

Corporate Governance Report

The Board of Directors (the "Board"), Supervisory Committee and senior management of the Company are committed to implement effective corporate governance policies to ensure that all decisions are made honestly and in accordance with the principles of transparency, fairness and integrity. Effective corporate governance policies have also provided for the necessary checks and balances. The Company will continue to improve its corporate governance structure, so as to strengthen corporate monitoring and management to meet the expectation of its shareholders and related persons.

THE BOARD

In Year 2003, the first Board convened three board meetings with an average attendance of approximately 97.8 per cent. Directors have worked diligently in fulfilling their duties in their respective terms.

The terms of the first Board of Directors expired in October 2003. On December 5, 2003, an Extraordinary General Meeting was held to elect 15 persons including Mr. Ma Tiesheng as directors, of which 9 were re-elected and 6 were elected for the first time. The second Board comprises the said 15 directors, of which 4 are executive directors and 11 are non-executive directors (including 3 independent non-executive directors). As compared with the first Board, the second Board has two additional non-executive directors (including 1 independent non-executive director). The biographies of Directors are set out in pages 79 to 81. Each Director has extensive experience in aviation, information technology or finance. The second Board will continue to be responsible for leading the Group to develop successfully.

In December 2003, the second Board held its first board meeting. 12 Directors attended the meeting, and the remaining 3 directors appointed other directors by written proxies to attend the meeting and vote on their behalf, in which Mr. Ma Tiesheng was elected as Chairman and Messrs Wang Quanhua, Cao Jianxiong and Zhang Xueren were elected as Vice Chairmen. Members of the Company's senior management including CEO and Company secretary remained unchanged.

AUDIT COMMITTEE

The Audit Committee was established under the first Board and comprised two Independent Non-executive Directors, namely Mr. Wu Jiawei and Mr. Chow Kwok Wah, James. Before the publication of the interim or annual results announcement of the Company, the Audit Committee will review the completeness, accuracy and fairness of the financial statements of the Company; consider reports from the management and auditors of the Company; submit queries to and evaluate explanations from its finance department and the auditors regarding the financial status of the Company; review issues such as the Company's internal control and financial reporting procedures; and submit its report to the Board.

In December 2003, the first meeting of the second Board resolved to set up a new Audit Committee which comprised 3 independent non-executive directors of the second Board, namely Mr. Wu Jiawei, Mr. Chow Kwok Wah, James and Mr. Lee Kwok Ming, Don.

SUPERVISORY COMMITTEE

The Supervisory Committee was established in accordance with the laws of the PRC, and is responsible for reviewing the financial position of the Company pursuant to its Articles of Association and determining whether decisions made by the Board and senior management in the operation and management of the Company are in accordance with the relevant provisions of laws and regulations. The first Supervisory Committee had performed its duty effectively during its term. On December 5, 2003, an Extraordinary General Meeting was held to elect the second Supervisory Committee, which still comprised 8 supervisors (including 1 independent supervisor). The biographies of Supervisors are set out in pages 82 to 83. In the first session of the second Supervisory Committee, Mr. Li Xiaojun was elected as Chairperson of the new Supervisory Committee.

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RELATIONSHIP WITH SHAREHOLDERS

Each Director fully understands that he is accountable to the shareholders for the operations of the Group and therefore pays much attention to effective communication between the Board and the Company's shareholders. 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 fully understand that they 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 2002 Annual General Meeting convened in Year 2003, an Extraordinary General Meeting of the Company was held on December 5, 2003 to elect a new Board and Supervisory Committee and to consider ongoing connected transactions of the Company. The average shareholding held by shareholders who attended those two meetings represented 94.4% 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 2003, the Company published announcements on a timely basis regarding waivers for its connected transactions and the impact of SARS on the Company.

In view of the impact of SARS in 2003, the Company convened no international roadshow. Instead, management kept in touch with securities analysts and investors by tele-conferences, interviews with investors and attending meetings held by investment banks. Meanwhile, the Company is committed to providing its latest news to shareholders through the Investor Relations section on its website (www.travelsky.net), from which announcements, interim and annual reports with detailed financial information and results can be downloaded for review. Currently, the Company is rearranging the website's layout to provide investors with more speedy and better quality information.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In Year 2003, the Company fully complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

INTERNAL MANAGEMENT AND CONTROL

In 2003, the Company took various initiatives to minimize losses arising from SARS which has a material adverse impact on the Company's operation. The Company also adopted a series of reform measures for the continuous improvement of its internal management as well as standardization of its operations, and thus ensuring the implementation of the Company's overall strategy on corporate management and system.

The Company continues to improve its comprehensive budget management system integrating pre-event forecast, ongoing control and post-event analysis, realising the overall goal of the Company by the allocation of tasks to various responsible departments. The Company also improved its internal audit system and reinforced audit work of its branches on a regular and extraordinary basis. Furthermore, the Company implemented a project management system in year 2003, which ensured that projects can be carried out in accordance with the requirements of the State, the project schedules are reasonable, the use of resources is effective, and the project cost is reduced.

On another hand, the Company further improved and confirmed the criteria for evaluation of targeted results of internal divisions and branches. With further reforms in position management and remuneration systems, the Company adopted a position performance linked management system. Based on position management and the principle that new development for business requires new talent, the Company has been recruiting through multiple avenues to maintain a competitive edge in its manpower. The Company has gradually established a good staff motivation mechanism by optimizing allocation of human resources.