

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 Board of Directors is committed to maintaining good corporate governance with the intention of creating values for the Company's shareholders and improving the operation and competitiveness of the Company.

The Board of Directors of the Company has reviewed the corporate governance practices of the Company, and considers that the Company has applied the principles of and complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2006, and adopted sound governance and disclosure practices accordingly. 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, listing rules of the stock exchanges on which the Company's shares are listed and all other applicable laws and regulations.

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. The Chairman and the President are not connected with each other. None of the other Directors is connected with one another.

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The Board held 62 meetings in 2006 and the individual attendance of each Director, on a named basis, is as follows:

Position	Name of Directors	Attended/Eligible to attend
Chairman	Liu Shao Yong	62/62
Executive Director	Li Wen Xin ⁽¹⁾	0/0
Executive Director	Wang Quan Hua	62/62
Executive Director	Zhao Liu An	62/62
Executive Director, President	Si Xian Min	62/62
Executive Director, Vice President	Tan Wan Geng ⁽²⁾	34/34
Executive Director, Chief Financial Officer and Vice President	Xu Jie Bo	62/62
Executive Director	Chen Zhen You ⁽²⁾	34/34
Independent Non-executive Director ("INED")	Peter Lok	61/62
INED	Wei Ming Hai	61/62
INED	Wang Zhi	61/62
INED	Sui Guang Jun	61/62

(1) The appointment of Li Wen Xin as the director of the Company was approved at the first extraordinary general meeting 2006 of the Company held on 28 December 2006.

(2) The appointments of Tan Wan Geng and Chen Zhen You as the directors of the Company were approved at 2005 annual general meeting of the Company held on 15 June 2006.

The brief biographical details of the Directors are set out in the "Board of Directors, Supervisory Committee and Senior Administrative Offices" section.

The four Independent Non-Executive Directors ("INED") provide the Group with a wide range of expertise and experience and bring independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders. The four INEDs represent one-third of the Board. One INED, Wei Ming Hai, has the appropriate professional qualifications of accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board is of the view that the Company has complied with requirements under Rules 3.10(1) and (2) of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

Having made specific enquiries with all the Directors of the Company, the Directors have for the year ended 31 December 2006 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.

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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 reports prepared by the auditors of the Company, which acknowledges the reporting responsibilities of the Group's auditors.

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.

The reporting responsibilities of the Company's external auditors, KPMG Hong Kong and KPMG Huazhen (collectively "KPMG"), are set out on pages 40 to 41 and page 110 respectively.

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.

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 regulations 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

Candidates who satisfy the criteria and requirements set out by the Listing Rules, laws and regulations to which the Company is subject to, and the articles of association of the Company to be the independent non-executive Directors of the Company are nominated by the Board, and their appointments must be approved by the shareholders of the Company in a general meeting. Candidates who satisfy the criteria and requirements set out by the Listing Rules, laws and regulations to which the Company is subject to, and the articles of association of the Company to be 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. The four INEDs were appointed for a term commencing on June 16, 2004 and ending at the annual general meeting of the Company to be held in 2007.

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AUDIT COMMITTEE

The Audit Committee comprises three INEDs, one of whom, Wei Ming Hai, 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. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice if necessary.

The terms of reference of the Audit Committee of the Company are in Compliance with the provisions of C.3.3 of the Code, and applicable policies, rules and regulations that the Company is subject to. 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 2006. Each member, namely Wei Ming Hai, Wang Zhi and Sui Guang Jun has attended all meetings of the Audit Committee. The Audit Committee has performed all its obligations under the terms of reference in 2006.

EXTERNAL AUDITORS

The Audit Committee reviews each year a letter from 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 audit services and issued opinion on the Group's 2006 financial statements prepared under IFRS and PRC Accounting Rules and Regulations. KPMG also reviewed the 2006 unaudited interim financial report of the Group, prepared under IFRS.

Apart from providing the above-mentioned audit services to the Group, KPMG was also engaged in providing the Group with non-audit services which are permitted under the SOX Act and with the prior approval of our Audit committee.

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 2005 and 2006:

	2006	2005
	RMB Million	RMB Million
Audit fees	16	20 ⁽¹⁾
Non-audit fees	4⁽²⁾	–

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- (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.
- (2) Including the fee for KPMG providing SOX Act advisory services to the Group.

REMUNERATION COMMITTEE

The Remuneration Committee consists of 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 2006 which was attended by all members. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice if considered necessary.

Remuneration Committee Members	Attended/Eligible to attend
Sui Guang Jun (Chairman)	1/1
Wei Ming Hai	1/1
Wang Quan Hua	1/1

The responsibilities of the Remuneration Committee are to review and recommend to the Board 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 consulted, when appropriate, the Chairman and/or the President about its proposals relating to the remuneration of other executive Directors and have professional advice if necessary. The Remuneration Committee is also responsible for assessing performance of executive Directors and approving the terms of executive Directors' service contracts. The Remuneration Committee has performed all its responsibilities under its terms of reference in 2006.

The terms of reference of the Remuneration Committee of the Company are in compliance with the provisions of B.1.3 of the Code, and applicable policies, rules and regulations that the Company is subject to, based on which the Remuneration Committee determines the remuneration package of the Directors and senior management of the Group.

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.