions, among other things, that the Company publishes the Announcement and that the Board seeks a general mandate with a three-year term from the Independent Shareholders to carry out the Continuing Connected Transactions under the Waiver.

### CONTINUING CONNECTED TRANSACTIONS UNDER THE WAIVER

#### Details of the Continuing Connected Transactions under the Waiver

##### *Southern Airlines Transactions: Provision of technology services to Southern Airlines*

Parties:	<i>Service provider:</i> The Company
	<i>Service recipient:</i> Southern Airlines
Terms:	1 January 2013 to 31 December 2015
Services:	The scope of technology services consists of the following: <ul style="list-style-type: none"><li>(i) flight control system services which provide, among other services, the consolidated information, flight formation, flight control, flight tickets sales, automatic tickets sales and announcement of freight price;</li><li>(ii) electronic travel distribution system services which provide, among other services, flight information display, real-time flight reservation, automatic tickets sales, tickets price display and other travel-related services;</li><li>(iii) airport passenger processing system services which provide check-in, boarding and load planning services; and</li></ul>

## LETTER FROM THE BOARD

- (iv) civil aviation and commercial data network services which provide, among other services, the network transmission services and connection services.

Service fees:

The fees for the technology services are as follows:

- (1) the abovementioned (i) “the flight control system services” and (ii) “electronic travel distribution system services” are generally referred to as “airlines passenger booking system services”. The pricing of such airlines passenger booking system services is subject to the maximum guidance prices prescribed by CAAC, being the progressive per passenger booking fee ranging from RMB4.5 to RMB6.5 for domestic flights and RMB6.5 to RMB7 for international flights, depending on the monthly passenger booking volume. The Company may determine the actual prices for airlines passenger booking system services through arm’s-length negotiation with Southern Airlines having taken into account of its passenger booking volume, as long as such prices do not exceed the abovementioned maximum guidance prices prescribed by CAAC;
- (2) the pricing of the abovementioned (iii) “airport passenger processing system services” is also subject to the maximum guidance prices prescribed by CAAC, being (a) RMB7 per passenger for international and regional flights and RMB4 per passenger for domestic flights, and (b) RMB500 per aircraft for load balancing services. The Company may also determine the actual prices for airport passenger processing system services through arm’s-length negotiation with Southern Airlines having taken into account of a number of factors such as the types of the flights, transportation volume, level of services and size of the aircraft, as long as the prices do not exceed the above maximum guidance prices prescribed by CAAC; and

## LETTER FROM THE BOARD

- (3) the pricing of the abovementioned (iv) “civil aviation and commercial data network services” (other than physical identified device (“PID”) connection and maintenance services) are not governed by guideline of CAAC or the framework of any other PRC airlines regulatory body but are subject to mutual negotiation between the parties based on the principle of fairness and reasonableness and with reference to market conditions. The pricing of PID connection and maintenance services is subject to the maximum guidance price of RMB200 per PID per year as prescribed by CAAC.

The service fees shall be calculated on a monthly basis and shall be paid in cash within 30 days after receipt of the invoice.

The Directors are of the view that the basis of determination of the service fees mentioned above is fair and reasonable.

### *Eastern Airlines Transactions: Provision of the ACCA services to Eastern Airlines*

Parties: *Service provider:*  
ACCA

*Service recipient:*  
Eastern Airlines

Terms: 1 January 2013 to 31 December 2015

Services: The scope of services consists of the following:

- (i) revenue accounting systems development and support services, which mainly provide installation of application software for revenue management system and setting up of the database; technical and application support; maintenance of the software, hardware environment and system safety, etc; setting up of the communication connection solution in respect of the revenue management systems and assisting Eastern Airlines in relevant application, installation and testing works; provision of necessary system training, operation and maintenance guidelines;

## LETTER FROM THE BOARD

- (ii) passenger and cargo revenue accounting and settlement services, which mainly provide business clearing and settlement; sorting, archiving, managing, proofreading, mailing, clearing and business handling of passenger and cargo air tickets; data collection and handling as provided to Eastern Airlines by foreign and domestic airlines, report examination and correction, initial and subsequent examinations and adjustment, mail and telegraph preparation and handling, invoice preparation, sorting, archiving, managing, proofreading, mailing, clearing and business handling, etc of invoices and tickets; and
- (iii) commercial analysis and management products application services.

Service fees:

The fees for the services are as follows:

- (1) the pricing of the abovementioned (i) “revenue accounting systems development and support services” is not governed by any regulatory pricing guidelines but are determined through arm’s-length negotiation between ACCA and Eastern Airlines with reference to the costs and specifications of the relevant type of services to be provided and varies depending on the transaction volume (i.e. the higher the transaction volume, the lower the rate). The rate of unit price for such services for passengers is no more than RMB0.4 for domestic passengers and no more than RMB1.65 for international passengers. The rate of unit price for such services for cargo is no more than RMB1.8 for domestic cargo and no more than RMB5.2 for international cargo;
- (2) the pricing of the abovementioned (ii) “passenger and cargo revenue accounting and settlement services” is generally subject to the maximum guidance prices prescribed by CAAC, which are generally calculated based on certain maximum percentage rates, ranging from 1% to 1.5%, of the total amount involved in the revenue accounting, depending on each individual type of accounting and settlement services. The Company may determine the actual rates for such passenger and cargo revenue accounting and settlement services through arm’s-length negotiation with Eastern Airlines, which are generally not more than 1% of the total amount involved for the revenue accounting. Such rates are generally lower than the maximum rates prescribed by CAAC and are determined by reference to the transaction volume with Eastern Airlines (i.e. the higher the transaction volume, the lower the rate); and

## LETTER FROM THE BOARD

- (3) the pricing of the abovementioned (iii) “commercial analysis and management products application services” is not governed by any regulatory pricing guidelines but are determined through arm’s length negotiation between ACCA and Eastern Airlines. Such fees generally consist of a fixed monthly fee of no more than RMB500,000 for usage and operation maintenance for system analysis and management products; a one-off system implementation fee of RMB100,000; and a commercial development fee of RMB2,000 per person per day.

