

The following is the text of a letter from Sallmanns (Far East) Limited, an independent plant and machinery valuer, in connection with their opinion of the value of the aircraft and equipment as at September 30, 2004.



Sallmanns



Corporate valuation and consultancy

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December 3, 2004

The Directors
Air China Limited
9/F, Blue Sky Mansion
28 Tianzhu Road
Zone A, Tianzhu Airport Industrial Zone
Shunyi District
Beijing, China

Dear Sirs,

In accordance with your instructions, we have conducted a valuation of aircraft and equipment exhibited to us as those held by Air China Limited and its subsidiaries (hereinafter together known as the “Group”). We confirm that we have carried out inspections, made relevant inquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value for existing use of the aircraft and equipment as at September 30, 2004.

We have valued the aircraft and equipment on the basis of their market value which is defined herein as the estimated amount at which the subject assets should exchange on the date of valuation between willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

Market value for existing use is further defined as the market value of an asset based on continuation of its existing use, assuming the asset could be sold in the open market for its existing use, and otherwise in keeping with the market value definition regardless of whether or not the existing use represents the highest and best use of the asset.

This investigation is concerned solely with the values of the appraised aircraft and equipment and our opinion of value is not related to the earning capacity of the business. It is assumed that prospective earnings are adequate to support the concluded value of the machinery and equipment plus the value of other assets not included in this valuation, and sufficient net working capital. This report does not attempt to arrive at the value of the Company as a total business entity.

This summary report forms part of a detailed valuation report dated December 3, 2004 which comprises: —

- A narrative section, which identifies the assets valued, scope and character of our investigation; the premise of the value adopted; the valuation process employed and the opinion of value;
- Limiting Conditions;
- A summary of values;
- Valuer's Professional Declaration; and
- A schedule, with technical description of the assets, showing for each item or group of items the appraised market value for existing use.

NARRATIVE DESCRIPTION

Background

The Group operates the most international flights among carriers in China and is the country's flag carrier. It was formed in October 2002 out of five Mainland airline companies comprising Air China Southwest Airlines Company, Air China Zhejiang Airlines Company, Air China Chongqing Company, Air China Tianjin Company and Air China Neimenggu Company and has interests in Air Macau Company Limited and Air China Aviation Cargo Limited, the country's largest air cargo carrier. Currently, the Group operates a total of 153 aircraft including 31 aircraft under operating leases and a B767-300ER reportedly donated by the central government.

Headquarters — Beijing

The Group's headquarters is located at Beijing Capital International Airport and is mainly responsible for the administration/operation, training and development, supplies and aircraft maintenance.

Air China Southwest Airlines Company

The head office of Air China Southwest Airlines Company is located at Chengdu Shuangliu International Airport in Sichuan Province and the branch office is located at Longdongbao Airport, Guiyang City, Guizhao Province. Its fleet of aircraft includes five A319-111, three A340-300, twelve 757-200, eleven B737-300 and B737-600. All of its B737-600 aircraft are held under operating leases.

Air China Zhejiang Airlines Company

There are two operating bases of Air China Zhejiang Airlines Company in Zhejiang Province, one being located at Hangzhou International Airport and the other located at Wenzhou Airport. Its fleet of aircraft comprise three A320s and six A319s, of which three were recently acquired.

Air China Chongqing Company

The head office of Air China Chongqing Company is located at Chongqing River East International Airport. Its fleet of aircraft includes three B737-300s, three B737-800s and three B737-700s.

Air China Tianjin Company

The head office of Air China Tianjin Company is located at Tianjin International Airport. Its fleet of aircraft includes eight B737-300s and three B737-700s.

Air China Neimenggu Company

The head office of Air China Neimenggu Company is located at Neimenggu White Tower Airport. It has a fleet of eight B737-300s.

Air China Aviation Cargo Limited

The Group holds a 51% interest in Air China Aviation Cargo Limited with the remainder owned by Citic Pacific (25%) and Beijing Capital Airport Group Corporation (24%). It is one of the largest cargo companies in China with a fleet of four B747-200Fs and eight B747-400s plus the belly holds of 60 other aircraft comprising mainly of B747s, B767s and A340s. All B747-200F freighters are wholly owned by the Group.

Air Macau Company Limited

The Group holds (directly and indirectly) approximately 35% interest in Air Macau Company Limited. Its fleet of aircraft includes five A319s, five A321s and one A320. Of its 11 aircraft only one A321 belongs to the Group.

Property Valued

Assets under review comprise the following aircraft thirty three B737-300s, six B737-700s, fourteen B737-800s, twelve B757-200s, five B767-200s, four B767-300s, one B767-300ER, ten B777-200s, four B747-200Fs, four B747-400s, eight B747-400COMBIs, six A340-300s, eleven A319s, three A320s and one A321. Other associated equipment includes “Pratt & Whitney”, “CFM International”, “Rolls-Royce” and “GE” spare engines, auxiliary power units and inventory comprising airframe rotables and repairables and engine accessories and components.

Exclusion

We have excluded in this valuation aircraft and engines that are under operating leases. Generally, this valuation excludes the land, buildings, leasehold improvements, ground handling equipment, maintenance equipment, baggage and passenger handling equipment, furniture and office equipment, company records or any current or intangible assets.

