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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 TRANSACTIONS

The Group has entered into the Continuing Connected Transactions with the relevant associates of STDM and CNAH respectively.

These continuing connected transactions are subject to the reporting, announcement and, in the case of the Airport Fees Transaction and its New Annual Cap, independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will make further announcement in respect to the details of the Airport Fees Transaction and Ticket Sales.

The Stock Exchange is looking into the Catering Services Agreement and the Management Services Agreement and reserves the right to take action against the Company and its directors.

The Board has noted today's increase in the trading volume and decrease in the trading price of the shares of the Company and wishes to state that, save as disclosed herein, the Board is not aware of any reasons for such changes.

Save as disclosed in this announcement, the Board confirms that there are no negotiations or agreements relating to intended acquisitions or realisations which are discloseable under Rule 13.23 of the Listing Rules, neither is the Board aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which is or may be of a price-sensitive nature.

Set out below are the transactions between the Group and the associates of STDM and CNAH which constitute continuing connected transactions of the Company for the purpose of the Listing Rules:

### **(A) AIRPORT FEES TRANSACTION**

In Air Macau's normal and ordinary course of business, it incurs a number of airport charges with ADA/MIAC on a daily basis for the use of facilities and services at the Macau International Airport and certain airport fees with ADA/MIAC for the license of certain floor space at the Macau International Airport.

Both the airport charges and the airport fees are invoiced and collected by ADA, a 51% owned subsidiary of CNACAL which in turn is a wholly-owned subsidiary of CNACG, on behalf of MIAC, the developer and owner of Macau International Airport. Since the Company and CNACAL are both subsidiaries of CNAH, ADA is a connected person of the Company. STDM, which has a 14% shareholding interest in Air Macau, has an approximately 33% shareholding in MIAC, MIAC is a connected person of the Company. As a result, the payment of such airport charges and airport fees will constitute connected transactions under the Listing Rules.

The Company will make further announcement in respect of the Airport Fees Transaction.

### **(B) CATERING SERVICES**

For in-flight meals to its passengers, Air Macau entered into the Catering Services Agreement on 1 November 2001 with MCS.

Pursuant to the Catering Services Agreement, Air Macau purchased meals from MCS, an associate of STDM. Since STDM has a 14% shareholding interest in Air Macau and MCS is an associate of STDM, MCS is a connected person of the Company. Since MCS is the only provider of in-flight meals in Macau, Air Macau has continued to purchase in-flight meals from MCS pursuant to the agreement on normal commercial terms which was determined on arm's length basis.

The consideration of the catering service was determined by reference to the amounts payable for the purchase of in-flight meals by Air Macau from MCS in the past, the relevant amount for the three years ended 31 December, 2002, 2003 and 2004 were HK\$43,965,000, HK\$40,637,000 and HK\$41,199,000 respectively. Such transaction amounts were within the relevant cap amount granted for the relevant financial year.

The Catering Services Agreement continues to remain valid until 31 October 2006 unless otherwise terminated according to its terms and conditions.

**(C) MANAGEMENT SERVICES AGREEMENT**

CNAC Macau entered into the Management Services Agreement on 4 November 2005 with CNACAL. CNACAL is an indirect 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. CNACAL is therefore an associate of Air China and is a connected person of the Company.

The Management Services Agreement renewed a previous management services agreement dated 25 March 2002 entered into between the same parties on substantially the same terms, such previous management services agreement was expired on 24 March 2005.

Pursuant to the Management Services Agreement, CNACAL has agreed to provide general management services including secretarial, personnel, accounting and general office administrative services, to CNAC Macau.

In consideration for the provision of the services, CNAC Macau would pay to CNACAL a monthly service fee of HK\$300,000, representing the aggregate monthly expenses incurred by CNAC Macau for the provision of the services, which comprise costs of the employment of staff, the provision of facilities and the use of office premises. Such service fee is determined and agreed to by reference to the actual cost incurred by CNACAL in providing such services to the Group in the past.

The Management Service Agreement shall be for a term of 36 months commencing retrospectively on 25 March 2005 and shall expire on 24 March 2008.

