

Corporate Governance Practices

The Company has established a corporate governance structure that is standardizing and sound. The Company has also placed emphasis on the corporate governance principle of having transparency, accountability and safeguarding the interests of all the shareholders.

The Directors believe that sound corporate governance is essential to the development of the Company's operations. The Board regularly reviews our corporate governance practice to ensure that the Company operates in accordance with the laws, regulations and requirements of the listing jurisdiction, and that the Company continuously implements corporate governance of high quality.

The Company's corporate governance practice includes but not limiting to the following documents:

Articles of association, working rules of the board of directors (including rules of meeting of the board of directors, procedures of meeting of the board of directors, constitutional document of the audit committee, constitutional document of the planning and development committee, constitutional document of the remuneration and appraisal committee, working reporting rules of the senior management, notice regarding the purchasing of the shares of the Company by directors, supervisors and senior management and information disclosure and management regulations).

As at 31 December 2005 (the "Reporting Period") and as at the date of the announcement of the annual report, the Board has reviewed documents on corporate governance as adopted by the Company, and considers that they have complied with most of the principles and best practices recommended by provisions of the Code set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and the Code on Best Practice of Corporate Governance (the "Code"). In certain aspects, the code of corporate governance adopted by the Company is even more stringent than the provisions set out in the Code. The following sets out aspects which are more stringent than the Code as well as certain deviations.

Major aspects which are more stringent than provisions set out in the Code:

- all members of the audit committee and the remuneration and appraisal committee are independent non-executive directors.
- 16 meetings of the Board were held during the financial year of 2005.
- other than the audit committee and the remuneration and appraisal committee, the Company has also established a governance committee, which is known as the planning and development committee.

Major aspects of deviations from the principles and provisions of the Code:

- Provisions of the Code require that listed issuers should provide written guidelines for the relevant employees in relation to the dealing in securities of the issuer, and these guidelines must not be less stringent than the Model Code for Securities Transactions by Directors of the Listed Issuers (“Model Code”) set out in Appendix 10 of the Listing Rules. In this respect, “relevant employees” include any employees who by virtue of their duties or employee relationship, may be in possession of price sensitive and unpublished information of the issuer or its securities, or such directors or employees of subsidiaries or parent companies of the issuer.

In view of the continued expansion of the scale of the Company, no guidelines had been made timely within the time frame of 2005, but formulation of such written guidelines pursuant to these requirements are now underway, and the Company intends that these guidelines will be provided to the relevant employees in 2006.

Board of Directors

The Company is managed by the Board of Directors. The Board of Directors is responsible for the leadership and control of the Company. The Directors are jointly responsible for implementing businesses of the Company by directing and supervising the affairs of the Company.

Directors

At present, the Board of Directors consists of 11 directors, including a chairman (also an executive director) and three other executive directors, two non-executive directors and five independent non-executive directors. Other than Mr Luo Chaogeng, who joined the Board as an executive director in June 2005, all other directors have been in office throughout the whole year of the Reporting Period.

All directors shall retire in the third annual general meeting following their appointment, but being eligible for re-election.

Newly appointed directors shall be re-elected in the first general meeting following their appointment to the Board.

Names, personal particulars and effective date of appointment are set out in page 32 to page 40 of this report.

Independent non-executive directors of the Company shall possess extensive skills and experience. They shall be able to play their roles of supervising and checks and balance to the fullest extent to protect the interests of shareholders and the Company as a whole. Five out of seven non-executive directors (over one third) are independent non-executive directors. The Board considers that they shall be able to exercise independent judgment effectively, which complies with guidelines on their independence in assessment pursuant to Rule 3.13 of the Listing Rules.

Pursuant to 3.13 of the Listing Rules, the Company has received the annual confirmation letters from each of the independent non-executive directors on their independence.

All the non-executive directors (including independent non-executive directors) are appointed for a term of 3 years. The formal appointment letters and the articles of association of the Company have set out the terms and conditions of their appointment.

