

The Board (the "Board"), Supervisory Committee and Senior Management of the Company are committed to implementing effective corporate governance policies to ensure that all decisions are made in good faith and in accordance with the principles of transparency, fairness and integrity. With necessary and effective counterbalance, the Company continues to improve its corporate governance structure, so as to raise the quality of supervision and management, and to meet the expectation of its shareholders and related parties.

CORPORATE MANAGEMENT PRACTICE

In compliance with Company Law of PRC and the Company Articles of Association (the "Articles"), the Company has regulated its internal operations and provided information of the Company to market participants and regulatory authorities on timely, accurate, complete and true basis, aiming to enhance its corporate value. In 2005, the Board passed the resolution to adopt the code provisions as stipulated in "Code of Corporate Governance Practices" (the "Code") as the Company's code of corporate governance practices. The Company has fully complied with the code provisions (save as the relevant code provisions on internal control) with certain deviations.

As mentioned in the Company's Interim Report 2005, the Company had fully complied with the code provision with deviations from the code provisions A.1.3, B.1.3, B.1.4, C.3.3, C.3.4, D.1.1 and D.1.2 of the Code. In the later half of 2005, the Company has given notices on the meeting 14 days prior to convening the board meeting as stipulated in code provision A.1.3. It was decided in the board meeting held in October 2005 that relevant provisions on the Work rules of Remuneration and Evaluation Committee and Audit Committee be amended and supplemented respectively in accordance with code provisions B.1.3 and C.3.3, and that Work rules of the Committees be available at the Company's website (www.travelsky.net) in accordance with "Disclosure of the Committees' roles, terms of reference and power and authorities delegated to them by the Board" as stipulated in provisions B.1.4 and C.3.4 of the Code. The Company has set out the respective duties of the Board and the General Manager in the Articles. However, the Company has not formulated specific guidelines in respect of other duties of the management and authority delegated to the management, which deviates from code provisions D.1.1 and D.1.2 of the Code. The Board is of the opinion that the Company's management, who is responsible for management of its daily operation, is a management team led by the General Manager. The Company's current arrangement does not prejudice the interests of the Company. The Board is considering to further set out explicitly the duties the Board delegated to the management in 2006.

SECURITIES TRANSACTIONS OF DIRECTORS

Each Directors of the Company has fulfilled their duties in a conscientious, diligent and honest manner. The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Companies" ("Model Code") as set out in Appendix 10 to the Listing Rules, requesting all Directors to carry out securities transactions in accordance with the Model Code. Upon specific enquiries made to Directors, it is confirmed that no Director has breached the relevant requirements of the Model Code in 2005.

THE BOARD

The Board is responsible to lead and monitor the Company, and to collectively coordinate and supervise the affairs of the Company to achieve the success of the Company. The Directors made decisions in the interest of the Company in objective manner.

The Board is responsible to prepare accounts for each financial period to ensure them to reflect the Company's business position, results and cash flow during the period in accurate and fair manner. In compiling the accounts for 2005, the Board has selected the appropriate accounting policy which was consistently applied, and has adopted the International Financial Reporting Standard. The Board has also made prudent and reasonable judgments and estimations, and prepared accounts on ongoing operation basis. The Directors accept responsibilities for the preparation of the Group's financial statements. In 2005, the Board announced annual result for 2004 and interim result for 2005 within 120 days and 60 days respectively after the end of the relevant financial periods in accordance with the requirements under the articles of association of the Company.

The second Board of the Company comprises of 15 Directors (refer to the section 1 of "Corporate Information" for the list of members of Directors), of which 4 are Executive Directors and 11 are Non-executive Directors (including 3 Independent Non-executive Directors). The terms of all members of the second Board (including Non-executive Directors) will expire on December 5, 2006. The biographies of Directors are set out on pages 95 to 99. Each of the Directors has extensive experience in aviation, information technology or finance. The appointment of Independent Directors is in compliance with the requirements as set out in Rules 3.10(1) and (2) of the Listing Rules. The Company's Chairman of the Board (Chairman) and Chief Executive Officer (General Manager) are assumed by Mr. Zhu Yong and Mr. Zhu Xiaoxing respectively and their duties are clearly separated.

