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中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1110)

CONTINUING CONNECTED TRANSACTION

Further to the Announcement, the Board wishes to announce that on 13 April, 2005, Air Macau entered into the Wet Lease Extension Agreement with Air China pursuant to which Air Macau agreed to extend the wet lease of the Aircraft to Air China for a further six month period from 20 April 2005 to 19 October 2005 at the monthly fixed rent of US\$358,500 (equivalent to approximately HK\$2,796,300). Air China is also required to pay a monthly maintenance hourly payment for each block hour flown at US\$470 (equivalent to approximately HK\$3,666) per block hour. It is anticipated that the total maximum maintenance hourly payment under the Wet Lease Agreement and the Wet Lease Extension Agreement will amount to US\$1,692,000 (equivalent to approximately HK\$13,197,600).

Air Macau is indirectly owned as to 51% by the Company, which in turn is owned as to approximately 69% by Air China. Since Air China is a substantial shareholder of the Company, the transaction under the Wet Lease Agreement and the Wet Lease Extension Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to reporting and announcement requirements.

WET LEASE EXTENSION AGREEMENT

Further to the Announcement, the Board wishes to announce that Air Macau entered into the Wet Lease Extension Agreement with Air China on 13 April 2005, pursuant to which Air Macau agreed to extend the wet lease of the Aircraft to Air China. Set out below are the principal terms of the Wet Lease Extension Agreement.

Principal Terms of the Wet Lease Extension Agreement

Date: 13 April, 2005

Parties: Air Macau, as lessor
Air China, as lessee

Subject matter: Wet lease of one Airbus A319-100 aircraft with Macanese registration mark B-MAO. Air Macau shall be responsible for the operation and maintenance of the Aircraft during the lease term.

Lease term: 6 months, from 20 April 2005 to 19 October 2005

Lease payments: The lease payments comprise the monthly fixed rental payment and the monthly maintenance hourly payment.

The monthly fixed rental payment of US\$358,500 (equivalent to approximately HK\$2,796,300) per month is payable by Air China in two installments. The total fixed rent payment under the Wet Lease Agreement and the Wet Lease Extension Agreement will amount to US\$4,331,000 (equivalent to approximately HK\$33,781,800).

The fixed monthly payment covers the provision of the Aircraft, the cockpit crew and the maintenance crew and Aircraft related insurance.

Air China is also required to pay a monthly maintenance hourly payment for each block hour flown at US\$470 (equivalent to approximately HK\$3,666) per block hour. It is anticipated that the total maximum maintenance hourly payment under the Wet Lease Agreement and the Wet Lease Extension Agreement will amount to US\$1,692,000 (equivalent to approximately HK\$13,197,600).

The lease payments have been arrived at after arm's length negotiation between the parties taking into consideration the prevailing market level of rent payable for the wet leases of Airbus A319-100 and the provision of services under the Wet Lease Agreement (as extended by the Wet Lease Extension Agreement).

Other costs: Air China shall be responsible for other costs incurred in connection with the operation of the Aircraft (e.g., landing and navigation fees, airport and aircraft handling fees, fuel).

Other compensation: Air Macau shall pay Air China the amount of US\$11,373 (equivalent to approximately HK\$88,709) per day when there is no operation of the Aircraft due to Air Macau's mechanic breakdown or other flight crew-related causes calculated at the end of the lease term, provided that such situation exceed 10 operating days for the entire lease term.

Proposed Cap

Based on the terms of the Wet Lease Agreement and the Wet Lease Extension Agreement and assuming that the Aircraft will fly the number of block hours according to the flight schedule under the Wet Lease Agreement and the Wet Lease Extension Agreement together with any delay that may occur, the Directors propose that the maximum aggregate annual value contemplated under the Wet Lease Agreement and the Wet Lease Extension Agreement shall be US\$6,023,000 (equivalent to approximately HK\$46,979,400).

Reasons for and benefits of the Wet Lease Extension Agreement

The Directors consider it to be in the interest of Air Macau to enter into the Wet Lease Extension Agreement as the lease payments to be received by Air Macau under the Wet Lease Extension Agreement will generate a steady stream of income for Air Macau. Furthermore, the entering into of the Wet Lease Extension Agreement will enable Air Macau to enhance its aircraft utilisation.