The service fees shall generally be calculated on a monthly basis and shall be settled in cash.

The Directors are of the view that the basis of determination of the service fees mentioned above is fair and reasonable.

### **Internal control and mechanism to regulate the Continuing Connected Transactions**

When determining the pricing terms of agreements in relation to the Continuing Connected Transactions, the Company will generally have regard to historical pricing structure and ensure that the terms are comparable to those provided to other airlines. The pricing terms are also generally tied in with transaction volume of the Airlines. The Company will also ensure that the targeted revenue deriving from the Continuing Connected Transactions will conform with the increasing trend of business volume of the entire aviation industry.

Various internal departments of the Company will participate in the negotiations with the Airlines and the review of the terms, including the pricing terms, of agreements in relation to the Continuing Connected Transactions. The terms will be reviewed by various internal departments the Company to ensure that they are in compliance with the applicable regulatory pricing guidelines and, in the situation where no regulatory pricing guidelines are applicable, are comparable to the market conditions or terms provided to other independent third parties. The Finance Department of the Company will also review the pricing terms and payment terms of the agreements and will analyse their impacts on the Group’s financial performance with regard to the expected costs and revenue of the Group. The Company is, therefore, of the view that the Company has in place effective internal procedures to ensure that the pricing terms of the Continuing Connected Transactions are on normal commercial terms and in the interest of the Company and its Shareholders as a whole.

## LETTER FROM THE BOARD

To ensure that the Continuing Connected Transactions are carried out in accordance with the regulatory guidelines and terms as disclosed herein and those to be agreed in the renewal agreements of the Continuing Connected Transactions, the Company has in place the following internal control procedures and mechanism:

- (1) the majority types of services under the Southern Airlines Transactions and almost all types of services under the Eastern Airlines Transactions are provided and carried out through the Company's large scale computerized automated system with pre-set technology parameters and pricing formulas as agreed under the relevant Continuing Connected Transactions agreements. Changes of such pre-set technology specifications and pricing terms can only be made after having received joint approvals from various internal departments of the Company to ensure that the terms of the Continuing Connected Transactions are adherent and strictly followed; and
- (2) for other types of services under the Southern Airlines Transactions where separate service agreements may be entered into, the entering into of such individual agreements will be scrutinized by a number of internal departments of the Company to ensure that the terms of such agreements will be in compliance with regulatory guidelines, where applicable, and the market practice, and will not deviate from the terms of the Southern Airlines Transactions as disclosed herein.

Furthermore, the auditors of the Company will conduct annual review of the Continuing Connected Transactions in compliance with Chapter 14A of the Listing Rules and the Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" as issued by the Hong Kong Institute of Certified Public Accountants to report that, among other things, such transactions are in accordance with the pricing policies of the Company and have been entered into in accordance with the relevant agreements (if have been entered into) governing the transactions in accordance with Rule 14A.38 of the Listing Rules.

As such, the Company is of the view that it possess adequate mechanism, internal control procedures and external supervision in place to ensure the terms of each of the Continuing Connected Transactions are adherent and strictly followed in accordance with the regulatory guidelines and the agreements of the Continuing Connected Transactions, or, if written agreements have not yet been entered into, the terms as disclosed herein.

## LETTER FROM THE BOARD

### HISTORICAL TRANSACTION RECORDS

Set out below is a summary of the aggregated amounts of the Continuing Connected Transactions for the three years ended 31 December 2011 and ten months ended 31 October 2012:

	Years ended 31 December			10 months ended 31 October 2012	Annual caps for the year ending 31 December 2012
	2009 (RMB)	2010 (RMB)	2011 (RMB)	(RMB)	(RMB)
Southern Airlines Transactions	366,837,000 (approximately HK\$451,209,510)	411,726,000 (approximately HK\$506,422,980)	420,466,110 (approximately HK\$517,173,315)	358,940,000 (approximately HK\$441,496,200)	697,756,000 (approximately HK\$858,239,880)
Eastern Airlines Transactions	44,478,000 (approximately HK\$54,707,940)	48,626,000 (approximately HK\$59,809,980)	68,419,000 (approximately HK\$84,155,370)	59,664,000 (approximately HK\$73,386,720)	124,366,000 (approximately HK\$152,970,180)

*Note:*

- (1) The historical transaction figures for the years ended 31 December 2009, 2010 and 2011 are audited figures of the Group and the figures for the 10 months ended 31 October 2012 are unaudited and extracted from internal management accounts.
- (2) The annual caps of Southern Airlines Transactions and Eastern Airlines Transactions for the year ending 31 December 2012 were determined based on the Company's audited full year transaction amounts of 2008 for such transactions. Please refer to the Company's circular dated 13 November 2009 for further details.

### PROPOSED ANNUAL CAPS AND BASIS FOR THE ANNUAL CAPS

#### Proposed Annual Caps

Set out below is a summary of the proposed Annual Caps for the Continuing Connected Transactions proposed for the three years ending 31 December 2015:

	Years ending 31 December		
	2013 (RMB)	2014 (RMB)	2015 (RMB)
Southern Airlines Transactions	556,066,000 (approximately HK\$683,961,180)	639,476,000 (approximately HK\$786,555,480)	735,398,000 (approximately HK\$904,539,540)
Eastern Airlines Transactions	90,484,000 (approximately HK\$111,295,320)	104,057,000 (approximately HK\$127,990,110)	119,665,000 (approximately HK\$147,187,950)

## LETTER FROM THE BOARD

### **Basis of the Annual Caps for the Continuing Connected Transactions**

#### **A. *Southern Airlines Transactions***

The proposed Annual Caps for Southern Airlines Transactions represent an estimated annual growth rate of 15% in the transaction volume calculated based on the Company's audited full year transaction amount of 2011. The Directors are of the view that it is more appropriate to use the full year transaction amount of 2011 instead of that of 2012 as the basis of determination for the proposed Annual Caps because the full year transaction amount of 2011 has been audited while that of 2012 has not. The proposed Annual Caps and the estimated 15% annual transaction volume growth rate are determined after having taken into account of (i) the historical transaction amounts of such type of transactions between the Group and Southern Airlines; (ii) the anticipated annual growth of approximately 11% of the PRC's gross passenger transportation volume in the next few years as set out under the "Twelfth Five-Year Development Plan of the PRC Civil Aviation"; (iii) the expansion of the Southern Airlines' businesses from time to time through acquisition of other airlines or establishing more subsidiaries or branches; and (iv) a buffer necessary to accommodate the unexpected fluctuation in the annual growth of transaction volume.

