



**Mr. Zhu Yong**  
*Chairman*

**Dear Shareholders**

As anticipated, China maintained a rapid growth in its aviation industry during 2005 and is on its way heading for the second largest aviation market after USA. As a key market participant, the Group captured opportunities, by facing challenges proactively and refining the existing systems to achieve good results in operation safety, business development and financial performance, which brought satisfactory returns to Shareholders.

It is widely forecast that the strong growths in China's aviation transportation market in the coming decade will be further fueled by its fast-growing domestic economy, prosperous travel industry, increasing international communications, gradual deregulation and competition-encouraging industrial policies. On the one hand, the Company's infrastructure is called for larger capacity, higher safety standard, lower cost and more innovative functions by the ever-expanding market scale, the staging of Beijing 2008 Olympic Games, and the imminent industry information safety issues arising from the emergence of non-traditional terrorist threats and the extensive application of open platform technology. On the other hand, due to fierce market competition caused by travelers' personalised demands, the entry of new competitors and emerging operation modes, commercial airlines, travel product and service suppliers, travel agencies and distribution agents were forced to transform their business modes, streamline workflows, form alliance and enter into cooperation by relying heavily on information technology service, which have an effect of making information technology becoming indispensable for the industry to operate. These lead the Group towards an in-depth development in its existing businesses, technologies/products and services, while putting forward a challenge on the Group's business vision, operation mechanism, core resources including talents and technology as well as corporate culture.

In view of such opportunities and challenges, the Group will further enhance its safety guarantee ability, service capability and market competitiveness under its scientific development concept. We will also further change the mode of growth, strengthen sustainability in development and realise the fundamental transformation from a platform operator to an integrated product and service provider. Also, the Group will live up to the needs of clients, staff and shareholders by introducing further innovations to systems and mechanisms, perfecting the internal control system and enhancing the Group's competitiveness.

Looking forward in line with the established development strategy, the Group will ensure information safety through more investment in infrastructures, technology innovation and safety management. Aiming to strengthen self-inventiveness for rapid development, the Group will introduce, digest and absorb advanced, mature and mainstream technologies from abroad while stressing on the formulation of information standard as well as establishment of professional teams. Efforts will be also put in maintaining the Group's market leadership in core businesses by strengthening the Group's distribution channels and enhancing the capability of service to strategic clients. In order to satisfy the needs of industrial development, the Group will form strategic alliances with leading international companies to boost its market penetration and coverage, and combining their efforts to develop new generation traveler service system and product lines. Meanwhile, the Group will put efforts to foster new sources of business growth, which will be founded on new business modes, enhanced operation expertise and leaps in its offline/online distribution of travel products including air tickets and hotels as well as integrated information technology business. To enhance operating efficiency, the Group will deepen its reforms in personnel management, labor and income allocation systems, establish mechanism to keep up talents' value with the sustainable business development, as well as build up an accountability system incorporating budgets, implementation, monitoring, appraisal and incentives to strengthen risk management and corporate governance. The Group is committed to develop a new corporate culture featuring innovation and synergy, which could enhance the Group's adaptability in the market.

Finally, I would take this opportunity to express my gratitude to all of our staff for their loyalty and aggression to strive for betterment which has successfully brought to the Group's rapid growth with innovations. Also, I would like to thank all our shareholders, investors, customers, directors and supervisors for their trust and support all along.

**Zhu Yong**  
*Chairman*

April 7, 2006