The Directors, including the independent non-executive Directors, are of the view that the terms of the Wet Lease Extension Agreement are fair and reasonable and in the interest of the shareholders of the Company as a whole.

INFORMATION ON THE GROUP

The Group is principally engaged in the provision of air transportation services through Dragonair and Air Macau, airline catering services, airport ground handling services and logistics services. For the two years ended 31 December 2003 and 2004, the Group recorded an audited loss attributable to shareholders of the Company of approximately HK\$18,747,000 and an audited profit attributable to shareholders of the Company of approximately HK\$367,470,000, respectively. The audited net asset value of the Group as at 31 December, 2004 was approximately HK\$2,967,636,000.

INFORMATION ON AIR CHINA

Air China is principally engaged in the provision of air transportation services and investment in aviation-related businesses. Air China is the flag carrier of the PRC and as at 31 December 2004 has a fleet size of about 150 aircraft.

GENERAL

Air Macau is principally engaged in the operation of international air services and programme charter services in Macau. Air Macau is indirectly owned as to 51% by the Company, which in turn is owned as to approximately 69% by Air China. Since Air China is a substantial shareholder of the Company, the

transaction under the Wet Lease Agreement and the Wet Lease Extension Agreement constitutes a continuing connected transaction for the Company under the Listing Rules and since its annual consideration exceeds the amount allowed by the de minimus rule under Rule 14A.33(3) of the Listing Rules but is less than 2.5% of each of the percentage ratios (as defined in the Listing Rules) (other than the profits ratio (as defined in the Listing Rules)), it is subject to reporting and announcement requirements under Rule 14A.34 of the Listing Rules.

The transaction contemplated under the Wet Lease Agreement and the Wet Lease Extension Agreement will be subject to the annual review requirement and the reporting requirement under Rules 14A.37 to 14A.41 and Rules 14A.45 and 14A.46 of the Listing Rules.

DEFINITIONS

“Air China”	Air China Limited, a joint stock limited company incorporated under the laws of the PRC with limited liability, whose H shares are listed on the Stock Exchange and the London Stock Exchange plc
“Air Macau”	Air Macau Company Limited, a company incorporated under the laws of Macau with limited liability and a 51% indirectly owned subsidiary of the Company
“Aircraft”	the Airbus A319-100 aircraft with Macanese registration mark B-MAO
“Announcement”	the announcement of the Company dated 21 March 2005 regarding the Wet Lease Agreement
“Board”	the board of Directors
“Company”	China National Aviation Company Limited, a company incorporated under the laws of Hong Kong with limited liability, whose shares are listed on the Stock Exchange
“Directors”	the directors of the Company
“Dragonair”	Hong Kong Dragon Airlines Limited, an airline operator incorporated in Hong Kong with limited liability and a 43.29% owned associated company of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

“Macau”	the Macau Special Administrative Region of the PRC
“PRC”	The People’s Republic of China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Wet Lease Agreement”	the aircraft wet lease agreement dated 15 March 2005 between Air Macau and Air China pursuant to which Air Macau agreed to lease the Aircraft to Air China on a wet lease basis
“Wet Lease Extension Agreement”	the aircraft wet lease extension agreement dated 13 April 2005 between Air Macau and Air China pursuant to which Air Macau agreed to extend the wet lease of the Aircraft to Air China for a further 6 months on substantially the same terms as set out in the Wet Lease Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

In this announcement, except as otherwise indicated, US\$ has been translated into HK\$ at the rate of HK\$7.80 = US\$1.00 for reference purpose only.

By Order of the Board
Kong Dong
Chairman

Hong Kong, 18 April 2005

As at the date of this announcement, the executive Directors are Messrs. Kong Dong, Chuang Shih Ping, Zhang Xianlin, Tsang Hing Kwong, Thomas, Gu Tiefei and Zhao Xiaohang and the independent non-executive Directors are Messrs. Lok Kung Nam, Hu Hung Lick, Henry, Ho Tsu Kwok, Charles, Li Kwok Heem, John and Chan Ching Har, Eliza.

“Please also refer to the published version of this announcement in The Standard.”