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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: MANAGEMENT SERVICES AGREEMENT

On 28 July 2005, the Company entered into the Management Services Agreement with CNACG for the provision of secretarial, personnel, accounting and general office administrative services to the Group for three years from 1 July 2005 to 30 June 2008.

The Management Services Agreement was negotiated on an arm's length basis between the parties and their terms are determined on an arm's length basis. The Directors (including independent non-executive Directors) considered that the Management Services Agreement has been entered into on normal commercial terms and are fair and reasonable so far as the Company and its shareholders are concerned.

CNACG is a wholly owned subsidiary of CNAH. Air China, a non-wholly owned subsidiary of CNAH, is the controlling shareholder of the Company. CNACG is therefore an associate of Air China and is a connected person under Chapter 14A of the Listing Rules. The Management Services Agreement is regarded as a continuing connected transaction for the Company under the Listing Rules and is subject to reporting and announcement requirements.

MANAGEMENT SERVICES AGREEMENT

Date: 28 July 2005

Parties: the Company, as recipient of the management services
CNACG, as provider of the management services

Services to be Provided

Pursuant to the Management Services Agreement, CNACG has agreed to provide to the Group general management services including but not limited to the following:

1. secretarial, personnel, accounting and general office administrative services;
2. upon review of the Group's requirements, advice and opinions on:
 - (a) preparation of budgets and business plans;
 - (b) taxation planning;
 - (c) business advisory;
 - (d) human resources planning;
3. assist with the recruitment and training of appropriate management and operational personnel; and
4. perform such other duties as may be mutually agreed from time to time between the Company and CNACG.

The accounting function that will be handled by CNACG under the Management Services Agreement includes the performance of day-to-day book-keeping, accounting, consolidation, strategic analysis, feasibility studies and comparison of management decision of the Group.

CNACG has been providing the said management services to the Group since the shares of the Company was listed on the Stock Exchange and the Company has since been complying with the relevant provisions of the Listing Rules in respect of such management services provided by CNACG.

Fees

In consideration of the provision of the management services as stated above, the Company agrees to pay to CNACG a monthly service fee of HK\$500,000 (equivalent to HK\$6,000,000 per annum) by reference to the actual cost incurred by CNACG in providing such services to the Group in the past. Such fee is related to the aggregate expenses incurred by CNACG at cost in connection with the employment of staff, provision of facilities (which includes office equipment and office facilities) and payment of rent and utilities. Such fee shall be paid in arrears on the fifth day of the following month and is funded from internal resources of the Group.

Duration

The Management Services Agreement shall be for a term of 36 months commencing on 1 July 2005 and shall expire on 30 June 2008. Such term may be extended for another three years within six months before the expiry of the Management Services Agreement whereupon each party shall negotiate with the other party for modifications of the Management Services Agreement.

Upon renewal of the Management Services Agreement, the Company and CNACG will enter into a new agreement and will comply with the relevant provisions of the Listing Rules.

Proposed Cap

Based on the terms of the Management Services Agreement, the Directors propose that the maximum aggregate fee contemplated under the Management Services Agreement shall be HK\$6,000,000 for each financial year ended 31 December.

Connection between the parties

CNACG is a wholly owned subsidiary of CNAH. Air China, a non-wholly owned subsidiary of CNAH, is the controlling shareholder of the Company by beneficially holding approximately 69% of the existing issued share capital of the Company. CNACG is therefore an associate of Air China and is a connected person under Chapter 14A of the Listing Rules. The Management Services Agreement entered into between the Company and CNACG is regarded as a continuing connected transaction for the Company under the Listing Rules and is subject to reporting and announcement requirements.

REASONS FOR ENTERING INTO THE MANAGEMENT SERVICES AGREEMENT

The Company entered into the Management Services Agreement to facilitate the business operation of the Group. The Group requires various supporting services, which includes secretarial, personnel, accounting and general office administrative services, for the benefit of its employees and by appointing CNACG to provide such services as set out in the Management Services Agreement, the Directors believe that it would facilitate the operation of the Group and minimize the overhead costs of the Group in providing such services as set out under the Management Services Agreement.

Since CNACG is only responsible for the provision of secretarial, personnel, accounting and general office administrative services to the Group under the Management Services Agreement, the Directors are of the view that the provision of such management services by CNACG will not affect the independence between the Group's and CNACG's business and operations.

The Directors (including the independent non-executive Directors) considered that the Management Services Agreement has been entered into on normal commercial terms which are determined on an arm's length basis and are fair and reasonable so far as the Company and its shareholders are concerned.

BUSINESS OF THE GROUP

The Group is principally engaged in the provision of air transportation services through Dragonair and Air Macau, airport ground handling services and logistic services.

INFORMATION ON CNACG

CNACG is an investment holding company with investments principally engaged in travel services, air cargo terminals, airport ground handling, aircraft maintenance and aviation fuel supply.

GENERAL

The transaction contemplated under the Management Services 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
“Air Macau”	Air Macau Company Limited, a company incorporated in Macau with limited liability and a 51% indirectly owned subsidiary of the Company
“Board”	the board of Directors of the Company
“CNACG”	China National Aviation Corporation (Group) Limited, a company incorporated under the laws of Hong Kong with limited liability
“CNAH”	China National Aviation Holding Company (中國航空集團公司), a state-owned enterprise incorporated under the laws of the PRC
“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
“Management Services Agreement”	the management services agreement dated 28 July 2005 entered into between the Company and CNACG pursuant to which CNACG agreed to provide secretarial, personnel, accounting and general office administrative services to the Group
“PRC”	The People’s Republic of China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

By Order of Board
Li Man Kit
Company Secretary

Hong Kong, 28 July 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.”