#### **B. *Eastern Airlines Transactions***

The proposed Annual Caps for Eastern Airlines Transactions represent an estimated annual growth rate of 15% in the transaction volume calculated based on the Company's audited full year transaction amount of 2011. The Directors are of the view that it is more appropriate to use the full year transaction amount of 2011 instead of that of 2012 as the basis of determination for the proposed Annual Caps because the full year transaction amount of 2011 has been audited while that of 2012 has not. The proposed Annual Caps and the estimated 15% annual transaction volume growth rate are determined after having taken into account of (i) the historical transaction amounts of such type of transactions between ACCA and Eastern Airlines for the year ended 31 December 2011 ; (ii) the anticipated annual growth of over 10% of the gross passenger and cargo transportation volume and the overall business scale of PRC civil aviation industry in the next few years as set out under the "Twelfth Five-Year Development Plan of the PRC Civil Aviation"; (iii) the expansion of the Eastern Airlines' businesses from time to time through acquisition of other airlines or establishing more subsidiaries or branches; and (iv) a buffer necessary to accommodate the unexpected fluctuation in the annual growth of transaction volume.

### **REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

The provision of the various services as described in the section headed "Continuing Connected Transactions under the Waiver" is in the ordinary and usual course of business of the Group. The Group will receive service fees for provision of such services and thus such transactions will increase the total revenue of the Group.



## LETTER FROM THE BOARD

The Directors are of the view that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Continuing Connected Transactions and the proposed Annual Caps are fair and reasonable and in the interests of the Company and the shareholders as a whole.

Despite that Mr. Wang Quanhua does not have any personal interest in the Southern Airlines Transactions, he has abstained from voting on the board resolution in relation to Southern Airlines Transactions as he is a director of Southern Airlines. Despite that Mr. Xu Zhao does not have any personal interest in the Eastern Airlines Transactions, he has abstained from voting on the on the board resolution in relation to Eastern Airlines Transactions as he is a director of Eastern Airlines.

### IMPLICATIONS UNDER THE LISTING RULES

Southern Airlines is a subsidiary of Southern Holding, a substantial shareholder of the Company. As an associate of a substantial shareholder of the Company, Southern Airlines is a connected person of the Company under Rule 14A.11(4) of the Listing Rules. Therefore, the Southern Airlines Transactions constitute continuing connected transactions of the Company.

Eastern Holding is a substantial shareholder of the Company. Eastern Airlines, being a subsidiary of Eastern Holding, is an associate of Eastern Holding. Therefore, according to Rule 14A.11(4) of the Listing Rules, Eastern Airlines, being an associate of a connected person, is also a connected person of the Company. Therefore, the Eastern Airlines Transactions constitute continuing connected transactions of the Company.

The Company proposes to seek a general mandate for a period of three years ending 31 December 2015 from the Independent Shareholders in order to continue the Continuing Connected Transactions under the Waiver. In the event that the terms of new written agreements to be subsequently entered into with the Airlines are materially different from those being approved by the Independent Shareholders, the Company will re-comply with the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### GENERAL INFORMATION

#### Information on the Group

The Group is principally engaged in the provision of aviation information technology services in the PRC as well as provision of accounting, settlement and clearing services and information system development and support services to domestic and worldwide airline companies.

## LETTER FROM THE BOARD

### **Information on ACCA**

ACCA, a wholly owned subsidiary of the Company since 3 March 2009, is principally engaged in the provision of accounting, settlement and clearing services and information system development and support services to commercial airlines and other aviation companies.

### **Information on Eastern Airlines**

Eastern Airlines is a company listed on the Main Board of the Stock Exchange (Stock Code: 670) and is principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery and other extended transportation services.

### **Information on Southern Airlines**

Southern Airlines is principally engaged in the provision of domestic, Hong Kong and Macau and international passenger, cargo and mail airline services. It is also a company listed on the Main Board of the Stock Exchange (Stock Code: 1055).

### **EGM**

The EGM will be held at Conference Room, Prime Hotel, 2 Wangfujing Ave., Dongcheng District, Beijing, the PRC at 9:30 a.m. on Wednesday, 16 January 2013 to consider and, if thought fit, approve, among other matters, (i) the Continuing Connected Transactions; and (ii) the proposed Annual Caps. Notice of the EGM has been despatched to the Shareholders on 30 November 2012.

A form of proxy for use at the EGM has also been despatched to the Shareholders on 30 November 2012. Whether or not you wish to attend the EGM personally, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (in case of holders of H Shares) or the registered office of the Company at 7 Yu Min Da Street, Houshayu Town, Shunyi District, Beijing 101308, the PRC (in case of holders of Domestic Shares), no later than 24 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not prevent you from attending, and voting at, the EGM or any adjournment thereof if you so wish.

## LETTER FROM THE BOARD

### VOTING ARRANGEMENTS

Pursuant to the Listing Rules, Shareholders with a material interest in the Continuing Connected Transactions and their respective associates shall abstain from voting on the relevant resolution(s). The table below sets out the Shareholders and their respective associates who will abstain from voting on the resolutions to consider and approve the general mandate in respect of the Continuing Connected Transactions under the Waiver:

<b>Transactions</b>	<b>Shareholders to abstain from voting</b>
Southern Airlines Transactions	Southern Holding, Xiamen Airlines
Eastern Airlines Transactions	Eastern Holding, Eastern Airlines, Eastern Wuhan Airlines

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the EGM must be taken by poll. The Chairman of the EGM will demand a poll for the resolutions to be proposed at the EGM in accordance with the articles of association of the Company. The results of the voting will be announced in accordance with Rule 2.07C of the Listing Rules after the EGM.

