

SIGNIFICANT GROWTH OPPORTUNITIES

Our Profit Before Taxation in Year 2002 was

RMB **459.9**
million





101011

CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Board”) and senior management of the Company wholeheartedly execute the corporate governance policies of the Company to ensure that all decisions are made honestly and in accordance with the principles of transparency, fairness and integrity. In addition, the corporate governance policies will provide for the necessary checks and balances. The Company strongly believes that it is the expectation of its shareholders and related persons that the Company will fully comply with the principles of good corporate governance.

THE BOARD

The Board comprises 15 Directors, including one Chairman and three Vice-Chairmen. The Company has six Executive Directors and nine Non-executive Directors, of which two are Independent Non-executive Directors. The biographies of Directors are set out in pages 79 to 84. Each Director has extensive experience in aviation, information technology or finance. The Board has been responsible in leading the Group to develop successfully.

The duties of the Board include the following: determining operational strategies and investment plans; preparing annual financial budgets and financial accounts; determining internal management structure; appointing and dismissing the general manager of the Company; appointing, employing and dismissing senior management personnel such as the deputy general managers and the financial controller of the Company nominated by the general manager of the Company. Any connected transaction proposed by the Board will be subject to the confirmation of the Independent Non-executive Directors. Members of the Board are jointly and severally responsible for the operations and management of the Company. The Board passed a resolution in Year 2001, whereby the Directors shall strictly comply with the Model Code for Securities Transactions by Directors of Listed Companies and may not deal with securities of the Company when she or he is in possession of price-sensitive information and may not execute any transactions in the securities of the Company without prior notice to the Chairman or the Company Secretary.

In Year 2002, the Board convened four board meetings with an average attendance of approximately 98 per cent.. 14 Directors attended all the board meetings.

The Company will strive to increase its

**CORPORATE
TRANSPARENCY**

The Company Secretary is accountable to the Board for ensuring that all decisions and procedures adopted by the Board are in full compliance with the laws, regulations and the relevant requirements of the Company's Articles of Association. The Company Secretary is also responsible for assisting the Directors in discharging their duties to disclose their interests in securities and any conflict of interests relating to the Group's transactions, and their duties to comply with the restrictions on dealing with the Company's shares and the procedures in handling price-sensitive information.

AUDIT COMMITTEE

The Audit Committee is established under the Board and comprises two Independent Non-executive Directors. Meetings of the Audit Committee are convened before every results announcement of the Company for the following purposes: to review the completeness, accuracy and fairness of the financial statements of the Company; to consider reports from the management and auditors of the Company; to submit queries to and evaluate explanations from its finance department and the auditors regarding the financial status of the Company; to review issues such as the Company's internal control and financial reporting procedures; and to submit the minutes of the Audit Committee meeting to the Board.



THE SUPERVISORY COMMITTEE

The Supervisory Committee was established in accordance with the laws of the PRC and comprises eight Supervisors, including one Independent Supervisor. The Supervisory Committee convenes at least two meetings every year to review the financial position of the Company and to determine whether policies adopted by the Directors and senior management are in the best interests of the Company. The Supervisory Committee is accountable to the shareholders.

RELATIONSHIP WITH SHAREHOLDERS

The Board fully understands that it is accountable to the shareholders for the operations of the Group and therefore it pays much attention to effective communication between the Board and the Company's shareholders. The Company's website, www.travelsky.net, contains an "Investor Relations" section, which enables its shareholders to obtain the latest information of the Company such as press releases, announcements, interim reports and annual reports. Detailed financial results and results of operation of the Company are set out in its interim reports and the annual reports.

Shareholders' general meetings are the key channel of communication among Directors, Supervisors, senior management and shareholders. All Directors, Supervisors and senior management of the Company are obliged to attend the shareholders' general meetings, during which shareholders can raise questions regarding the operations and financial position of the Group. In addition to the 2001 Annual General Meeting convened in Year 2002, an Extraordinary General Meeting of the Company was held on December 9, 2002 to consider change in Directors and amendments to the Articles of Association of the Company. The average shareholding held by shareholders who attended those two meetings represented 93.4% of all issued shares of the Company.



INFORMATION DISCLOSURE

The Company has strictly complied with the requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") on disclosure of information, and has promptly and fairly disclosed to its shareholders and relevant parties all information relating to the Company which is discloseable to shareholders under the Listing Rules. In Year 2002, the Company published announcements in Hong Kong newspapers regarding new waivers for its connected transactions, the impact on the Company arising from the restructuring of the civil aviation industry in China and the establishment of a Sponsored Level I American Depositary Receipt programme.

In Year 2002, the Company convened two international roadshows, one press conference and various meetings with securities analysts and investors.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In Year 2002, the Company fully complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

INTERNAL MANAGEMENT AND CONTROL

Following the listing of the Company, the Company has strengthened its efforts in the standardisation of its operation, and has taken a series of measures to improve its internal management for the purposes of changing its structure of operations and satisfying the requirements of the development of a listed company. The Company has achieved initial success in systematising its operations and is in the process of developing an effective motivation and control mechanisms.

In Year 2002, the Company strengthened its financial budget management, reduced financial risks, raised financial returns and enhanced supervision of its financial audit. In order to strengthen its internal control system, the Company established a Budget Committee and reviewed its financial management system. For the same purpose, the Company also reviewed the implementation of its budget on a regular basis and enhanced the regulation of its internal audit and its supervision mechanism. Furthermore, the Group improved management of funds for the Company and its local distribution centres and secured the protection of funds through the "group banking" electronic banking facility provided by Industrial and Commercial Bank of China. The Company also enhanced the level of return on its capital by way of financial instruments.

In order to effectively utilize and develop human resources and boost the initiatives and creativity of its staff, the Company implemented position management for all its staff. Posts are set up scientifically and skills of employees are fairly evaluated in order to assign the most suitable positions to the appropriate employee. A reasonable remuneration system has also been implemented gradually. In Year 2002, the Company completed the establishment and evaluation of technical positions in its business department. In accordance with the principles of internal fairness, maintenance of external competitiveness and effective cost control, the Company has established a preliminary remuneration system for its technical personnel. It is expected that the Company will complete the position management for the other departments during the first half of 2003.

In addition, the Company began to implement an internal target management system. At the beginning of 2002, the Company established the criteria and procedures for targeted result evaluation and linked the performance of each department with such targeted results evaluation system by the end of 2002, and thereby established a preliminary internal mechanism of motivation and control.