The three existing Independent Non-executive Directors, Mr. Wu Jiapei, Mr. Chow Kwok Wah, James and Mr. Yick Wing Fat, Simon, have submitted their annual confirmations of independency in accordance with Rule 3.13 of the Listing Rules. The Company is in the opinion that all Independent Non-executive Directors are in compliance with the guidelines on independency as set out in Rule 3.13 of the Listing Rules and are independent parties as defined in the guidelines. The three Independent Non-executive Directors consistently performed their duties in active and prudent manner. Based on the overall interests of the Company, the Independent Non-executive Directors, with their valuable professional experience, have provided guidance for operation management of the Company. Moreover, being the members of the Audit Committee and the Remuneration and Evaluation Committee, they have performed their duties in supervising financial reporting procedures and reviewing internal control.

At the Extraordinary General Meeting held in August 2005, Mr. Zhang Xueren, an Non-executive Director, and Mr. Lee Kwok Ming, Don, an Independent Non-executive Director, were approved to resign from their offices as Directors for personal reasons, and Mr. Gong Guokui and Mr. Yick Wing Fat, Simon were elected as Non-executive Director and Independent Non-executive Director respectively, with the terms of office effective from the date thereof to December 5, 2006. At the board meeting held on August 24, 2005, Mr. Gong Guokui was elected as a Vice Chairman and a member of the Strategic Committee. The Board also appointed Mr. Yick Wing Fat, Simon, as a member of the Audit Committee and the Remuneration and Evaluation Committee.

In 2005, a total of 4 board meetings were held with attendance of Directors as follows :

Name	Positions	Number of meeting attended (Times)	Number of meeting to be attended (Times)	Attendance rate
Mr. Zhu Yong	Chairman	4	4	100%
Mr. Wang Quanhua	Vice-Chairman, Non-executive Director	4 (with 2 attended by other authorized Directors on his behalf)	4	100%
Mr. Cao Jianxiong	Vice Chairman, Non-executive Director	4	4	100%
Mr. Gong Guokui	Vice Chairman, Non-executive Director (appointed as Director in August 2005)	2	2	100%
Mr. Rong Gang	Non-executive Director	4	4	100%
Mr. Yang Yatie	Non-executive Director	4	4	100%
Mr. Zhu Xiaoxing	Executive Director, CEO	4	4	100%
Mr. Ding Weiping	Executive Director	4	4	100%
Mr. Song Jinxiang	Executive Director	4	4	100%
Mr. Li Xiaoguang	Non-executive Director	3	4	75%
Mr. Si Yupei	Non-executive Director	4 (with 1 attended by another authorized Director on her behalf)	4	100%
Mr. Song Jian	Non-executive Director	4	4	100%
Mr. Wu Jiapei	Independent Non-executive Director	4	4	100%
Mr. Chow Kwok Wah, James	Independent Non-executive Director	4	4	100%
Mr. Yick Wing Fat, Simon	Independent Non-executive Director (appointed as Director in August 2005)	2	2	100%
Mr. Zhang Xueren	Resigned as Non-executive Director during the year	1	2	50%
Mr. Lee Kwok Ming, Don	Resigned as Independent Non-executive Director during the year	—	2	0

The Company, in some circumstances, deviates from code provisions D.1.1 and D.1.2 of the Code. Currently, the Company has yet to set out clear guidance on the duties delegated by the Board to the management. The Board is of the opinion that the Company's management, who is responsible for the management of its daily operation, is a management team led by the General Manager. The respective duties and authorities of the Board and the General Manager have been set out explicitly in the articles of association of the Company. The Board can also delegate the General Manager with authority to deal with certain extraordinary issues such as signing particular agreements. The Company's current arrangement on performing the duties under the leadership of the General Manager does not prejudice the interests of the Company. The Board is considering to further set out explicitly the duties delegated by the Board to the management in 2006.

