

Chairman's Statement



Dear Shareholders,

China's economy continued to grow steadily in 2006 while market demand for air transportation remained strong. The open sky policy of the domestic and international aviation market caused a significant increase in the capacity. The Group faces strong pressure and challenges as a result of the intensified competition within the airline industry and also the soaring jet fuel prices which remained at historical high level.

In order to enhance economies of scale, the Group reinforced its strategic shift from a point-to-point linear operational model to a hub-network operational model; improved flight network structure of each hub; expanded the coverage of international and domestic routes to cater customer needs; improved product quality and introduced innovative services by means of promoting the electronic ticketing and customized services; and refined its business profiting model so as to steadily implement the long term business strategies of the Group.

In 2006, the Group expedited its pace of expansion into the international market by entering into an operation agreement for joining the SkyTeam Alliance. Through strategic partnerships with foreign airlines, the Group broadened its global market coverage and successfully added 18 new international routes including Lagos and Tehran and 9 international destinations, representing the largest number of newly launched international flight routes in recent years.

The Group continued to keep the best flight safety records among domestic airlines companies and has successfully passed the IATA Operational Safety Audit. The Group was also granted the Three Stars Award, the highest award for flight safety in the PRC, by the General Administration of Civil Aviation of China in 2006.

In 2007, it is expected that China's economic growth will remain robust and soaring jet fuel prices will gradually drop. In addition, domestic airlines are expected to benefit from the appreciation of Renminbi through foreign exchange conversion and various business opportunities arising from 2008 Beijing Olympics, Shanghai 2010 World Expo and the Asian Game to be held in Guangzhou, PRC. However, due to rapidly increasing flight capacity, fierce market competition among airlines is inevitable. Therefore, the airline industry is faced with both opportunities and challenges. The Group will continue to reinforce the following operations with a view to sustaining its growth and competitiveness:

1. To continue to refine its safety accountability system, safety management system and safety quality monitoring system, reinforcing the risk detection and risk prevention ability as regards operational safety.
2. To promote the achievement of its business strategies by enhancing its service chains based on market-preference, improving services for frequent flyers and high net-worth customers and improving flight punctuality rates. Efforts will also be made to optimize its resource allocation among different routes, to enhance cargo transportation capacity and to fully capitalize on its network's economies of scale, thereby maximizing operating efficiency.

Chairman's Statement (Cont'd)

3. To reinforce financial planning management, improve internal control system and strengthen risk detection and prevention measures against operating risks.

On behalf of the board of directors, I would like to express our sincere gratitude to the management and all our staff for their continued dedication and hard work, as well as to our shareholders and the public for their support to the Group's development.

Liu Shao Yong

Chairman

Guangzhou, the PRC

16 April 2007