



CHAIRMAN'S STATEMENT



Dear shareholders,

On behalf of the board of directors of Air China Limited, I wish to express our sincere appreciation for your support to the Group (including Air China Limited, its subsidiaries and joint ventures).

In 2004, the Group achieved a great-leap-forward development. By seizing the market opportunities, we focused our efforts on corporate restructuring and listing preparation, flight safety maintenance as well as on internal operation coordination enhancement. Despite the fact that the global aviation industry experienced a recession for three consecutive years, our H Shares were successfully listed on both Hong Kong and London stock exchanges on December 15, 2004, achieving gross proceeds of approximately USD1,120 million or approximately RMB9,300 million in equivalent (taking into account of proceeds from subsequent exercise of over-allotment option). We topped the list of all initial public offerings among the airlines over the past seventeen years. With a premium of 101% of share issue

price over net asset value per share at June 30, 2004, the shareholders' equity of the Company amounts to RMB16,548 million and the liabilities to assets ratio reduced to approximately 72.97%. As a result, the capital structure of the Company has been optimized, with our brand value significantly enhanced and our corporate governance structure further improved.

In 2004, the Group achieved the best performance ever in its history for major performance indicators and consolidated profit before tax reached RMB3,657 million. Air traffic revenue and other operating revenue reached RMB30,835 million and RMB2,686 million respectively, representing increases of 31.6% and 120.4% over 2003. According to CAAC's statistics, our total profit accounted for over 50% of the total profit of the whole mainland China airlines.

To improve our services, the Group established an efficient internal service management system while at the same time adopted measures to maintain and upkeep customer relationship, resulting in a decrease of about 17% in customer complaints compared to the previous year. Last year, the Company was appointed as the only airline partner of 2008 Beijing Olympic Games, which greatly boosted the brand name of the Company. In 2004, according to a travellers' satisfaction survey, the Company obtained two awards, namely Excellence Award for Travellers' Satisfaction and Excellence Award for Service Brand categorized for airlines carrying over 15 million passengers. Our successful listing in Hong Kong and London make our brand the focus among the media and the investors, thereby significantly enhancing our intangible asset value.



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Cathay Pacific Airways Limited ("Cathay Pacific"), as a strategic investor, acquired 10% share capital of the Company upon its listing. This not only provides a platform for cooperation between the two companies in many business and operation sectors, but also creates opportunities for network connection between Hong Kong and Beijing. Such a relationship helps to improve the operation efficiency as well as the management capability of the Company. In addition, the Company holds indirect interest in Dragonair and Air Macau through CNAC and enjoyed cooperation with Dragonair under codeshare arrangements on certain routes between Hong Kong and the mainland China. We also have a similar cooperation arrangement with Air Macau through which we expect to realize better profitability.

Looking forward, as the economic globalization proliferates, we are fully aware of the challenges and opportunities lying ahead. The greatest opportunity is that the Chinese economy is now in a prime period of strategic growth. In the coming three years, the demand for air traffic will keep going at an anticipated growth rate of 13% to 15%. The international market will grow faster than the domestic market while the cargo sector will grow faster than the passenger sector. However, affected by international political and economic environment, the cost of jet fuel may stay high and the competition can be more severe. Interest rate, exchange rate and capital market are also undergoing frequent changes. All these will present new challenges to the Group's financial risks control capability.

Where there is challenge, there is opportunity. The Group is now facing an opportunity for development and transformation. By completing airline integration and listing, the Group achieved significant milestones. Our fleet is expanding rapidly and, when the fleet of all the

Company's subsidiaries, joint ventures and associates are taken into account, the fleet comprises over 250 aircraft, which could enable us to enjoy economies of scale. Our development focus on hub and network, whereby strengthening our dominance over the market. We have already built up our competitive edge within the sector and re-secured our leading position. All these have laid a solid foundation for a rapid, healthy and balanced development of the Group in the future. Our goal is to maximise the value of the Company and to establish the Company as the favored airline for mainstream passengers, the most valuable and profitable airline in China and an airline with international competitiveness.

In 2005, without prejudice to safety operation, the Company will further enhance our core competitiveness and brand recognition to create a sound development environment featured by safety, high efficiency and sustaining profitability. Thus the Company will take the following measures:

1. Through functional integration, transform and streamline our organizational structure to enhance our operational efficiency. To tighten internal risk control and prevent operational risk exposure.
2. Solidify our hub position while building up a more rational market reach. Continue to focus on Beijing, Chengdu and East China markets, give appropriate attention to the South China market, and realize more synergy by working closely with our Hong Kong and Macau counterparts.
3. Strengthen our competitiveness in a balanced international and domestic network.



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4. Deploy more air cargo capacity. Optimize cargo transportation network.
5. Continue our efforts in providing safe, convenient, comfortable and customerised services. Improve the quality of our services, and further enhance our brand name recognition by leveraging our status as the only airline partner of the 2008 Beijing Olympic Games.

Looking back, in 2004, the Company well exceeded the profit forecast made at the time of its initial public offering, thus affirming its commitment to its shareholders. I would like, on behalf of the board of directors, to express my appreciation to the management team and staff of the Group for their professionalism and dedication. Last but not the least, I, on behalf of the board of directors, would like to thank our shareholders for their trust and support.

A handwritten signature in black ink, appearing to be the name 'Li Jiaxiang' in Chinese characters.

Li Jiaxiang
Chairman

Beijing, PRC
April 12, 2005