Inspection

Wherever possible, we have personally inspected the property, but due to a restricted time frame we were not able to inspect all of the aircraft. In accordance with the United States Uniform Standards of Professional Appraisal Practice (USPAP) and International Valuation Standards Committee (IVSC), we have appraised those aircrafts which were not inspected based on all relevant documents necessary to arrive at our opinion of value. In this appraisal, we have relied to a considerable extent on information provided to us such as individual aircraft and engine flying hours records (Time-since-new, TSN), aircraft cycle (landing/take off), engine time before (TBO) and after overhaul records (TSO, Time-since-overhaul), engine removal and overhaul forecast

records, aircraft configuration list and standard aircraft certificates and licences. The Group furnished the following certificates and licences: —

1. Certificates of Airworthiness
2. Certificates of Registration
3. Aircraft Station Licences

The Certificate of Airworthiness is issued pursuant to the Convention on International Civil Aviation dated December 7, 1944 and the Civil Aviation Law of the People's Republic of China, and regulations issued thereunder, in respect of aircraft which are considered to be airworthy and fit to fly.

VALUATION METHODOLOGY

There are three generally accepted approaches to value, namely:

The Cost Approach

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history.

The cost approach generally furnishes the most reliable indication of value for assets without a known used market.

The Market Approach

The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised machinery and equipment relative to the market comparative.

Assets for which there is an established used market may be appraised by this approach.

The Income Approach

The income approach considers the present worth of the future economic benefits of ownership. This approach is generally applied to an aggregation of assets that consist of all assets of a business enterprise including working capital and tangible and intangible assets.

General

Any number or combination of the three approaches to value may be used in a particular valuation, depending upon the appraisal's objective and the nature of the property involved.

Analysis

Under USPAP, all three approaches to valuation must be considered in developing an opinion of value. We have considered and excluded the income approach due to insufficient financial data being available. We have considered the cost approach and the market approach to value, however due to the limited secondhand market information available, we have placed most emphasis on the

cost approach. In instances where we were able to find a similar aircraft in the used market, its actual flying time and condition most often differs from the subject aircraft. In this case we would combine the two values developed (cost approach and market approach) by applying weighted average formula to arrive at our opinion of value of each aircraft. This basis has previously been utilised in our appraisal of another PRC airline company.

Valuation Comments

Where the basis is the cost approach, we have first established the Replacement Cost New (RCN) of the property by determining the cost to acquire a similar new aircraft and engines plus other relevant cost associated to their acquisition. Cost of new aircraft were sourced from Boeing, Airbus and other aircraft dealer retail catalogues, with allowances made for price escalation. Having developed the aircraft RCN, we then separated the cost of the engines from the airframe prior to depreciation. Depreciation due to physical deterioration of the aircraft has been measured separately, by giving consideration to the engines' total flying hours and time before and after overhauls. After measuring the physical deterioration of the aircraft we then applied other elements of depreciation such as functional obsolescence and economic obsolescence.

In applying the market approach, we gathered data on sales and offering from the Internet and other published materials. We then analysed and adjusted the value obtained to reflect the difference in condition and utility of the aircraft being appraised and added transportation, insurance, import processing fees and bank charges to arrive at the appraised value of the aircraft.

In some instances, we combined the two values developed by applying a weighted average formula to arrive at our opinion of market value of the aircraft.

We have not investigated the title or any liabilities affecting the aircraft and equipment. No consideration was made for any outstanding amount owed under financing agreements, if any.

We hereby certify that we have neither present nor prospective interests in the assets appraised or the value reported.

OPINION OF VALUE

Premised on the foregoing, we are of the opinion that the market value for existing use of the aircraft and equipment as at September 30, 2004 is fairly represented in the amount of **RMB 40,329,750,000 (RENMINBI FORTY BILLION THREE HUNDRED TWENTY-NINE MILLION AND SEVEN HUNDRED FIFTY THOUSAND)**. A breakdown is shown in the attached summary of values.

Yours faithfully
For and on behalf of
SALLMANN'S (FAR EAST) LIMITED

Paul L. Brown
Bsc FRICS FHKIS
Director

James Lai
Senior Manager
Plant and Machinery Valuation

Note: James Lai is a plant & machinery valuer who has 20 years of experience in plant and machinery valuation in the Asia Pacific region. Paul L. Brown is a Chartered Surveyor who has 21 years of experience in the valuation of properties in the PRC and 24 years of property valuation experience in Hong Kong, the United Kingdom and the Asia Pacific region.

Summary of Values

<u>Description</u>	<u>Market Value (RMB)</u>
Headquarters — Beijing	
— Aircraft & Spare Engines	21,336,466,000
— Inventory	1,191,112,980
	22,527,578,980
Air China Southwest Airlines Company	
— Aircraft & Spare Engines	7,843,611,000
— Inventory	595,647,200
	8,439,258,200
Air China Zhejiang Airlines Company	
— Aircraft & Spare Engines	2,918,584,000
— Inventory	177,719,500
	3,096,303,500
Air China Chongqing Airlines Company	
— Aircraft & Spare Engines	2,636,114,000
— Inventory	127,916,600
	2,764,030,600
Air China Tianjin Airlines Company	
— Aircraft & Spare Engines	1,846,469,000
— Inventory	61,283,800
	1,907,752,800
Air China Neimenggu Airlines Company	
— Aircraft & Spare Engines	976,214,000
— Inventory	34,647,000
	1,010,861,000
Air China Aviation Cargo Limited (51% interests owned by the Group)	
— Aircraft & Spare Engines	789,375,000
— Inventory	48,591,700
Sub-total	837,966,700
51% equates to	427,363,000
Air Macau Company Limited (35% interests owned by the Group)	
— Aircraft & Spare Engines	327,981,000
— Inventory	119,441,200
Sub-total	447,422,200
35% equates to	156,598,000
Grand Total: RMB	40,329,746,080
Rounded to: RMB	40,329,750,000