The Company is making an active effort of studying insurance arrangements for directors and senior management for being potentially liable to legal actions.

Other than working relationship, directors, supervisors and senior management of the Company do not have any financial, business or family connection with one another.

Powers of the Board

On a periodic basis, the Board of Directors reviews the relevant performance of the proposed budgets and business objectives of each operating unit and exercise a number of powers retained by the Board, including but not limit to the following:

- responsible for convening general meetings and reporting to shareholders on its work;
- implement resolutions of the general meeting;
- decide on the operating plan and investment proposal of the Company;

- formulate the annual preliminary and final budget proposals;
- formulate the Company's profit distribution proposal and the proposal to offset losses;
- formulate the Company's proposals to increase or reduce the registered capital and proposals to issue debt securities;
- draw up proposals of the Company's merger, demerger and dissolution;
- decide on the Company's internal management body;
- employ or dismiss the Company's President and secretary to the Board; appoint or dismiss the Vice President and chief financial officer of the Company on the nomination of the President, and determines their remuneration;
- formulate the basic management system of the Company;
- formulate proposals to amend the articles of association of the Company;
- discharge any other powers and functions granted by the general meeting.

The Board is also responsible for the completeness of financial information of the Company and is responsible for the effective internal control system and risk management of the Company, as well as formulating the financial statement. Whereas the business objectives and the daily operation are the responsibilities of the chief executive officer. The Company's articles of association have specified the duties and functions of the Board and the management. The Board periodically reviews the duties and functions of the chief executive officer and the powers delegated to the chief executive officer to ensure that such an arrangement is appropriate.

In order to ensure the balance of powers and authorization, the roles of the chairman and the chief executive officer have been clearly defined. The chairman of the Company is Mr Li Fenghua, and the chief executive officer is Mr Luo Chaogeng, an executive director. There are also other senior officers who are responsible for the daily management within their scope of duties.

Meeting of the Board

The chairman leads the Board to ensure that the Board performs its various duties effectively and he is responsible for drawing up the agenda of the meeting of the Board and considering other matters other directors propose to be included in the agenda. The agenda together with documents of the Board should be, as far as practicable, circulated at least 3 days prior to the meeting of the Board or its committees. The chairman is also obliged to ensure that all the directors are suitably briefed on matters to be raised in the meeting of the Board. The chairman ensures that the directors receive information that is accurate, timely and clear. Through

on-the-job training of directors and continued participation in meetings of the Board and of committees of the Board and interviews with key persons of the headquarters and other departments, the directors are encouraged to update their knowledge in technology, and understanding of the Group.

The Company has established a special unit to work for the Board. All the directors can access the service of the secretary to the Board. Secretary to the Board shall periodically update the directors of the latest information on governance and regulation. The directors may seek independent professional advice through the chairman for the purpose of performing their duties, with the cost to the Company. Both the audit committee and the remuneration and appraisal committee may also seek professional advice likewise.

The company secretary is responsible for the records of meetings of the Board. These minutes of meetings together with other documents for meetings of the Board shall be made available to all the directors. Meetings of the Board are meant to enable the directors to have open and frank discussions and to ensure that non-executive directors are able to make effective enquiries to each of the executive directors.

In order to ensure sound corporate governance, the Board has established 3 committees : audit committee, remuneration and appraisal committee and planning and development committee with their terms of reference drawn up in accordance with the principles set out in the Code. The company secretary is to draft the minutes of meetings for these committees, and the committees shall report to the Directors.

