



Li Jiayang *Chairman*

Chairman's Statement

During 2006, Air China Limited (the "Air China" or the "Company"), its subsidiaries and joint ventures (collectively the "Group") continued to secure a leading position in the aviation industry in the Mainland China and maintain a proactive approach for improvement in all aspects such as flight safety, operating performance, capital operation, brand building and corporate restructuring. While proactively coping with the rising jet fuel price and intense market competition, the Company has completed the restructuring of the shareholdings of the Company, Cathay Pacific Airways Limited ("Cathay"), China National Aviation Company Limited ("CNAC", a subsidiary of the Company), CITIC Pacific Limited and Swire Pacific Limited in Cathay and Hong Kong Dragon Airlines Limited ("Dragonair") and the listing of its A shares, and has made substantial progress in joining airline alliance. With the change in our growth mode, our ability to resist risks has been further enhanced.

During the reporting period, the Company recorded 704,000 hours of safe flight, representing an increase of 17.9% as compared to the corresponding period last year. In order to ensure flight safety, the Company has implemented the systematic safety management step by step, strengthened flight training, improved operating organization and boosted the level of aircraft maintenance.

During the reporting period, the Company, together with Air China Cargo and Air Macau recorded a total traffic turnover of 9.174 billion tonne kilometres and carried 33,971,200 passengers and handled 1,019,359 tonnes of cargos and mails, representing an increase of 16.8%, 14.2% and 15.2% respectively as compared to the corresponding period last year. The Group's total revenue from business operations amounted to RMB44.937 billion, representing an increase of 17.4% as compared to RMB38.291 billion for the corresponding period last year. The operating profit was RMB2.518 billion, representing a decrease of 31.5% as compared to RMB3.674 billion for the corresponding period last year. Profit attributable to shareholders was RMB2.688 billion, representing an increase of 11.7% from RMB2.406 billion in 2005. We continued to maintain a leading position among fellow airlines in the Mainland China in terms of profitability.

During the reporting period, the Group (including Air China Cargo and Air Macau) experienced a net increase in the number of aircraft by 31 during the year such that the total number of aircraft amounted to 225. The Company focused on enhancing the flight capacity while constructing hubs and network. As network operation capability was strengthened, the available seat kilometres in international routes increased by 12.7% as compared to last year. The establishment of the South China base, the south-western marketing centre and the regional headquarters in Japan, Europe and Western America marked new progress in developing sales channels. The progress in adopting the systematic management of budgeting workflow and the establishment and implementation of 14 management divisions at the Company level resulted in a noticeable increase in revenue and reduction in cost and evidenced new achievements in cost control.

During the reporting period, the Company continuously strengthened its service and brand management. By adhering to the notion of providing safe, convenient, comfortable and satisfactory services to passengers (the "SCCS Services"), the Company continued to develop and improve new products in the first and business class cabins, and offered a series of services and products in connection with the Olympic Games for its passenger cabins. The



Company developed its in-flight entertainment products, implemented the plan of improving service details and promoted fine service by fine management. The Company expanded its one-stop boarding services, carried out comprehensive service reform and endeavoured to perfect operation quality. For the continuous improvement of our brand recognition, the Company won 17 influential brand-name-related awards, among which the Company was awarded the "Best Airline of the Year" by the Asia Pacific Aviation Centre and won the "Passengers Satisfaction Award" for the third consecutive year in travelers' satisfaction survey. The Company was also entitled the "Top 25 Model Brand Enterprises in China" in the joint press release of the Overall Ranking List of China Brand Name and the China Summit Forum.

The Company made positive progress in corporate restructuring. The Company has set up a preliminary new model for business management and control, under which a framework of vertical management of four major systems, namely the business, flight, transportation control and information systems, was initially developed and the efficiency achieved through the consolidation of strategic resources emerged. Upon the announcement of the new organizational structure and system of the Company, the organization and management systems that met the strategic requirements of the Company were generally established.

There was a balanced growth in the interests of the Group's shareholders, the Company and its staff during 2006. Meanwhile, the Company's development and reform also entered into a critical stage. Looking into 2007, the Company will remain focused on enhancing its profitability and to plan various operating activities in a scientific manner; optimize and strengthen its principal business and improve the harmonious development of its ancillary businesses along with its principal businesses; promote hubs-building outside and inside China; implement the strategy of "forming airline partnerships for better development and effecting internal integration for improving capability"; ardently provide the SCCS services to enhance its brand competence; proactively increase incomes and reduce expenses by making market-oriented initiatives; implement the teambuilding strategy for further development of the Company; and lay a solid foundation for further development to guard against various risks. In addition, the Company will attempt to complete the following eight goals by closely adhering to the eight strategies set forth above: to complete the corporate restructuring in a satisfactory manner; to significantly enhance the operating quality; to effect a fundamental reform on the European and American routes; to obtain actual benefits via the "Two Stars" co-operation (i.e. by joining the Star Alliance and the completion of Project Star); to break through the IT bottleneck; to accelerate the regional integration and regional hub construction;

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to substantially increase the cargo transport capacity; to promote the brand awareness of the Company by offering products relating to the Olympic Games. The Company will also fully take advantage of the business opportunities arising from the 2008 Olympic Games to be held in Beijing, the entry to Star Alliance and the business cooperation with Cathay. The Company will also proactively promote the five strategies, namely strategies in relation to the hub network, cost advantage, balanced development of cargo and passenger services, brand, alliance and cooperation strategies. The Company is committed to become the most valuable and profitable airline in China, and the favored airline for mainstream passengers with international competitiveness.

Lastly, on behalf of the board of directors, I would like to extend my gratitude to our shareholders for their trust and support as well as to our management team and staff for their dedication in offering professional and quality services.

Li Jiaxiang
Chairman

Beijing, PRC
19 March 2007