

Corporate Governance Report



The Company has always strived to comply with the regulatory requirements of the China Securities Regulatory Commission, Shanghai Stock Exchange, the Hong Kong Stock Exchange, The New York Stock Exchange Inc. and the United States Securities and Exchange Commission. The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2005, and adopted sound governance and disclosure practices. The Company will continue to improve its corporate governance practices and increase transparency to the shareholders.

Below are the corporate governance practices adopted by the Group.

THE BOARD

The Board is responsible for the oversight of the management of the business and affairs of the Company with the objective of enhancing shareholder value. The Board, headed by the Chairman, is responsible for the formulation and the approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, recommendation of dividend, and supervision of management in accordance with the rules governing the meeting of the Board of Directors, the President's working guides, articles of association and the rules governing the meeting of the shareholders. The management of the Company is responsible for the day-to-day operations of the Group under the leadership of the President. The roles of the Chairman, Liu Shao Yong, are separate from that of the President, Si Xian Min. Such division of responsibilities allows a balance of power between the Board of Directors and the management of the Group, and ensures their independence and accountability. The Chairman is the leader of the Board and he oversees the Board so that it acts in the best interests of the Group. The Chairman is responsible for deciding the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. The Chairman has overall responsibility for providing leadership, vision and direction in the development of the business of the Company. The President, assisted by the Vice President, is responsible for the day-to-day management of the business of the Group, attends to the formulation and successful implementation of policies, and assumes full accountability to the Board for all operations of the Group. Working with the Vice President and the executive management team of each core business division, the President ensures the smooth operations and development of the Group. He maintains a continuing dialogue with the Chairman and all Directors to keep them fully informed of all major business developments and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

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The Board held 72 meetings in 2005 and the individual attendance of each Director, on a named basis, is as follows:

	Name of Director	Attended/ Eligible to attend
Chairman	Liu Shao Yong	72/72
Vice Chairman	Liu Ming Qi	69/69
Executive Directors	Wang Quan Hua	72/72
	Zhao Liu An	72/72
	Zhou Yong Qian	72/72
	Si Xian Min (President)	72/72
	Zhou Yong Jin	68/69
	Xu Jie Bo (Chief Financial Officer, Vice President)	72/72
	Wu Rong Nan	69/69
Independent Non-executive Directors	Simon To	68/69
	Peter Lok	70/72
	Wei Ming Hai	70/72
	Wang Zhi	72/72
	Sui Guang Jun	72/72

Each of the Directors is not connected with one another. All Directors have entered into service contracts with the Company for a term of three years commencing on 16 June 2004 (except that the service contract of Liu Shao Yong and Si Xian Min which commenced on 29 November 2004 and 31 December 2004 respectively will expire at the end of the term for the current session of the Board). Except for such service contracts, none of the Directors has entered or proposed to enter into any service contracts with the Company or its subsidiaries. None of the Directors has entered into any service contracts with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. Having made specific enquiries with all the Directors of the Company, the Directors have for the year ended 31 December 2005 complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Company has not adopted a code of conduct less stringent than the Model Code for Securities Transactions by Directors of Listed Issuers regarding securities transactions of the Directors. In the opinion of the Directors, the Group has complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules issued by the Hong Kong Stock Exchange throughout the year ended 31 December 2005.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following statement, which sets out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the auditors' report herein, which acknowledges the reporting responsibilities of the Group's auditors.

ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

Corporate Governance Report (Cont'd)



ACCOUNTING POLICIES

The Directors consider that in preparing the financial statements the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

ACCOUNTING RECORDS

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with PRC Laws and disclosure requirements of the Hong Kong Companies Ordinance and the applicable accounting standards.

SAFEGUARDING ASSETS

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

NOMINATION OF DIRECTORS

The independent non-executive Directors of the Company are nominated by the Board, and their appointment must be approved by the shareholders of the Company in a general meeting.

The executive Directors of the Company are nominated by CSAHC, the controlling shareholder of the Company, and their appointment must be approved by the shareholders of the Company in a general meeting.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, one of whom possesses the appropriate professional qualifications or accounting or related financial management expertise to understand financial statements. The Committee is chaired by Wei Ming Hai and the other members of the Committee are Wang Zhi and Sui Guang Jun. Since 1998, Professor Wei has been a doctorate advisor for Accounting Information and Investment Analysis at the School of Management of Zhongshan University. Professor Wei is also on the board of directors of China Accountants Association, Vice Chairman of Accountants Association of Guangdong Province, Vice Chairman of Auditors Association of Guangzhou, Executive Member of the Research Institute of Financial Costs for Young and Middle-aged Accountants and member of American Accounting Association.

Under its terms of reference the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's interim results and annual financial statements, to monitor compliance with statutory and listing requirements, to review the scope, if necessary, to engage independent legal or other advisers as it determines is necessary and to perform investigations.

The Audit Committee held nine meetings in 2005, which were attended by all members.

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EXTERNAL AUDITORS

The Audit Committee reviews each year a letter from KPMG Hong Kong and KPMG Huazhen (collectively "KPMG") confirming their independence, approves their appointment, discusses the scope of their audit, approves their fees, and the scope and appropriate fees for any non-audit services requested to be provided by them.

KPMG provided annual statutory services in respect of the Group's financial statements prepared under IFRS and PRC Accounting Rules and Regulations for the year 2005. KPMG also reviewed the 2005 unaudited interim financial report of the Group, prepared under IFRS.

The following table sets forth the type of, and fees for, the principal audit services and non-audit services provided by KPMG to the Group in 2004 and 2005:

	2005 RMB Million	2004 RMB Million
Audit fees	20 ⁽¹⁾	16 ⁽¹⁾
Non-audit fees	-	-

(1) including audit fees for KPMG, as reporting accountants, conducting an audit on financial statements and other relevant information of the airline operations and related assets of China Northern Airlines Company and Xinjiang Airlines Company we acquired on 31 December 2004.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members. The Remuneration Committee is chaired by independent non-executive Director Sui Guang Jun with independent non-executive Director Wei Ming Hai and executive Director Wang Quan Hua as members. The Remuneration Committee met once in 2005 which was attended by all members. In addition, the Remuneration Committee also meets as and when required to consider remuneration related matters.

The responsibilities of the Remuneration Committee are to approve the remuneration packages of Directors and senior management of the Group, and the Company's "preliminary proposals on annual emoluments of the directors and senior management of the Group". The Remuneration Committee is also responsible for assessing performance of executive Directors and approving the terms of executive Directors' service contracts.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal controls. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal controls of the Group.