The Board has held 16 meetings during the Reporting Period with the chief financial officer, the financial manager and the manager of the planning and development department attended, and has given its views on matters such as corporate governance, risk management, compliance of the laws and regulations, acquisitions and takeovers, accounting and finance. The following table shows the attendance rate of each director at shareholders' general meetings, board meetings and meetings of these specialized committees:

Directors	Board Meetings Attendance/No. of meetings	General Meetings Attendance/No. of meetings
Executive Director Li Fenghua	16/16	1/2
Executive Director Luo Chaogeng	6/16	1/2
Executive Director Wan Mingwu	14/16	1/2
Executive Director Luo Zhuping	16/16	2/2
Non-Executive Director Cao Jianxiong	0/16	0/2
Non-Executive Director Zhong Xiong	10/16	1/2
Independent Non-Executive Director Hu Honggao	14/16	0/2
Independent Non-Executive Director Peter Lok	7/16	1/2
Independent Non-Executive Director Wu Baiwang	16/16	1/2
Independent Non-Executive Director Zhou Ruijin	15/16	2/2
Independent Non-Executive Director Xie Rong	14/16	1/2

Audit Committee:

Members	Attendance/No. of meetings
Xie Rong	4/4
Hu Honggao	0/4
Wu Baiwang	0/4

Remuneration and Appraisal Committee:

Members	Attendance/No. of meetings
Zhou Ruijin	3/3
Hu Honggao	1/3
Peter Lok	1/3

Planning and development Committee:

Members	Attendance/No. of meetings
Wu Baiwang	4/4
Zhong Xiong	0/4
Cao Jianxiong	0/4

Directors' interests

All the directors shall declare to the Board upon their first appointment their capacities as directors or other positions in other institutions, the declaration of which shall be renewed once a year. When the Board discusses any motion or transaction and considers any director to be in any conflict of interests, the director shall declare his interest and abstain from voting, and to excuse himself as appropriate. The Company shall, pursuant to the guidelines, request from directors their confirmation if they or their associates are connected with any transaction entered into by the Company or its subsidiaries during the Reporting Period. Material transactions which have been confirmed of having entered into with any connected person have been disclosed in the notes to the financial statements prepared in accordance with International Financial Reporting Standards of the annual report.

Securities transactions by directors

The Company has adopted the Model Codes for Securities Transactions by Directors of the Listed Issuers of Appendix 10 of the Listing Rules ("Securities Code") as the securities transactions code. Each of the directors of the Company has been issued a copy of the Securities Code upon their appointment.

All the directors of the Company have confirmed that they have complied with the Securities Code in 2005. In addition, pursuant to the requirements of the Listing Rules for Shares of the Shanghai Stock Exchange, company directors are allowed to purchase shares of the Company, and during their employment and within 6 months after they have left their appointment, they are not allowed to transfer their shares of the Company held by them.

For all the employees who may have the unpublished price-sensitive information related to the Group, they are also required to comply with the Securities Code. During the Reporting Period, there has not been any breaching of laws and regulations.

Internal Control

Internal control system

The Board shall be responsible for the overall internal control system of the Company/Group and periodically reviews the effectiveness of the internal control system.

The internal control system is essential to the risk management system, and risk management is very important to whether or not the operation objective can be achieved. Drawing up internal control procedures is to prevent assets from unauthorized use or disposal, to ensure the maintenance of appropriate accounting records and to provide reliable financial information either for internal use or for dissemination externally. However, the control procedures aim at reasonably (but not absolutely) assuring that there will not be material misrepresentation, loss or unlawful conduct. The internal control system is prepared pursuant to the relevant law, supplementary regulations and constitutional documents.

The Company reviews the effectiveness of its internal control annually, which includes control over finance, operation, compliance with the laws and regulations as well as the monitoring of risk management. The results of the review have been reported to the audit committee and the Board.

The Board confirms that the Company has a system and procedure in place to identify, manage and report material risks in the course of achieving its strategic objectives. The directors continue to monitor risks with the support

of all the committees and senior management. The Company has looked into areas for improvement, and is taking measures to manage them. The effectiveness of the measures will be reported in the next meeting of the audit committee.

Internal audit

The Company's internal audit department is responsible for conducting independent audit on whether or not the internal control system is sufficient and effective. The auditing plan has been prepared using the risk assessment method and is discussed and finalized by the audit committee. Other than the pre-determined scope of work, the department is also required to conduct other specific auditing.