**Reasons for the Delay in Disclosure**

The Management Services Agreement was not entered into between the parties until some 6 months after the commencement of the provision of the services because the parties have spent considerable amount of time to compromise the terms of the Management Services Agreement.

As the monthly service fee in respect of the provision of service by CNACAL would exceed the amount allowed by the de minimus rule under Rule 14A.33(3) of the Listing Rules as soon as the fourth monthly fee was paid by CNAC Macau, such connected transaction was subject to disclosure by way of publishing an announcement on or about 5 August 2005.

The Directors explain that the delay in disclosing details of the Management Services Agreement is due to late reporting of such transaction from the management of CNAC Macau. Such transaction was not reported to the Company until the Management Services Agreement was entered into on 4 November 2005. Accordingly, the delay of disclosure is directly due to the unawareness of the obligation to disclose such transaction by the management of CNAC Macau and such delay could be avoided in the future by means of better communications between the management of CNAC Macau and the Company and the Company providing training to the management of CNAC Macau on the relevant provisions and disclosure obligations under the Listing Rules.

**(D) TICKET SALES**

In Air Macau's ordinary course of business, sales arrangements are often entered into with ticket sales agents and airline carriers, the number of which may be varied from time to time according to the business needs of Air Macau, for the sale of air tickets (including cargo transport). Such ticket sales agents and airline carriers would include parties ("**Ticket Sales Parties**") which are associates of CNACG or CNAH, the beneficial owner of the entire issued share capital of CNACG. CNACG is a wholly-owned subsidiary of CNAH and is therefore a connected person of the Company.

In accordance with industry practice, Air Macau will (i) authorize the ticket sales agents to sell the air tickets on behalf of Air Macau and pay to such agents commission fees which normally are based on the value of tickets sold; and (ii) enter into prorate agreement with the airline carriers for the exchange of air transportation service between them at mutually agreed rate. The aggregate transaction amounts between Air Macau and the Ticket Sales Parties for each of the three years ended 31 December, 2002, 2003 and 2004 were HK\$16,602,000, HK\$19,669,000 and HK\$12,695,000 respectively. Such transaction amounts were within the relevant cap amount granted for the relevant financial year.

The Directors confirm that the terms of ticket sales are negotiated on an arm's length basis and on normal commercial terms and are comparable to those offered to independent third parties.

The Company will make further announcement in respect of the Ticket Sales.

#### EXISTING WAIVERS

The existing caps granted by the Stock Exchange to the Company in respect of each Continuing Connected Transaction and their respective transaction amounts for the three years ended 31 December 2002, 2003 and 2004 are set out as below:

Description	Existing Caps	Transaction Amounts for the year ended 31 December		
		2002 (HK\$)	2003 (HK\$)	2004 (HK\$)
(A) Catering Services Agreement	5% of the Group's consolidated annual turnover for any relevant financial year	43,965,000	40,637,000	41,199,000
(B) Management Services Agreement	less than the higher of either (i) HK\$10 million; or (ii) 3% of the consolidated net tangible assets of the Group for any relevant financial year	2,768,000	3,600,000	3,600,000

#### NEW ANNUAL CAPS

The Board has considered and proposed that the following caps be set for the annual volumes of the relevant transactions above for the period from 1 January, 2005 to 31 December, 2007:

Description	Cap Amount		
	2005 (HK\$)	2006 (HK\$)	2007 (HK\$)
(A) Catering Services Agreement	65 million	75 million	95 million
(B) Management Services Agreement	4 million	4 million	4 million

#### Basis of the Caps

The cap proposed for the Management Services Agreement is determined by reference to the agreed monthly fee under the Management Services Agreement.

The cap proposed for the Catering Services Agreement is determined by reference to previous transactions and figures which are published in the Company's annual reports in 2002 to 2004 and the growth in passenger uplift as projected by the management of Air Macau.

The Board (including the independent non-executive Directors) considers that the terms of the Continuing Connected Transactions (other than the Airport Fees Transaction, which will be considered later) and its New Annual Caps are fair and reasonable and in the interests of the Company and its shareholders as a whole and have been negotiated on an arm's length basis in the usual and ordinary course of business on normal commercial terms and on terms no more favourable than would have been with independent third parties.

