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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in China National Aviation Company Limited, you should at once hand this circular, together with the enclosed form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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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)**

**PROPOSED GENERAL MANDATES TO REPURCHASE  
AND TO ISSUE SHARES  
AND  
RE-ELECTION OF RETIRING DIRECTORS  
AND  
NOTICE OF ANNUAL GENERAL MEETING**

A notice convening an annual general meeting of the Company to be held at Salon 6 (Level 3), JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 25 May 2006 at 3:00 p.m. is set out in this circular. Whether or not you wish to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Share Registrars of the Company, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting.

27 April 2006

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LETTER FROM THE CHAIRMAN



中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1110)

*Directors:*

Kong Dong (*Chairman*)

Chuang Shih Ping

Zhang Xianlin

Zhao Xiaohang

Tsang Hing Kwong, Thomas

Gu Tiefei

Lok Kung Nam\*

Hu Hung Lick, Henry\*

Ho Tsu Kwok, Charles\*

Li Kwok Heem, John\*

Chan Ching Har, Eliza\*

*Registered office:*

5th Floor, CNAC House

12 Tung Fai Road

Hong Kong International Airport

Lantau

Hong Kong

\* *independent non-executive directors*

27 April 2006

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED GENERAL MANDATES TO ISSUE  
AND TO REPURCHASE SHARES  
AND  
RE-ELECTION OF DIRECTORS  
AND  
NOTICE OF ANNUAL GENERAL MEETING**

**1. GENERAL MANDATE TO REPURCHASE SHARES**

At the annual general meeting of the Company held on 27 May 2005, a general mandate was granted by the Company to the directors of the Company ("Directors") to exercise the powers of the Company to repurchase the ordinary shares of HK\$0.1 each in the share capital of the Company (the "Shares"). Such mandate will lapse at the conclusion of the forthcoming annual general meeting. The board of Directors ("Board") will propose at the forthcoming annual general meeting to be held on Thursday, 25 May 2006 (the "Annual General Meeting") an ordinary resolution to grant to the Directors a general mandate to exercise all powers of the Company during the relevant period to repurchase Shares up to a maximum of 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of the resolution. "Relevant

## LETTER FROM THE CHAIRMAN

period” means the period from the date of the passing of this resolution until whichever is the earliest of the following: the conclusion of the next annual general meeting, the expiration of the period within which the next annual general meeting of the Company is required to be held by law or the Company’s Articles of Association, and the revocation or variation of the resolution by an ordinary resolution of the shareholders of the Company in general meeting. An explanatory statement (the “Explanatory Statement”) as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) to provide the requisite information of the repurchase proposal is set out in Appendix I hereto.

### **2. GENERAL MANDATES TO ISSUE AND TO REPURCHASE SHARES**

It will also be proposed at the Annual General Meeting two ordinary resolutions respectively granting to the Directors a general mandate to allot, issue and deal with Shares not exceeding 20 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of the resolution and adding to such general mandate so granted to the Directors any Shares representing the aggregate nominal amount of the Shares repurchased by the Company after the granting of the general mandate to repurchase up to 10 per cent of the nominal amount of the issued share capital of the Company at the date of the above repurchase resolution.

### **3. ANNUAL GENERAL MEETING**

Set out on pages 11 to 14 of this circular is a notice convening the Annual General Meeting to consider the ordinary resolutions relating to the above two general mandates. A form of proxy for use at the Annual General Meeting is enclosed herein. Whether or not you are able to attend the Annual General Meeting, you are requested to complete the form of proxy and return it to the Share Registrars of the Company, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting. Completion and return of a form of proxy will not preclude you from attending and voting at the Annual General Meeting if you so wish.

### **4. RECOMMENDATION**

The Board believes that the above two general mandates for Directors to repurchase Shares and to issue new Shares are all in the best interests of the Company and its shareholders. Accordingly, the Board recommends the shareholders of the Company (“Shareholders”) to vote in favour of the relevant resolutions set out in the notice of the Annual General Meeting.

## LETTER FROM THE CHAIRMAN

### 5. GENERAL INFORMATION

Your attention is drawn to the additional information set out in Appendix II (Procedure by which the Shareholders may demand a poll at a general meeting pursuant to the articles of association of the Company) and Appendix III (Details of the Directors seeking re-election at the Annual General Meeting) to this circular.