The principal reporting workflow of the Group's internal auditing department is to report to the chief executive officer; it may also report directly to the chairman of the audit committee. All the internal auditing reporting shall be delivered to the chairman of the board, chief executive officer, chief financial officer, the management of audited department and related departments. The outcome of each auditing result, in essence, will also be discussed with the audit committee. The Board and audit committee will actively monitor the number and seriousness of the investigating report of the internal auditing department, and the relevant corrective measures taken by the department.

Risk management

Risk management involves identifying and managing business risk effectively, including safety and security, law, environment and goodwill risk.

Risk management committee

The Board has not established a risk management committee, but the internal auditing department has undertaken related risk management duties and report to the audit committee periodically. It is responsible for coordinating the implementation of the appropriate measures to manage operation risks.

- To establish the risk trend and risk management strategy of the Group and determine the risk profile of the Group;
- To identify, assess and manage material risks various operations are exposed to;
- To examine and assess suitability of the Group's risk management procedures, system and internal control;
- To examine the compliance of the Group's risk management procedures, system and internal control, including whether the Group meets the requirements for prudence and compliance with the law in order to roll out its operation.

Audit committee

The audit committee is responsible for auditing financial reports, reviewing internal control and corporate governance, and is responsible for making recommendation to the Board. All members of the committee are independent non-executive directors and Mr Xie Rong, one of its members, has been appointed as the chairman of the committee. The chairman of the committee possesses professional qualifications in accounting.

Constitutional documents of the audit committee are posted on the website of the Company.

The audit committee held 4 meetings in 2005. In each meeting, senior management and external as well as internal auditors were invited to attend the meeting. Based on the reports of the external and internal auditors, the audit committee conducted review on the accounting principles, practice and internal control adopted by the Group with a view to finding out whether they had been audited pursuant to the requirements of the Listing Rules, and conducted review on the audit, internal control, risk management and financial statements. The audited results of the first half and final results of 2005 had been discussed in meetings before they were submitted to the Board for approval.

Attendance of members of the audit committee is as follows:

Directors	Attendance/ No. of meetings	Attendance
Xie Rong	4/4	100%
Hu Honggao	0/4	0%
Wu Baiwang	0/4	0%

USA: Other than this, the audit committee has also conducted other compliance work to comply with the reporting requirements of the USA in 2005, including:

- the review of compliance with the Sarbanes-Oxley Act; and
- to consider the preparation work of the management for the compliance of Section 404 of the Sarbanes-Oxley Act for internal control.

External auditors

In the Reporting Period, remuneration of the external auditors estimated to be approximately US2.05 million, of which approximately US1.20 million was for the regular annual fee for auditing services, and US0.85 million for approved non-regular auditing services. The auditing fee will be determined by the audit committee and approved by the Board.

In 2005, the Company was required to pay approximately US0.85 million to PricewaterhouseCoopers of Hong Kong for providing the approved non-regular auditing services. The audit committee has had an overall understanding of the non-regular auditing service and its scope and was satisfied that the non-regular auditing service (in respect of the nature of service and the total cost of non-regular auditing service as opposed to regular annual auditing service) had not affected the independence of the accounting firm. The non-regular auditing service comprises mainly auditing service for material contracts of the Company and accounting consulting service.

The partner appointed by the external auditor for our auditing work has been responsible for the service since 2005. Pursuant to applicable U.S. securities laws, the partner responsible for our auditing may not undertake the service for more than 5 consecutive years.

Remuneration and appraisal committee

The remuneration and appraisal committee is chaired by Mr Zhou Ruijin. Its members include 2 independent non-executive directors, Hu Honggao and Peter Lok. After each internal meeting, the remuneration and appraisal

committee reported to the Board. Constitutional documents of the remuneration and appraisal committee is posted on the Company's website.

The remuneration and appraisal committee held 3 meetings in 2005.