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 19 of this circular in connection with the Continuing Connected Transactions and the proposed Annual Caps. Your attention is also drawn to the letter of advice from OSK Capital to the Independent Board Committee and the Independent Shareholders in connection with the Continuing Connected Transactions and the proposed Annual Caps and the principal factors and reasons considered by it in arriving at such advice set out on pages 20 to 33 of this circular.

The Independent Board Committee, having taken into account the advice of OSK Capital, considers that (i) the Continuing Connected Transactions are in the ordinary and usual course of business of the Group, (ii) the terms of the Continuing Connected Transactions are on normal commercial terms and (iii) the terms of the Continuing Connected Transactions and the proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions for approving the Continuing Connected Transactions and the proposed Annual Caps at the EGM.

**LETTER FROM THE BOARD**

**GENERAL**

Your attention is also drawn to the information set out in the appendix to this circular.

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



中國民航信息網絡股份有限公司  
TravelSky Technology Limited

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

(Stock Code: 0696)

21 December 2012

To the Independent Shareholders

Dear Sir/Madam,

## CONTINUING CONNECTED TRANSACTIONS

We refer to the circular issued by the Company to its shareholders dated 21 December 2012 (the "Circular") of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to consider the transactions contemplated under the Continuing Connected Transactions and the proposed Annual Caps. OSK Capital has been appointed as independent financial adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from OSK Capital set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, OSK Capital set out in its letter of advice as contained in the Circular, we consider that (i) the Continuing Connected Transactions are in the ordinary and usual course of business of the Group, (ii) the terms of the Continuing Connected Transactions are on normal commercial terms and (iii) the terms of the Continuing Connected Transactions and the proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions approving the Continuing Connected Transactions and the proposed Annual Caps at the EGM.

Yours faithfully,

For and on behalf of the

**Independent Board Committee**

**Cheung Yuk Ming Zhou Deqiang Pan Chongyi**

*Independent Non-executive Directors*

## LETTER FROM OSK CAPITAL

*The following is the text of the letter of advice from OSK Capital to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



12/F., World-Wide House  
19 Des Voeux Road Central  
Hong Kong

21 December 2012

TravelSky Technology Limited  
7 Yu Min Da Street,  
Houshayu Town,  
Shunyi District,  
Beijing 101308,  
the PRC

*To: the Independent Board Committee and the Independent Shareholders  
of TravelSky Technology Limited*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps, details of which are contained in the letter from the Board (the “**Letter from the Board**”) of the circular dated 21 December 2012 (the “**Circular**”) issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As referred to in the Letter from the Board, Southern Airlines is a subsidiary of Southern Holding, a substantial shareholder of the Company. As an associate of a substantial shareholder of the Company, Southern Airlines is a connected person of the Company under Rule 14A.11(4) of the Listing Rules. Therefore, the Southern Airlines Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Eastern Holding is a substantial shareholder of the Company. Eastern Airlines, being a subsidiary of Eastern Holding, is an associate of Eastern Holding. Therefore, according to Rule 14A.11(4) of the Listing Rules, Eastern Airlines, being an associate of a connected person, is also a connected person of the Company. Therefore, the Eastern Airlines Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

## LETTER FROM OSK CAPITAL

The Company proposes to seek a general mandate for a period of three years ending 31 December 2015 from the Independent Shareholders in order to continue the Continuing Connected Transactions under the Waiver. In the event that the terms of new written agreements to be subsequently entered into with the Airlines are materially different from those being approved by the Independent Shareholders, the Company will re-comply with the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Continuing Connected Transactions are subject to approval by the Independent Shareholders at the EGM. Southern Holding and Xiamen Airlines will abstain from voting at the EGM on the resolution approving the Southern Airlines Transactions and the applicable Annual Caps. Eastern Holding, Eastern Airlines and Eastern Wuhan Airlines will abstain from voting on the resolution approving the Eastern Airlines Transactions and the applicable Annual Caps.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide you with an independent opinion and recommendation as to whether the (1) Continuing Connected Transactions are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole; and (2) whether the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

### **BASIS OF OUR OPINION**

In formulating our advice and recommendation, we have relied on the accuracy of the information and facts supplied, and the opinions expressed by the Group, the Directors and the Group's management to us. We have assumed that all statements of belief and intention made by the Directors in the Circular were made after due and careful enquiries. We have also assumed that all information, representations and opinion made or referred to in the Circular were true, accurate and complete at the time they were made and will continue to be true at the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Group, the Directors and the Group's management, and have been advised by the Directors that no material facts have been omitted from the information provided by or referred to in the Circular.

In rendering our opinion, we have researched, analyzed and relied on information in relation to the Group, the Continuing Connected Transactions and the Annual Caps as set out below:

- (i) the annual report of the Company for the year ended 31 December 2010 (the "**Annual Report 2010**");
- (ii) the annual report of the Company for the year ended 31 December 2011 (the "**Annual Report 2011**");

## LETTER FROM OSK CAPITAL

- (iii) the official website of the Company;
- (iv) the circular dated 13 November 2009 issued by the Company (the “**2009 Circular**”); and
- (v) the Circular.

We have also researched, analyzed and relied on information as set out below:

- (i) China Statistical Yearbook 2010 (《中國統計年鑑－2010年》) published by the National Bureau of Statistics of China (中華人民共和國國家統計局);
- (ii) the report headed “Production statistics report for nationwide airports in 2010” (《2010年全國機場生產統計公報》) published on the official website of CAAC on 15 March 2011;
- (iii) the report headed “Production statistics report for nationwide transportation airports in 2011” (《2011年全國運輸機場生產統計公報》) published on the official website of CAAC on 21 March 2012; and
- (iv) the statistics published on the official website of each of Eastern Airlines and Southern Airlines.

We have assumed such information to be accurate and reliable and have not carried out any independent verification on the accuracy of such information. Such relevant information provides us with a basis on which we have been able to formulate our independent opinion.

