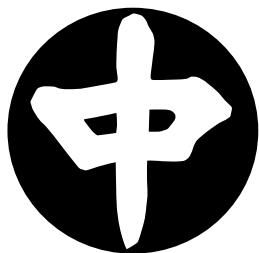


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**中航興業有限公司**

**CHINA NATIONAL AVIATION COMPANY LIMITED**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 1110)**

## **CONTINUING CONNECTED TRANSACTIONS**

Further to the announcement of the Company dated 16 November 2005, the Group would like to announce further details on the Airport Fees Transaction and the Ticket Sales, which are continuing connected transactions entered into between the Group and the associates of STDM and CNAH.

The 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 Independent Board Committee will be formed to consider the terms of the Airport Fees Transaction and its New Annual Cap and an independent financial adviser will be appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders on the terms of the Airport Fees Transaction and its New Annual Cap.

A circular containing, among others, further details of the Airport Fees Transaction and its New Annual Cap, a letter from the Independent Board Committee and a letter of advice from the independent financial adviser of the Company will be despatched to the Shareholders as soon as practicable.

The Board has noted the recent increase in the trading volume and the recent increase 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.

Further to the announcement of the Company dated 16 November 2005, the Group would like to set out below further details regarding 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**

#### **1. Airport Charges**

In Air Macau's normal and ordinary course of business, it incurs a number of airport charges on a daily basis for the use of facilities and services at the Macau International Airport. These airport charges, which are approved and published by the Macau Government, include, inter alia, landing charge, loading charge, parking charge, airport charge, loading bridge charge, and other ancillary fees.

On 17 March 2006, Air Macau and ADA, being the authorized agent responsible for the global management and provision of operational services to MIAC, including the collection of Airport Charges, entered into a legally binding acknowledgement pursuant to which it was acknowledged by Air Macau and ADA that:

- (a) MIAC provides certain facilities and services to Air Macau at a price by reference to the rates published by the Macau Government, namely, Portaria n.o 282/96/M of 11 November as revised by Portaria n.o 152/98/M, of 15 June, and, Ordem Executiva n.o 36/2004, as amended, supplemented or otherwise modified from time to time (the “Macau Gazette”); and
- (b) payment of all amounts of the Airport Charges are due from Air Macau to ADA in accordance to the provisions set out in the Macau Gazette.

The Airport Charges relates to payment of fees to ADA/MIAC in Air Macau’s ordinary course of business in compliance with the laws and regulations of Macau. Currently there is no regulatory mechanism which allows Air Macau to bind the Macau Government or ADA or MIAC to fix a duration for such transactions via commercial negotiation with the Macau Government or ADA or MIAC.

On or before a date expiring three years from the date of this announcement, the Company will, if required under the Listing Rules, re-determine the annual cap for the Airport Charges for the forthcoming three financial years, publish an announcement and/or seek independent shareholders’ approval of the Company in respect of the Airport Charges or otherwise comply with the then requirements under the Listing Rules.

## **2. Airport Fees**

In respect of Air Macau’s operation at the Macau International Airport, Air Macau has entered into the Airport License on 8 September 2004 and the Proposed Airport License with MIAC with a term of one year (which will be automatically renewed for another year unless it is terminated by either party by way of 90 days prior written notice) and one year respectively. The current term of the Airport License will expire on 7 September 2006 and the term of the Proposed Airport License will expire on 28 February 2007.

Pursuant to the Airport License and the Proposed Airport License, MIAC licensed certain floor space (including ticketing and check-in counters, operation/traffic service offices, and lounges) at the Macau International Airport to Air Macau. The current monthly license fee payable by Air Macau pursuant to the Airport License and the Proposed Airport License amounts to approximately MOP600,000 (equivalent to approximately HK\$583,000) per month (amounting to approximately MOP7.2 million (equivalent to approximately HK\$7 million) per annum).

The amounts payable as Airport Fees are calculated by reference to rates published by the Macau Government in the government gazette.