## **REASONS FOR ENTERING INTO THE CONTINUING CONNECTED TRANSACTIONS**

### **(A) Airport Charges and Airport Fees**

The Airport Fees Transaction relates to payment of fees to ADA/MIAC in Macau is in the Group's ordinary course of business in compliance with the laws and regulations of Macau. As Air Macau is an airliner based in Macau and Macau International Airport is the only airport in Macau, it is in the ordinary course of business of Air Macau to use the facilities and services and license certain floor space at the Macau International Airport. Air Macau entered into the Airport Fees Transaction for the purpose of operating its business.

### **(B) Catering Services Agreement**

Since MCS is the only provider of in-flight meals in Macau, Air Macau, in its ordinary course of business, is required to purchase in-flight meals from MCS. Air Macau entered into the Catering Services Agreement for the purpose of operating its business.

### **(C) 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 CNACAL 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.

### **(D) Ticket Sales**

Ticket Sales through agents and other airliners is an industry practice and is in the ordinary course of business of the Air Macau. Ticket Sales through the Ticket Sales Parties will enhance the distribution network of Air Macau's business in terms of ticketing sales.

## **BUSINESS OF 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.

## **INFORMATION ON CONNECTED PERSONS**

MIAC is the owner of the Macau International Airport.

MCS is principally engaged in the provision of inflight catering services and other related inflight food and beverage services.

CNACG is an investment holding company with investments principally engaged in travel services, air cargo terminals and other aviation related businesses.

CNAH is principally engaged in the business of investment holding in airline-related businesses, provision of financial services, hotel operations, construction, media and advertising.

## **GENERAL**

The Airport Fees Transaction will be subject to the independent shareholders' approval requirement under Rule 14A.48 of the Listing Rules and all Continuing Connected Transactions 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.

Further announcement will be made by the Company in respect of the details of the Airport Fees Transaction and Ticket Sales.

The Stock Exchange is looking into the Catering Services Agreement and the Management Services Agreement and reserves the right to take action against the Company and its directors.

## **DEFINITIONS**

"ADA"	Administration of Airports Limited, a 51% owned subsidiary of CNAC (Macau) Aviation Limited (a wholly-owned subsidiary of CNACG)
"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 in Macau with limited liability and a 51% indirectly owned subsidiary of the Company
“Airport Fees Transaction”	The continuing connected transactions between Air Macau and MIAC in relation to the airport charges and airport fees as described in the section headed “(A) <b>Airport Fees Transaction</b> ” in this announcement
“Associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors of the Company
“CNACAL”	CNAC (Macau) Aviation Limited, a wholly-owned subsidiary of CNACG
“CNACG”	China National Aviation Corporation (Group) Limited, company incorporated in Hong Kong with limited liability and is wholly owned by CNAH and a substantial shareholder of Air China
“CNAC Macau”	China National Aviation Corporation (Macau) Company Limited, a company incorporated in Macau with limited liability, the immediate shareholder of Air Macau and an indirectly wholly owned subsidiary of the Company
“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 and the ultimate controlling shareholder of the Company
“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
“Continuing Connected Transactions”	the continuing connected transactions between the Group and the connected persons of the Company as described in this announcement
“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Management Services Agreement”	the management services agreement dated 4 November 2005 entered into between CNAC Macau and CNACAL pursuant to which CNACAL agreed to provide general management services to CNAC Macau
“Macau”	The Macau Special Administrative Region of the PRC
“Macau Government”	The Government of Macau
“MCS”	Macau Catering Services Company Limited, a company incorporated in Macau and an associate of STDM
“MIAC”	Macau International Airport Company
“New Annual Cap(s)”	The proposed new annual cap(s) of transaction amount of the Continuing Connected Transactions (other than the Airport Fees Transaction) for the period from 1 January, 2005 to 31 December, 2007 as described in the section headed “New Annual Caps” in this announcement

“PRC”	The People’s Republic of China
“Shareholders”	shareholders of the Company
“STDM”	Sociedade de Turismo e Diversoes de Macau, a company incorporated in Macau
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Ticket Sales”	The sales arrangements entered into between Air Macau and the Ticket Sales Parties

By Order of Board  
**Li Man Kit**  
*Company Secretary*

Hong Kong, 16 November 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.”