The Board convenes the general meeting in accordance with the articles of association of the Company and performs the following duties: convening general meeting and reporting its work therein; implementing resolutions passed at the general meeting; confirming the Company's business plans and investment plans; preparing the Company's annual budgets and final closing accounts; proposing to shareholders on the distribution of dividends and bonuses as well as increment and decrement of share capital; establishing amendment proposals for the articles of association of the Company; deciding other significant affairs and administrative issues of the Company other than issues to be resolved in the general meeting as stipulated in Company Law and the articles of association of the Company, and exercising other power by virtue of office, duties and obligations as delegated by the general meeting and the articles of association of the Company. It is also stipulated in the Company's articles of association that resolutions approved by the Board in connection with the Company's connected transactions are not valid unless it is signed by Independent Non-executive Directors.

According to the Company's Articles of association, the Board delegates the following duties to the Company's General Manager: to manage the Company's production and operation; to implement resolutions passed by the Board; to implement the Company's annual business plans and investment plans; to formulate plans for the Company's internal management framework; to formulate framework plans for the subsidiaries of the Company; to establish the Company's basic management system; to formulate the Company's basic constitution; to propose the appointment or dismissal of the Deputy General Manager and Financial Controller of the Company; to appoint or dismiss officers other than those to be appointed or dismissed by the Board; to perform other duties as delegated by the Company's articles of association and the Board.

In addition, the Board authorized the General Manager to approve investments related to the Company's principal business made by institutions in which the Company has invested less than RMB5 million (for instance, the Company's regional distribution centres). Such authority was given to the Board in the general meeting in 2002 and was then delegated to the General Manager for the purpose of enhancing management efficiency of its daily business operation.

REPORT OF AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Wu Jiapei, Mr. Chow Kwok Wah, James and Mr. Yick Wing Fat, Simon. Mr. Wu Jiapei was elected as the chief member of the Audit Committee (Chairman of the Committee).

The role, duties and authority of the Audit Committee are available at the Company website. They mainly include: review of the Company's financial report in respect of its completeness, accuracy and integrity; listen to the report from the Company management and auditors on the Company's financial position; make enquiries and receive reasonable explanations to and from the financial department and auditors; review issues in respect of the Company's internal control and financial reporting and report the same to the Board. The Audit Committee held at least two regular meetings each year, and will be held any time as and when necessary.

In 2005, the Audit Committee has convened four meetings, the minutes of which were submitted to the Board for reporting purpose. Its work during the year is briefly described as follows:

1. review of financial reports for the year ended December 31, 2004 and the six months ended June 30, 2005. Upon discussion with the management, the Company's financial department and external auditors, it was agreed on the accounting mode adopted by the Group, and that the Group has tried their best to ensure the disclosure of financial information is in compliance with the appropriate accounting standards and the requirements of Listing Rules;
2. review of auditing arrangements of external auditors and their status report, and examination of issues raised by auditors to the management and the management's response to the same;
3. review of reports from the Company and external auditors in relation to connected transactions;
4. review of the independency of external auditors and effectiveness of auditing procedures and discussion with auditors about the nature and scope of auditing and reporting obligation;
5. consideration and approval of remuneration for auditing services and terms of employment of external auditors for 2005, supervision of non-auditing services provided by external auditors and advised the Board on employment of auditors;
6. review of the Company's regulations on financial control and risk management, supervision of the coordination between internal and external auditing and their effectiveness, as well as the efficiency of internal financial reporting procedure and the implementation of internal management; and
7. review of the terms of reference of the Audit Committee and amended "Rules of Work of Audit Committee" in accordance with the provisions as set out in the Code of Corporate Governance Practices.

On April 6, 2006, the Audit Committee held a meeting to review the Group's consolidated financial statement for Year 2005 with external auditors, including the accounting principles and practical standards adopted by the Group. Based on the results of review and discussion with the management, financial department and external auditors, it was agreed on the accounting mode adopted by the Group, and that the Group has tried their best to ensure the disclosure of financial information is in compliance with the appropriate accounting standards and Appendix 16 to the Listing Rules. Therefore, the Audit Committee advised the Board to approve the consolidated financial statement for the year ended December 31, 2005.

The Audit Committee also advised to appoint PricewaterhouseCoopers in Hong Kong ("PricewaterhouseCoopers") and PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co. ("PricewaterhouseCoopers Zhong Tian") as the Group's international and PRC external auditors respectively for Year 2006, and proposed the relevant resolutions to be considered and approved by shareholders at the Annual General Meeting of 2005. The Audit Committee also advised the Board to request PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian to have their partners designated for the Group be retired by rotation once every five years.