We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules (including the notes thereto) to formulate our opinion and recommendation. We have not, however, conducted any form of in-depth investigations into the business affairs, financial position and future prospects of the Group and the parties to the Continuing Connected Transactions, nor carried out any independent verification of the information supplied, representations made or opinions expressed by the Group, the Directors and the Group’s management.



## LETTER FROM OSK CAPITAL

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation regarding the Continuing Connected Transactions and the Annual Caps, we have taken into account the following principal factors and reasons:

#### I. BACKGROUND

##### 1. Information on the Group and ACCA

The Group is principally engaged in provision of aviation information technology services in the PRC. As referred to in the Annual Report 2011, being a leading provider of information technology solutions for the China's aviation and travel industry, the Group is at a core position along the value chain of China's aviation and travel service distribution. While the Group provides advanced aviation information technology and extended services to the Chinese commercial airlines, it also distributes commercial airlines products and services to airports, travel products and services providers, travel agencies, travel service distributors, ticketing offices, corporate clients, individual consumers and cargo shippers.

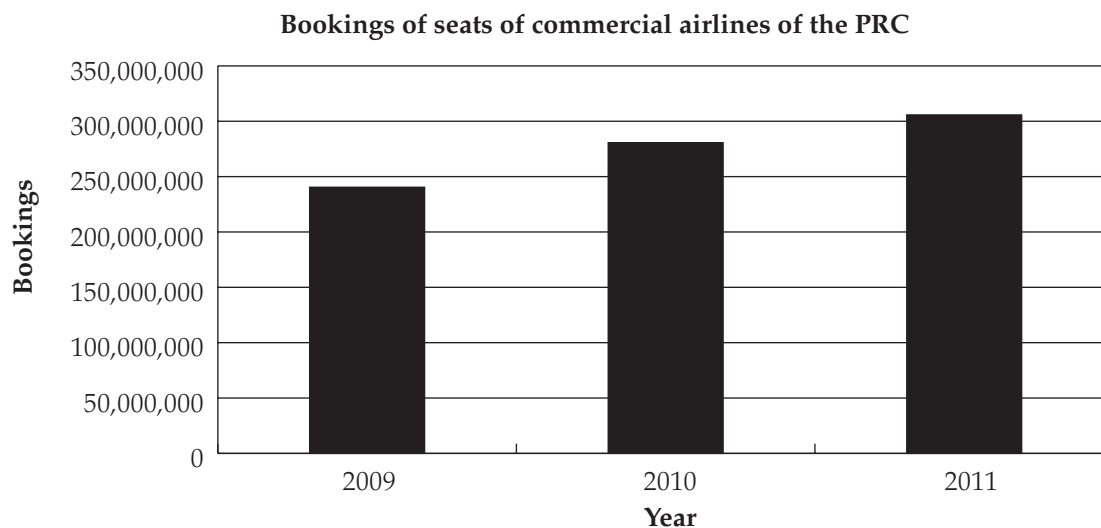
The Group's total revenues for each of the three years ended 31 December 2011 is set out below:

	Year ended 31 December		
	2009	2010	2011
	(RMB' 000)	(RMB' 000)	(RMB' 000)
	(Audited)	(Audited)	(Audited)
The Group's total revenues	2,619,524	3,054,403	3,672,064

*Source: the Annual Report 2010 and the Annual Report 2011*

## LETTER FROM OSK CAPITAL

The Group's information in respect of bookings of seats of commercial airlines of the PRC for each of the three years ended 31 December 2011 is set out below:



*Source: the website of the Company*

From the year ended 31 December 2009 to the year ended 31 December 2011, (i) the Group's audited total revenues achieved a compound average growth rate ("CAGR") of approximately 18.4%; and (ii) the Group's total bookings on seats of flights of commercial airlines of the PRC achieved a CAGR of approximately 12.8%. As advised by the Directors, the growth in the Group's total revenues and total bookings of seats of flights of commercial airlines of the PRC were attributable to: (i) the rapid economic growth in the PRC; (ii) the increase of international trade between the PRC and other countries; and (iii) the growing aviation and tourist industries in the PRC.

ACCA, a wholly-owned subsidiary of the Company since 3 March 2009, is principally engaged in the provision of accounting, settlement and clearing services and information system development as well as support services to commercial airlines and other aviation companies.

## 2. Information on Eastern Airlines and Southern Airlines

Eastern Airlines is a company listed on the Main Board of the Stock Exchange (stock code: 670) and is principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery and other extended transportation services. Southern Airlines is principally engaged in the provision of domestic, Hong Kong and Macau and international passenger, cargo and mail airline services. It is also a company listed on the Main Board of the Stock Exchange (stock code: 1055).

## LETTER FROM OSK CAPITAL

Set out below is the information on the number of passengers carried by each of Eastern Airlines and Southern Airlines from 2009 to 2011:

Airlines	Year ended 31 December			CAGR
	2009	2010	2011	
	<i>(in approximate million)</i>	<i>(in approximate million)</i>	<i>(in approximate million)</i>	
Eastern Airlines	44.04	64.93	68.72	24.9%
Southern Airlines	66.28	76.46	80.67	10.3%

*Source: The official websites of Eastern Airlines and Southern Airlines.*

Set out below is the information on the revenue passenger kilometers (the “RPK”, being a measure of passengers, which is expressed as the product of number of paying passengers and kilometers flown) by each of Eastern Airlines and Southern Airlines from 2009 to 2011:

Airlines	Year ended 31 December			CAGR
	2009	2010	2011	
	<i>(in approximate million)</i>	<i>(in approximate million)</i>	<i>(in approximate million)</i>	
Eastern Airlines	60,942	93,153	100,895	28.7%
Southern Airlines	93,002	111,327	122,342	14.7%

*Source: The official websites of Eastern Airlines and Southern Airlines.*

Based on the above, we noted that, from the year ended 31 December 2009 to the year ended 31 December 2011, (i) the CAGR of the number of passengers carried by each of Eastern Airlines and Southern Airlines ranged between approximately 10.3% and 24.9%; and (ii) the CAGR of the RPK of each of the Eastern Airlines and Southern Airlines ranged between approximately 14.7% and 28.7%. We consider that the aforesaid increases in the number of passengers carried by and RPK of the Eastern Airlines and Southern Airlines demonstrated the growth of the business of these two airlines.