The Airport Charges and Airport Fees for each of the four years ended 31 December 2002, 2003, 2004 and 2005 were HK\$81,045,000, HK\$51,927,000, HK\$69,337,000 and HK\$86,343,000 (unaudited figure) respectively. Such transaction amounts were within the relevant cap amount granted for the relevant financial year.

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. Furthermore, STDM, which has a 14% shareholding interest in Air Macau, has approximately 33% shareholding in MIAC and hence, MIAC is also a connected person of the Company. As a result, the payment of the Airport Charges and Airport Fees will constitute continuing connected transactions to the Company under the Listing Rules. Since ADA does not receive any benefit or additional fee from the Group in respect to the collection of the Airport Charges and Airport Fees on behalf of MIAC, ADA, CNACAL, CNACG, CNAH and their respective associates are not deemed to have a material interest in the Airport Fees Transaction.

**(B) 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 which are associates of CNACG or CNAH ("**Ticket Sales Parties**"), the beneficial owner of the entire issued share capital of CNACG. Since CNAH is the ultimate controlling shareholder of the Company and CNACG is a wholly-owned subsidiary of CNAH, both CNAH and CNACG and their respective associates are connected persons of the Company.

On 30 December 2005, Air Macau and CNAH has entered into the Ticketing Sales Master Agreement pursuant to which Air Macau has appointed CNAH and CNAH has agreed to provide or to procure its associates to provide ticket sales (including cargo transportation) and other related services to Air Macau.

The Ticketing Sales Master Agreement has an initial term of three years, with effect from 30 December 2005. Upon the expiry of such initial term, the Ticketing Sales Master Agreement shall automatically continue thereafter for another three years, unless at any time any party gives at least 3 months' prior written notice of termination to the other party.

Pursuant to the Ticketing Sales Master Agreement, Air Macau will (i) authorize Ticket Sales Parties 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 (which are subsidiaries or associates of CNAH) for the exchange of air transportation service between them at mutually agreed rate.

It is envisaged that individual implementation agreements have been entered or may, from time to time, be entered into between Air Macau, CNAH, their subsidiaries and/or associates, as appropriate. Each implementation agreement has set out or will set out the specific services required by the relevant party and any detailed specifications which may be relevant to those services. The implementation agreements contain or may only contain provisions which are in all material respects consistent with the binding principles, guidelines, terms and conditions in accordance with which such services are required to be provided as contained in the Ticketing Sales Master Agreement.

The aggregate transaction amounts between Air Macau and the Ticket Sales Parties for each of the four years ended 31 December 2002, 2003, 2004 and 2005 were HK\$16,602,000, HK\$19,669,000, HK\$12,695,000 and HK\$14,877,000 (unaudited figure) respectively. Such transaction amounts were within the relevant cap amount granted for the relevant financial year.

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

## 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 four years ended 31 December 2002, 2003 and 2004 as well as the transaction amounts for the year ended 31 December 2005 are set out as below:

Description	Existing Caps	Transaction Amounts for the year ended 31 December			
		2002 (HK\$)	2003 (HK\$)	2004 (HK\$)	(unaudited) 2005 (HK\$)
(A) Airport Fees Transaction	10% of the Group's consolidated annual turnover for any relevant financial year	81,045,000	51,927,000	69,337,000	86,343,000
(B) Ticket Sales	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	16,602,000	19,669,000	12,695,000	14,877,000

## 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 2006 to 31 December 2008:

Description	Cap Amount		
	2006 (HK\$)	2007 (HK\$)	2008 (HK\$)
(A) Airport Fees Transaction	130 million	160 million	200 million
(B) Ticket Sales	30 million	35 million	40 million

## Basis of the Caps

The cap proposed for the Airport Fees Transaction is determined with reference to (a) the rates published by the Macau Government in the government gazette; (b) the previous transactions and figures which are published in the Company's annual reports in 2002 to 2005; and (c) the growth in passenger uplift as projected by the management of Air Macau. Neither ADA nor MIAC has the ability to vary such rates without the prior approval of the Macau Government.