Attendance rate of Audit Committee meetings for this financial year :

Name	Number of meeting attended (Times)	Number of meeting to be attended (Times)	Attendance rate
Mr. Wu Jiapei (Chairman of the Committee)	4	4	100%
Mr. Chow Kwok Wah, James	4	4	100%
Mr. Yick Wing Fat, Simon	2	2	100%
Mr. Lee Kwok Ming, Don (Resigned during the year)	1	2	50%

REMUNERATION AND EVALUATION COMMITTEE (“REMUNERATION COMMITTEE”)

The Remuneration Committee comprises of five members, three of which are Independent Non-executive Directors, namely Mr. Chow Kwok Wah, James, Mr. Wu Jiapei and Mr. Yick Wing Fat, Simon. The remaining two are Non-executive Directors, namely Mr. Wang Quanhua and Mr. Yang Yatie. Mr. Chow Kwok Wah, James, an Independent Non-executive Director, was elected as the chief member of the Remuneration Committee (i.e. Chairman).

The role and duties of the Remuneration Committee are available at the corporate website. They mainly include: study of appraisal criteria for Directors and senior management and give advice according to the Company’s actual operation; study and review of remuneration policies and proposals of Directors and senior management, and evaluating its effectiveness; advising the Board on the overall remuneration policies and frameworks of Directors and senior management of the Company, and on the remuneration policy for setting up formal and transparent procedures; monitor the implementation of the Company’s remuneration policies; determine specific remuneration of all Executive Directors and senior management and advising the Board on the remuneration of Non-executive Directors; review and approval of performance-linked remuneration in accordance with the corporate goals as from time to time approved by the Board; review and approval of the payment of compensation for loss or termination of office or appointment to Executive Directors and senior management to ensure such compensation is determined in accordance with contract terms; review and approval of the compensation arrangement for dismissal or removal of Directors for their misconducts to ensure such arrangement is made in accordance with contract terms; ensure no Director or its associates could determine their own remuneration.

The Remuneration Committee shall report to the Board its decisions or recommendations. The remuneration plan of the Company’s Directors made by the Remuneration Committee is subject to the approval of the Board, and consideration and approval at the general meeting. The remuneration plan of the Company’s senior management should also be approved by the Board.

In 2005, the Remuneration Committee held two meetings in August and October respectively. The Committee has reviewed the Company’s existing remuneration policies and appraisal system. Researches were subsequently carried out on companies of the same industry and the market, for which theme studies will be conducted on the improvement of the rationality and implementation plans of the Company’s remuneration and appraisal systems.

Attendance of the meetings of the Remuneration Committee is as follows:

Name	Number of meeting attended (Times)	Number of meeting to be attended (Times)	Attendance rate
Mr. Chow Kwok Wah, James (Chairman)	2	2	100%
Mr. Wu Jiapei	2	2	100%
Mr. Yick Wing Fat, Simon	2	2	100%
Mr. Wang Quanhua	1	2	50%
Mr. Yang Yatie	2	2	100%
Mr. Lee Kwok Ming, Don (Resigned during the year)	0	0	—

NOMINATION OF DIRECTORS

The Company has not yet set up a Nomination Committee. Nomination and election of Directors are currently carried out in accordance with the Company's Articles. At present, the promoter shareholders and the Board nominate and recommend candidates of Directors (other than Independent Non-executive Directors) and Independent Non-executive Directors respectively. Following the nomination of candidates of Directors (including Independent Non-executive Directors) by the Board in accordance with the relevant requirement of Company Law, Listing Rules, Chapter 14 "Eligibility and obligations of Directors, Supervisors, Managers and other senior management of the Company", the Company will put forward the nomination in the general meeting. The Director of the Company serves a term of 3 years and is subject to re-election upon expiry. Written notices of intention of nominations of Director's candidate indicating candidate's acceptance for nomination shall be sent to the Company after the date that the notice on the general meeting for the purpose of Directors' election is issued and at least 7 days prior to the date of the meeting. Each of the Board comprises of 15 Directors, of which at least one-half of the Directors are external Directors (including two or more Independent Non-executive Directors). Directors shall be elected by way of ordinary resolution in the General Meeting. In case more than 15 Directors are approved, those who have got the highest vote shall be elected as Directors. Any Director who has unexpired terms of office may be removed by way of ordinary resolution at the general meeting provided that the general meeting is in compliance with the relevant provisions of law and administrative rules.