Yours faithfully,  
For and on behalf of the board  
**Kong Dong**  
*Chairman*

The following is the Explanatory Statement, as required by the Listing Rules, to provide requisite information to you for your consideration of the proposal to approve the repurchase of Shares up to a maximum of 10 per cent of the issued share capital of the Company at the date of the passing of the resolution as referred to in ordinary resolution no. 5 and set out in the Notice of the Annual General Meeting (the “Share Repurchase Mandate”).

### **1. SHARE CAPITAL**

As at 24 April 2006, being the latest practicable date prior to the printing of this document (the “Latest Practicable Date”), the issued share capital of the Company comprised 3,312,680,000 Shares. On the basis that no further Shares are issued or repurchased prior to the Annual General Meeting, the Company would be allowed to repurchase up to a maximum of 331,268,000 Shares under the Share Repurchase Mandate.

### **2. REASONS FOR REPURCHASE**

The Board believes that it is in the best interests of the Company and its Shareholders for the Directors to have a general authority from shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the Company’s net assets value and/or earnings per Share and will only be made when the Board believes that such repurchases will benefit the Company and its shareholders.

### **3. FUNDING OF REPURCHASE**

In repurchasing shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and the applicable laws of Hong Kong. The Board does not propose to exercise the Share Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Board are from time to time appropriate for the Company. However, there might be an adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited financial statements as at 31 December 2005) in the event that the Share Repurchase Mandate was exercised in full.

#### 4. SHARE PRICES

The highest and lowest prices at which the Shares have traded on the Stock Exchange during each of the previous 12 months before the Latest Practicable Date were as follows:

|                | Shares          |                |
|----------------|-----------------|----------------|
|                | Highest<br>HK\$ | Lowest<br>HK\$ |
| April 2005     | 1.780           | 1.590          |
| May 2005       | 1.780           | 1.600          |
| June 2005      | 2.075           | 1.720          |
| July 2005      | 2.300           | 1.820          |
| August 2005    | 2.375           | 1.720          |
| September 2005 | 1.940           | 1.680          |
| October 2005   | 1.900           | 1.380          |
| November 2005  | 1.600           | 1.300          |
| December 2005  | 1.530           | 1.390          |
| January 2006   | 1.630           | 1.450          |
| February 2006  | 1.590           | 1.450          |
| March 2006     | 1.990           | 1.550          |
| April 2006 *   | 2.175           | 1.850          |

\* Up to and including the Latest Practicable Date

#### 5. SHARE REPURCHASE

The Company and its subsidiaries have not purchased, sold or redeemed any of the Shares in the 6 months preceding the Latest Practicable Date.

#### 6. GENERAL

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) have any present intention to sell any Shares to the Company or its subsidiaries.

The Board has undertaken to the Stock Exchange that, so far as the same may be applicable, it will exercise the Share Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Hong Kong.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, in the event that the Company is authorised to make repurchase of Shares.

If as a result of a share repurchase a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeover Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeover Code as a result of any such increase. The Board is not aware of any consequences which may arise under the Takeover Code as a consequence of any Shares purchased pursuant to the Share Repurchase Mandate.

As at the Latest Practicable Date, Air China Limited held 2,264,628,000 shares representing approximately 68.4 per cent of the issued share capital of the Company. On the basis that no Shares are issued or repurchased prior to the date of the Annual General Meeting, in the event of full exercise of the Share Repurchase Mandate, the attributable interest of Air China Limited in the issued share capital of the Company would increase to approximately 75 per cent of the issued share capital of the Company. However, the Board has no present intention to exercise the Share Repurchase Mandate to such an extent that would result in public float being less than 25 per cent of the issued share capital of the Company.



**APPENDIX II****PROCEDURE BY WHICH THE SHAREHOLDERS MAY DEMAND A POLL AT A GENERAL MEETING PURSUANT TO THE ARTICLES OF ASSOCIATION OF THE COMPANY**

The following paragraphs set out the procedure by which the Shareholders may demand a poll at a general meeting of the Company (including the Annual General Meeting) pursuant to the articles of association of the Company.

