

Chairman's Statement

During 2005, along with the rapid growth in demand in the PRC's aviation industry, the operations of Air China Limited (the "Company"), its subsidiaries and joint ventures (collectively the "Group") maintained good momentum throughout the year and the Group achieved continued, steady and well-balanced development. In 2005, the Company and Air China Cargo recorded revenue tonne kilometres of 7.44 billion and carried 27.69 million passengers and cargos and mails of 733,000 tonnes, representing increases of 10.2%, 13.0% and 10.2% from 2004 respectively. The Group's total revenue amounted to RMB38.3 billion in 2005, representing an increase of 14.2% compared with last year. Operating profit was RMB3,674 million, representing a decrease of 18.1% from 2004, mainly due to the significant increase in the cost of jet fuel arising from the soaring international oil prices.



Li Jiexiang
Chairman

The continual increase in international oil prices presented severe challenges to the aviation and transportation enterprises. In 2005, the cost of jet fuel as a percentage of operating expenses of the Group rose from 28.8% in 2004 to 34.0%, representing an increase of RMB3.423 billion compared with 2004. The Group implemented various measures to mitigate the impact of rising jet fuel prices, such as the enhancement of operation control, promotion of computerised planning system, flight route optimisation, redespach, purchase of advanced aircraft with lower fuel consumption, and jet fuel hedging transactions. As a result of our measures to reduce costs and increase efficiency, the Group substantially mitigated the impact of rising jet fuel price. In addition, the collection of jet fuel surcharge also relieved pressure on operating costs to a certain extent. The Group's net profit attributable to equity holders for 2005 was RMB2,406 million, representing an increase of 0.9% from last year, which was principally attributable to factors such as the appreciation of Renminbi. The Group continued to maintain its leading position among fellow PRC airlines in terms of profitability.

In 2005, we introduced a new flight route between Hangzhou and Hong Kong and resumed the Lhaza – Chengdu – Hong Kong route. The Group also introduced or resumed 20 domestic routes, such as the Beijing – Ningbo route, bringing the Company's total number of routes to 316 with destinations spanning across 22 countries (regions) and 106 cities.

In 2005, 25 new aircraft were added to the Company and Air China Cargo's fleet, increasing the number of aircraft to 176. During the year, the Company also entered into purchase contracts for 35 aircraft and lease agreements for 17 aircraft. The scale of the Company's fleet will be expanded further to meet the needs for additional routes and increased flight frequency. The expanded fleet capacity will directly contribute to its service capacity for the 2008 Olympic Games.

As at 16 September 2005, the Company successfully issued corporate bonds of RMB3 billion in aggregate. The bonds received overwhelming subscription from investors upon issue and were completely taken up on the first date with more than 10-time oversubscription. Prior to this, on 25 May 2005, the Company has successfully issued short-term commercial papers in the amount of RMB2 billion. As such, the Company became a listed issuer of stocks, corporate bonds and short-term commercial papers.

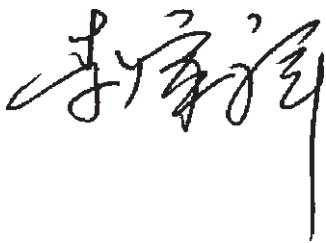
We are committed to providing passengers with safe, convenient, comfortable and customised flight services. With our special service enhancement programme, our service quality continued to improve and the Company won the Excellent Award for Travellers' Satisfaction in a 2005 travellers' satisfaction survey. During 2005, the Company recorded 599,000 hours of safe flight hours, 243,000 landings and take-offs with flight incident rate of as low as 0.134 per 10,000 flight hours. As a result, the Group was honoured the "2005 Golden Roc Cup" by CAAC.

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The Company is the only national flag carrier in the PRC, providing private and chartered plane services to national leaders, cultural and sports representatives as well as diplomatic delegations etc. As such, the Company enjoys extensive brand awareness and good reputation among consumers. During 2005, the Company ranked the 35th among "Top 500 Most Valuable Brands of 2005 in China" sponsored by World Brand Laboratory. The Company topped the list among PRC airlines and was the only transportation services provider among the 29 mainland companies with international influence. In a survey of the PRC's top ten world brands conducted by *Financial Times* of the U.K. and McKinsey & Company, the Company ranked the eighth and the second respectively in terms of overall ranking and best brand awareness. Capitalising on its unique position as the sole passenger aviation partner for the 2008 Olympic Games, the Group is aggressively boosting its brand awareness and presence to enlarge its brand effect and influence among passengers.

2006 will be a year full of opportunities and challenges. The Company will continue to face the severe challenge of oil price hike in the international market. Besides, with the rapid growth in the PRC's aviation industry, the continued deregulation in civil aviation industry to allow investments by different entities, and the shortage in resources such as air route rights, time slots and key technicians, the Company is expected to face more intense market competition. The Company will continue to overcome these unfavourable factors, through taking full advantage of the golden opportunities arising from the 2008 Beijing Olympic Games, maintaining our strategy of building hubs and networks through strategic alliance, optimising of resources allocation and actively developing external cooperation such as code sharing arrangement and aviation alliance. Moreover, the Company will continue to promote organisational transformation, expand its service network and streamline its operation flow. The Company plans to establish an objective appraisal and performance management system to enhance its overall management standard; further improve corporate governance, strengthen the function of special committees; continue to strengthen decision-making function and improve enforceability of decisions, pay attention to risk control and the construction of internal control system, aiming to position itself as a highly recognised and most valuable and profitable airline in the PRC with international competitive strength.

Passenger recognition is the best reward for our efforts. I am pleased to see the growing number of passengers that have chosen our service and placed their trust in us. Over the past year, the members of the Board and the management discharged their duties diligently and faithfully for furtherance of the Company's growth. Our staff also contributed their professionalism and skills. I am very pleased with the performance of the Company in 2005. Finally, on behalf of the Board, I would like to express my heart-felt gratitude to the shareholders for their trust and support.



Li Jiexiang
Chairman

Beijing, PRC
18 April 2006