Members of professional committees under the Board shall be nominated by either the Chairman, one-half of the Independent Non-executive Directors and above or one-third of all the member of Directors, and subsequently elected by the Board. Chief members of all committees (Chairman of the committee) shall be appointed by the Board. Eligibility of all committee members shall comply with related stipulations of working rules of the committees.

In June 2005, Mr. Zhang Xueren, a Non-executive Director and Mr. Lee Kwok Ming, Don, an Independent Non-executive Director, tendered their resignations as Directors due to personal reasons and was approved at the Company's extraordinary general meeting held on August 23, 2005. Mr. Gong Guokui and Mr. Yick Wing Fat, Simon were also elected as Non-executive Director and Independent Non-executive Director at the meeting, with terms of office from the date thereof to December 5, 2006. In the board meeting held on August 24, 2005, Mr. Gong Guokui was elected as a Vice Chairman and a member of the Strategic Committee. The Board also appointed Mr. Yick Wing Fat, Simon as members of the Audit Committee and the Remuneration Committee.

REMUNERATION OF EXTERNAL AUDITORS

Remunerations for auditing services provided by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co., the Company's international and PRC auditors respectively, to the Company for Year 2005 totaled at RMB 1,540,000. No other non-auditing services were provided.

STRATEGIC COMMITTEE

The Strategic Committee is responsible to study and advise the Company on its long term development strategies and significant investment decisions, including major issues like significant investment financing plans, significant capital operations and asset operations, which have an impact on the Company's development. Their duties are set out at the Company's website.

The Strategic Committee comprises of six members, including Mr. Cao Jianxiong, Mr. Zhu Yong, Mr. Wang Quanhua, Mr. Gong Guokui, Mr. Rong Gang and Mr. Ding Weiping. Mr. Cao Jianxiong was appointed as the chief member of the Strategic Committee (Chairman of the committee). In October 2005, the Strategic Committee convened a meeting to discuss the Company's strategic joint venture projects and reported to the Board. Attendance rate of the Strategic Committee meetings the 2005 was 100%.

SUPERVISORY COMMITTEE

The Supervisory Committee was established in accordance with the PRC law. It reviewed the Company's financial position in accordance with the Company's articles of association and supervised the operation management activities of the Board and senior management. The Supervisory Committee is responsible to attend board meetings, approve financial information discussed from time to time at the general meeting such as corporate financial affairs and financial statements, supervise activities of the Board and other senior management for their discharge of duties. In case of conflict of interest between the Company and any of its Directors, the Supervisory Committee shall negotiate or initiate legal proceedings against such Directors on behalf of the Company. Any resolution proposed in any meeting of the Supervisory Committee shall be adopted with approval granted by two-third or more of the Supervisors.

The second Supervisory Committee was elected at the EGM held on December 5, 2003, with a term expiring on December 5, 2006. The second Supervisory Committee comprises of eight members (refer to Section 1 of "Corporate Information" for the list of members of Supervisors), including an Independent Supervisor, Mr. Rao Geping, and with Ms. Li Xiaojun and Ms. Du Hongying as Chairperson and Deputy Chairperson of the Supervisory Committee respectively. The biographies of Supervisors are set out on pages 99 to 101.

During 2005, the Supervisory Committee convened two meetings with attendance of 100%. The Supervisory Committee has reviewed financial information pertaining the Company's 2004 annual result and 2005 interim result, supervised over operation management activities of the Board and senior management and made recommendations to the management.

All Supervisors of the Supervisory Committee fully complied with the "Model Code for Securities Transactions by Directors of Listed Companies" as set out in Appendix 10 to the Listing Rules.

By Order of the Board

Ding Weiping

Company Secretary

April 7, 2006