### 3. Economy and aviation industry in the PRC

Based on (i) the report headed “Production statistics report for nationwide transportation airports in 2011” (《2011年全國運輸機場生產統計公報》) published on the official website of CAAC on 21 March 2012; and (ii) the report headed “Production statistics report for nationwide airports in 2010” (《2010年全國機場生產統計公報》) published on the official website of CAAC on 15 March 2010, the number of passenger traffic of the PRC airports (measured by number of passengers) in the PRC increased from approximately 564.3 million for the year ended 31 December 2010 to approximately 620.5 million for the year ended 31 December 2011, representing a year-on-year increase of approximately 10.0%.

## LETTER FROM OSK CAPITAL

Based on China Statistical Yearbook 2011 (《中國統計年鑑—2011年》) published by the National Bureau of Statistics of China (中華人民共和國國家統計局), from 2000 to 2010, the PRC's Gross Domestic Product increased from approximately RMB9,921 billion to approximately RMB40,120 billion, representing a CAGR of approximately 15.0%.

Taking into account (i) the robust growth in the passenger traffic of the aviation industry in the PRC; (ii) the steady growth of the Gross Domestic Product in the PRC; and (iii) the CAGR of the Group's total revenues of approximately 18.4% from the year ended 31 December 2009 to the year ended 31 December 2011, the Directors expect that the Group's total revenues will continue to achieve a stable growth in the coming years.

## II. THE CONTINUING CONNECTED TRANSACTIONS

### 1. Background of the Continuing Connected Transactions

The details on the Continuing Connected Transactions are already set out in the Letter from the Board. The provision of the various services as described in paragraph headed "Continuing Connected Transactions under the Waiver" of the Letter from the Board is in the ordinary and usual course of business of the Group. The Group will receive service fees for provision of such services. Thus, such transactions will increase the total revenues of the Group.

Similar transactions entered into among (i) the Group and Eastern Airlines; and (ii) the Group and Southern Airlines for the three years ending 31 December 2012 were duly approved by the independent shareholders of the Company on 30 December 2009. The Continuing Connected Transactions are a renewal of similar transactions to be entered into by the Group with each of (i) Eastern Airlines; and (ii) Southern Airlines for the three years ending 31 December 2015, respectively.

The Directors are of the view that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Continuing Connected Transactions and the proposed Annual Caps are fair and reasonable and in the interests of the Company and the shareholders as a whole.

### 2. The terms of the Continuing Connected Transactions

#### *Eastern Airlines Transactions*

As referred to in the Letter from the Board, the charge rates of the "revenue accounting systems development and support services" are not governed by any regulatory pricing guidelines but are determined through arm's length negotiation between ACCA and Eastern Airlines. The rate of unit price for such services for passengers is no more than RMB0.4 for domestic passengers and no more than RMB1.65 for international passengers. The rate of unit price for such services for cargo is no more than RMB1.8 for domestic cargo and no more than RMB5.2 for international cargo.

## LETTER FROM OSK CAPITAL

The rates of the “passenger and cargo revenue accounting and settlement services” are generally subject to the maximum guidance prices prescribed by CAAC, which are generally calculated based on certain maximum percentage rates, ranging from 1% to 1.5%, of the total amount involved in the revenue accounting, depending on each individual type of accounting and settlement services. The Company may determine the actual rates for such passenger and cargo revenue accounting and settlement services through arm’s-length negotiation with Eastern Airlines, which are generally not more than 1% of the total amount involved for the revenue accounting. Such rates are generally lower than the maximum rates prescribed by CAAC and are determined by reference to the transaction volume with Eastern Airlines (i.e. the higher the transaction volume, the lower the rate).

The pricing of the “commercial analysis and management products application services” is not governed by any regulatory pricing guidelines but are determined through arm’s length negotiation between ACCA and Eastern Airlines. Such fees generally consist of a fixed monthly fee of no more than RMB500,000 for usage and operation maintenance for system analysis and management products, an one-off system implementation fee of RMB100,000, as well as a commercial development fee of RMB2,000 per person per day.

To the best knowledge, information and belief of the Directors, ACCA is currently the only provider in the PRC in respect of revenue accounting systems development and support services, passenger and cargo revenue accounting and settlement services, as well as commercial analysis and management products application services to commercial airlines and other aviation companies (the “ACCA Services”). In addition, the Directors advised that:

- (i) the other customers of ACCA for the ACCA Services include other domestic airlines in the PRC, being Shanghai Airlines and Sichuan Airlines, all of which are also connected persons of the Company;
- (ii) ACCA also provides other airlines (being independent third parties) with services (the “**Similar Services**”) which are similar to the ACCA Services.

In light of the above, save for the Similar Services as mentioned in (ii) above, the Directors are not aware of any other comparable agreements in the PRC market entered into by third parties (being parties other than ACCA or the Connected Airlines) to which reference can be made regarding the pricing bases for the ACCA Services.

We have, on a sampling basis, reviewed the agreements covering the period from 2010 to 2012 in respect of the ACCA Services and Similar Services, and we noted that the pricing bases, the unit prices and the payment terms for the ACCA Services were comparable to the Similar Services. Accordingly, we consider that the pricing bases of Eastern Airlines Transactions are on normal commercial terms and are fair and reasonable, and in the interests of the Group and the Independent Shareholders as a whole.

## LETTER FROM OSK CAPITAL

### *Southern Airlines Transactions*

As referred to in the Letter from the Board, the service fees for the technology services are determined in accordance with the existing pricing schedules prescribed by CAAC. We have discussed with the Directors and were informed that the services fees to be charged by the Group are governed by the aforesaid pricing schedules prescribed by CAAC.