The cap proposed for the Ticket Sales is determined by reference to previous transactions and figures which are published in the Company's annual reports in 2002 to 2005 and the growth in passenger uplift as projected by the management of Air Macau.

An Independent Board Committee has been appointed to consider whether the terms of the Airport Fees Transaction 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.

## WRITTEN CERTIFICATE OF AIR CHINA

Written approval of the Airport Fees Transaction and its New Annual Cap has been obtained from Air China, which holds approximately 69% of the entire issued share capital of the Company as at the date of this announcement. The Company will make an application to the Stock Exchange for dispensation from strict compliance with Rule 14A.43 of the Listing Rules.

The Airport Fees Transaction constitutes a continuing connected transaction to the Company because MIAC is owned as to 33% by STDM, the latter being a substantial shareholder of Air Macau. Therefore, MIAC is a connected person of the Company. Although the Airport Charges and the Airport Fees are invoiced and collected by ADA, a 51% indirectly owned subsidiary of CNAH, on behalf of MIAC, no benefit or additional fees are received by ADA in collection such Airport Charges and Airport Fees.

The Company is of the view that both CNAH and Air China have no interest in the Airport Fees Transaction. Furthermore, since MIAC does not hold any shares in the Company, no shareholder will be required to abstain from voting at the general meeting of the Company if the Company has to convene a general meeting for the approval of the Airport Fees Transaction and its New Annual Cap. As such, the Company can rely on Rule 14A.43 of the Listing Rules and the written approval provided by Air China constitutes a valid approval of the Airport Fees Transaction and its New Annual Cap. The Company will not be required to convene a physical meeting to approve the Airport Fees Transaction and its New Annual Cap.

## **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/MAIC in Macau and 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) Ticket Sales**

Ticket Sales through agents and other airlines 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.

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 both the Airport Fees Transaction and the Ticket Sales 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.

A circular containing, among others, further details of the Airport Fees Transaction and its New Annual Cap, a letter from the Independent Board Committee and a letter of advice from the independent financial adviser of the Company will be despatched to the Shareholders as soon as practicable.

## **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 Charges”	the airport charges determined by the Macau Government for use of certain facilities and services at the Macau International Airport which includes, inter alia, landing charge, loading charge, parking charge, passenger charge, passenger tax, airport charge, loading bridge charge and other ancillary fee
“Airport License”	the airport license entered into between Air Macau and MIAC on 8 September 2004 in respect to the license of certain floor space by Air Macau at the Macau International Airport
“Airport Fees”	the airport fees paid by Air Macau to MIAC pursuant to the Airport License
“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
“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
“Independent Board Committee”	the independent board committee to be appointed to advise the Independent Shareholders in respect of the Airport Fees Transaction
“Independent Shareholders”	Shareholders other than those who have a material interest in the Airport Fees Transaction
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Macau Government”	the Government of Macau
“MIAC”	Macau International Airport Company
“MOP”	Macau Patacas, the lawful currency of Macau

“New Annual Cap(s)”	the proposed new annual cap(s) of transaction amount of the Continuing Connected Transactions for the period from 1 January 2006 to 31 December 2008 as described in the section headed “New Annual Caps” in this announcement
“PRC”	the People’s Republic of China
“Proposed Airport License”	the finalized airport license to be entered into between Air Macau and MIAC in respect to the license of certain floor space by Air Macau at the Macau International Airport
“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
“Ticketing Sales Master Agreement”	the master agreement entered into between Air Macau and CNAH dated 30 December 2005 containing therein the binding principles, guidelines and terms and conditions with respect to the Ticket Sales

*In this announcement, except as otherwise indicated, MOP has been translated into HK\$ at the rate of HK\$1.00 = MOP1.03 for reference purpose only.*

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

Hong Kong, 20 March 2006

*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.”