Members and attendance of the remuneration and appraisal committee are as follows:

Directors	Attendance/ No. of meetings	Attendance
Zhou Ruijin	3/3	100%
Hu Honggao	1/3	33%
Peter Lok	1/3	33%

Remuneration policy of executive directors

Remuneration packages of executive directors are aimed mainly at linking the remuneration of executive directors to their performance. It helps as an incentive to the performance of executive directors. Pursuant to the policy, directors are not allowed to approve their own remuneration.

Remuneration of executive directors of the Company mainly comprises basic salary and bonus.

Basic salary

Executive directors review and approve the basic salary of each executive director every year pursuant to the remuneration policy of the Company. Pursuant to the service contract entered into between the Company and each of the executive director, the executive director is entitled to receive a fixed annual salary.

Bonus

Bonus is calculated on the measurable performance of the operating units of which the executive directors are in charge of.

Remuneration policy of non-executive directors

Non-executive directors do not receive from the Group their remuneration.

Allowances received by 5 independent non-executive directors in 2005 were as follows:

Hu Honggao	RMB50,000
Peter Lok	HK\$50,000
Wu Baiwang	RMB50,000
Zhou Ruijin	RMB50,000
Xie Rong	RMB50,000

Nomination committee

The Company has not established a nomination committee. The Board is directly responsible for nominating directors. Pursuant to the articles of association, candidates for directors shall be nominated by the Board or shareholders, and this nomination shall be submitted to the general meeting as motions for consideration.

In the Reporting Period, the Board held a meeting in April, 2005. It resolved to place a director of the Company. In that meeting, 2 out of 11 directors were not present : Cao Jianxiong (non-executive director) and Ye Yigan (director being replaced).

Investor relationship

The Company undertakes that the disclosure it makes is fair and comprehensive with transparency. The ultimate responsibility is to ensure an effective communication with investors and to ensure that the Board is well aware of the view of the major shareholder. Therefore, the chairman is obliged to meet shareholders. The Board's routine communication with the major shareholder is mainly through the company's secretary.

The Company has drawn up and implemented the Information Disclosure and Management System and further improved the information disclosure system, in order to ensure the accuracy, completeness and timeliness of information disclosure; the Company has also established an information disclosure office of which the company secretary is in charge. The information disclosure office is mainly responsible for the collection, collation and compilation of basic information for disclosure, and is also responsible for drawing up the internal control and procedure guidelines for information disclosure. It is responsible for monitoring the correct implementation of the various control measures.

The Company has released information in relation to its quarterly results. In the latest shareholders' general meeting held on 30 June 2005 in Shanghai, the meeting was open to all the shareholders and media. A total of 14 shareholders had attended in person or by proxy. The following directors had also attended the meeting:

Li Fenghua, Wan Mingwu, Zhong Xiong, Luo Zhuping, Peter Lok, Wu Baiwang, Zhou Ruijin and Xie Rong.

In the annual general meeting, each matter was proposed as a resolution and voted.

Investors and the public may access to our website and download coverage on such briefings. The website has also set out details of each operation of the Group. Announcements of the interim and final results may also be downloaded from the website.

The Company's company secretary and principal officer of the capital investment market had held 36 investors' meetings with Hong Kong investment analysts and investors, with 3 press conferences and 1 overseas road show.

Based on publicly available information and to the best of knowledge of directors, at least 25% of the total issued share capital had been held by the public. As at 31 December 2005, there were a total of 106,310 shareholders on the Company's register of members.

For any enquiries with the Board, shareholders may use the shareholders' hotline 8621-62686268, e-mail at ir@ce-air.com to contact the company secretary, or they may put forward their questions in the annual general meeting or extraordinary general meeting. In respect of the procedures for shareholders to convene the annual general meeting or extraordinary general meeting, they may enquire with the company secretary through the aforesaid channels.

On behalf of the Board

Li Fenghua

Chairman of the Board

Shanghai, China

April 10, 2006