The pricing of the “airlines passenger booking system services” is subject to the maximum guidance prices prescribed by CAAC, being the progressive per passenger booking fee ranging from RMB4.5 to RMB6.5 for domestic flights and RMB6.5 to RMB7 for international flights.

The pricing of the “airport passenger processing system services” is subject to the maximum guidance prices prescribed by CAAC, being (i) RMB7 per passenger for international and regional flights and RMB4 per passenger for domestic flights; and (ii) RMB500 per aircraft for load balancing services. The Company may also determine the actual prices for airport passenger processing system services through arm’s length negotiation with Southern Airlines, having taken into account of a number of factors such as the types of the flights, transportation volume, level of services and size of the aircraft, as long as the prices do not exceed the above maximum guidance prices prescribed by CAAC.

The pricing of the “civil aviation and commercial data network services” (other than physical identified device (“PID”) connection and maintenance services) are not governed by guideline of CAAC or the framework of any other PRC airlines regulatory body but are subject to mutual negotiation between the parties. The pricing of PID connection and maintenance services is subject to the maximum guidance price of RMB200 per PID per year.

We have, on a sampling basis, reviewed the services fees charged by the Group for similar transactions with Southern Airlines for the three years ended 31 December 2011 and the 10 months ended 31 October 2012, and noted that they are within the respective price ranges prescribed by CAAC mentioned above. We have also, on a sampling basis, reviewed the agreements for similar transactions between the Group and another airline (being an independent third party), for the three years ended 31 December 2011 and the 10 months ended 31 October 2012, and noted that the pricing bases, the unit prices and the payment terms were comparable. As advised by the Directors, the pricing schedules prescribed by CAAC are applicable to all airlines operating in the PRC, and all relevant services are charged within the respective price ranges. Thus, the aforesaid price schedules are the prevailing market prices and are on the normal commercial terms for the relevant services. Based on the foregoing, we consider that the service fees for the Southern Airlines Transactions, which are based on the price ranges prescribed by CAAC, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

## LETTER FROM OSK CAPITAL

Overall, we consider that the terms of the Continuing Connected Transactions are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Independent Shareholders as a whole.

### III. THE ANNUAL CAPS

#### 1. The Annual Caps for the Continuing Connected Transactions

For the easier reference of the Independent Shareholders, set out below is a summary of the Annual Caps for the Continuing Connected Transactions for the three years ending 31 December 2015:

	<b>Annual Caps</b>		
	<b>for the year ending 31 December</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>(RMB' 000)</i>	<i>(RMB' 000)</i>	<i>(RMB' 000)</i>
Eastern Airlines Transactions	90,484	104,057	119,665
Southern Airlines Transactions	556,066	639,476	735,398

*Source: Letter from the Board*

#### 2. The historical transaction amounts of the Continuing Connected Transactions

For the easier reference of the Independent Shareholders, set out below is a summary of the historical transaction amounts for the Continuing Connected Transactions for the three years ended 31 December 2011:

	<b>Historical transaction amount</b>				<b>Annual caps for the year ending 31 December 2012</b>
	<b>for the year ended 31 December</b>			<b>for the 10 months ended 31 October 2012</b>	
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	
	<i>(RMB' 000)</i>	<i>(RMB' 000)</i>	<i>(RMB' 000)</i>	<i>(RMB' 000)</i>	<i>(RMB' 000)</i>
Eastern Airlines Transactions	44,478	48,626	68,419	59,664	124,366
Southern Airlines Transactions	366,837	411,726	420,466	358,940	697,756

*Source: Letter from the Board*

## LETTER FROM OSK CAPITAL

**3. The comparison of historical amount of the Continuing Connected Transactions for the year ended 31 December 2011 and the Annual Caps for the year ending 31 December 2013**

Based on the above, we noted that:

- (i) the annual cap for the Eastern Airlines Transactions for the year ending 31 December 2013 is higher than the historical transaction amount of the same services for the year ended 31 December 2011 by approximately 32.2% , which is equivalent to a CAGR of approximately 15% from 2011 to 2013; and
- (ii) the annual cap for the Southern Airlines Transactions for the year ending 31 December 2013 is higher than the historical transaction amount of the same services for the year ended 31 December 2011 by approximately 32.2% , which is equivalent to a CAGR of approximately 15% from 2011 to 2013.

**4. The comparison of annualized transaction amount of the relevant transactions for the year ending 31 December 2012 and the Annual Caps for the year ending 31 December 2013**

The transaction amounts for the relevant transactions with Eastern Airlines and Southern Airlines for the 10 months ended 31 October 2012 were approximately RMB59,664,000 and RMB358,940,000, respectively. The annualized amounts of the relevant transactions with Eastern Airlines and Southern Airlines are approximately RMB71,597,000 and RMB430,728,000, respectively.

Based on the above, we noted that:

- (i) the annual cap for the Eastern Airlines Transactions for the year ending 31 December 2013 of RMB90,484,000 is higher than the annualized transaction amount of the same services for the year ending 31 December 2012 of RMB71,597,000 by approximately 26%; and
- (ii) the annual cap for the Southern Airlines Transactions for the year ending 31 December 2013 of RMB556,066,000 is higher than the annualized transaction amount of the same services for the year ending 31 December 2012 of RMB430,728,000 by approximately 29%.



## LETTER FROM OSK CAPITAL

### 5. The growth in the Annual Caps

Set out below is a summary of the growth in the Annual Caps:

Type	Basis for the growth in caps
Eastern Airlines Transactions	The proposed Annual Caps for Eastern Airlines Transactions are determined with reference to (i) the historical transaction amounts of such type of transactions between ACCA and Eastern Airlines for the year ended 31 December 2011; (ii) the anticipated annual growth of over 10% of the gross passenger and cargo transportation volume and the overall business scale of the PRC civil aviation industry in the next few years as set out under the “Twelfth Five-Year Development Plan of the PRC Civil Aviation”; (iii) the expansion of Eastern Airlines’ businesses from time to time through acquisition of other airlines or establishing more subsidiaries or branches; and (iv) a buffer necessary to accommodate the unexpected fluctuation in the annual growth of transaction volume.
Southern Airlines Transactions	The proposed Annual Caps for Southern Airlines Transactions are determined with reference to (i) the historical transaction amounts of such type of transactions between the Group and Southern Airlines; (ii) the anticipated annual growth of approximately 11% of the PRC’s gross passenger transportation volume in the next few years as set out under the “Twelfth Five-Year Development Plan of the PRC Civil Aviation”; (iii) the expansion of Southern Airlines’ businesses from time to time through acquisition of other airlines or establishing more subsidiaries or branches; and (iv) a buffer necessary to accommodate the unexpected fluctuation in the annual growth of transaction volume.

Based on the aforesaid, we consider that the annual growth rate is fair and reasonable, taking into account (i) the Group’s business growth during the three years ended 31 December 2011, as reflected by a CAGR of approximately 18.4% for the Group’s audited total revenues and a CAGR of approximately 12.8% for the

## LETTER FROM OSK CAPITAL

Group's total bookings on seats of flights of commercial airlines of the PRC; (ii) the increase in number of passengers carried for Eastern Airlines and Southern Airlines during the three years ended 31 December 2011 with a CAGR ranged between approximately 10.3% and 24.9%; (iii) the increase in RPK for Eastern Airlines and Southern Airlines during the three years ended 31 December 2011 with a CAGR ranged between approximately 14.7% and 28.7%; and (iv) the steady growth of the Gross Domestic Product in the PRC, with a CAGR of approximately 15.0% from 2000 to 2010.

We consider that the Annual Caps for the three years ending 31 December 2015 are fair and reasonable so far as the Independent Shareholders are concerned, taking into account:

- (i) the Annual Caps for the year ending 31 December 2013 are based on the historical transaction amounts for the year ended 31 December 2011;
- (ii) the positive outlook of the aviation industry in the PRC;
- (iii) the historical growth in the Group's total revenues and bookings of seats of commercial airlines in the PRC; and
- (iv) the Annual Caps would provide adequate buffer for Group, in case unanticipated revenue is derived from the Continuing Connected Transactions. Such, in turn, would facilitate the Group's business growth for the three years ending 31 December 2015. The average growth rate of 15% is consistent with (1) the growth of the Group, with a CAGR of approximately 18.4% for the Group's audited total revenues and a CAGR of approximately 12.8% for the Group's total bookings on seats of flights of commercial airlines of the PRC during the three years ended 31 December 2011; (2) the steady growth of the Gross Domestic Product in the PRC, with a CAGR of approximately 15.0% from 2000 to 2010; (3) the CAGR during 2011 to 2013 based on the comparison between the applicable Annual Caps in the year ending 31 December 2013 and the applicable historical transaction amounts in the year ended 31 December 2011.

Based on the aforesaid, we consider that the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Group and the Shareholders as a whole.

### RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the Continuing Connected Transactions (being the Eastern Airlines Transactions and the Southern Airlines Transactions) are (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole, and the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole.

**LETTER FROM OSK CAPITAL**

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to (i) vote in favour of the proposed resolutions to approve the Continuing Connected Transactions (being the Eastern Airlines Transactions and the Southern Airlines Transactions) and the Annual Caps at the EGM. We also advise the Independent Shareholders to vote in favour of the proposed resolutions to approve the Continuing Connected Transactions (being the Eastern Airlines Transactions and the Southern Airlines Transactions) and the Annual Caps at the EGM.

Yours faithfully,  
For and on behalf of  
**OSK Capital Hong Kong Limited**

**Leo Chan**  
*Managing Director and Head of  
Investment Banking*

**Conrad Cheng**  
*Director  
Corporate Finance*

**RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**1. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS**

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or are required to be entered in the register maintained in accordance with Section 352 of the SFO, or are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

As at the Latest Practicable Date, each of China TravelSky Holding Company (中國民航信息集團公司), Southern Holding and Eastern Holding had interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date,

- (a) Mr. Xu Qiang (Chairman of the Company and an executive Director) is the general manager of China TravelSky Holding Company;
- (b) Mr. Wang Quanhua (a non-executive Director) is an employee of Southern Holding; and
- (c) Mr. Xu Zhao (a non-executive Director) is an employee of Eastern Holding.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or supervisors of the Company is a director, supervisor or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**2. SERVICE AGREEMENT**

As at the Latest Practicable Date, none of the Directors or supervisors had entered or proposed to enter into a service agreement with any member of the Group (which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation)).

**3. MATERIAL CHANGES**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

**4. INTEREST IN ASSETS**

As at the Latest Practicable Date, none of the Directors or supervisors had any interest, direct or indirect, in any assets which had been since 31 December 2011, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

**5. MATERIAL INTEREST IN CONTRACTS**

As at the Latest Practicable Date, none of the Directors or supervisors was materially interested in any contracts or arrangement subsisting as at the date hereof which was significant in relation to the business of the Group.

**6. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business apart from the Company's business which competes or is likely to compete, either directly or indirectly, with the Company's business.

**7. EXPERT**

- (a) OSK Capital is a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Its letter of advice to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps dated as of the date of this circular was given for the purpose of incorporation herein.
- (b) As at the Latest Practicable Date, OSK Capital did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

- (c) As at the Latest Practicable Date, OSK Capital did not have any interest, direct or indirect, in any assets which had been since 31 December 2011, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (d) OSK Capital has given and has not withdrawn its written consent to the issue of this circular with copy of its letter and the reference to its name and its advice included in this circular in the form and context in which they respectively appear.

#### **8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following agreements will be available for inspection at the Company's principal place of business, Room 3606, 36/F China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong during normal business hours (public holidays excepted) from the date of this circular up to and including the date of the EGM:

- (1) the agreements between the Company and Southern Airlines in relation to the Southern Airlines Transactions for the years ended 31 December 2010 and 31 December 2011 respectively; and
- (2) the existing agreement between ACCA and Eastern Airlines in relation to the Eastern Airlines Transactions with a term from 1 January 2009 to 31 December 2012.

#### **9. GENERAL**

The English text of this circular shall prevail over the Chinese text in case of inconsistency.