According to Article 68 of the articles of association of the Company, at every general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless (before or on the declaration of the result of the show of hands) a poll is demanded by:

- (i) the chairman of the meeting; or
- (ii) at least three members present in person or by proxy or by duly authorised corporate representative for the time being entitled to vote at the meeting; or
- (iii) a member or members present in person or by proxy or by duly authorised corporate representative and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) a member or members present in person or by proxy or by duly authorised corporate representative and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

In accordance with Article 98 of the articles of association of the Company, Messrs. Kong Dong, Lok Kung Nam, Hu Hung Lick, Henry and Ho Tsu Kwok, Charles will retire from office at the Annual General Meeting and will offer themselves for re-election. Their details are as follows:

**Mr. Kong Dong**, aged 58, has been the Chairman and an Executive Director of the Company since March 2001. He is also the Deputy General Manager of China National Aviation Holding Company. He graduated from Jiangxi Institute of Technology, and is a senior economist. In January 2001, Mr. Kong joined China National Aviation Corporation (“CNAC”) and China National Aviation Corporation (Group) Limited as Executive Director and President. Prior to joining CNAC, he was Director-General of the expansion project for the terminal area of Beijing Capital International Airport, President of Shenzhen Airport Group, and Executive Deputy General Manager of China Ocean Helicopter Company. Mr. Kong has been involved in the aviation industry for many years and is very experienced in business management. Mr. Kong is also the Vice Chairman and a non-executive director of Air China Limited (“Air China”).

Saved as disclosed above, he does not hold any other positions in the Company or any of its subsidiaries. Mr. Kong has no relationship with any Directors, senior management or substantial or controlling shareholders (as defined in the Listing Rules) of the Company, he does not hold any directorship in other listed companies in the past three years.

As at the Latest Practicable Date, Mr. Kong has no interest in the Shares within the meaning of Part XV of the SFO.

Mr. Kong has a service contract with the Company for a term of three years, which shall continue thereafter, and terminable by either party giving to the other by six months’ prior written notice. His annual emolument currently is HK\$1,497,600 which is determined by reference to the factors such as the Company’s operating performance, prevailing market conditions and job responsibilities.

Save as disclosed herein, there is no other information to be disclosed pursuant to the requirements of Rule 13.51(2) of the Listing Rules (particularly in relation to subparagraphs (h) to (v) therein) nor are there other matters that need to be brought to the attention of the Shareholders.

**Mr. Lok Kung Nam**, aged 70, was a consultant to the Flight Standards Department of the General Administration of Civil Aviation of China, Helicopters Hong Kong Limited and the China International Aerospace Expo. He also served as the first Chief Executive Officer of the Hong Kong Business Aviation Centre Limited and the Secretary General of the Hong Kong International Aerospace Forum. He is at present a non-executive director of China Eastern Airlines Company Limited, and a non-executive director of the China Southern Airlines Company Limited. Mr. Lok retired from the Civil Aviation Department of Hong Kong in January 1996, having served for nearly 40 years in that Department, the last six years of which as the Head of Department, the Director of Civil Aviation. He has been a Non-Executive Director and chairman of the audit committee of the Company since April 1997.

Saved as disclosed above, he does not hold any other positions in the Company or any of its subsidiaries. Mr. Lok has no relationship with any Directors, senior management or substantial or controlling shareholders (as defined in the Listing Rules) of the Company, he does not hold any directorship in other listed companies in the past three years.

As at the Latest Practicable Date, Mr. Lok has no interest in the Shares within the meaning of Part XV of the SFO.

Mr. Lok does not have a service contract with the Company and currently receives an annual emolument of HK\$60,000 which is determined by reference to the industry benchmark as reviewed by the Board from time to time.

Save as disclosed herein, there is no other information to be disclosed pursuant to the requirements of Rule 13.51(2) of the Listing Rules (particularly in relation to subparagraphs (h) to (v) therein) nor are there other matters that need to be brought to the attention of the Shareholders.

**Dr. Hu Hung Lick, Henry**, aged 86, is presently the President of Shue Yan College. He graduated from the University of Paris with a Docteur-en-Droit degree. He was a member of the Preparatory Committee and Selection Committee for the First Government of the Hong Kong Special Administrative Region of PRC. He has been a Non-Executive Director and an audit committee member of the Company since April 1997. Dr. Hu is also an independent non-executive director of Air China.

Saved as disclosed above, he does not hold any other positions in the Company or any of its subsidiaries. Dr. Hu has no relationship with any Directors, senior management or substantial or controlling shareholders (as defined in the Listing Rules) of the Company, he does not hold any directorship in other listed companies in the past three years.

As at the Latest Practicable Date, Dr. Hu has no interest in the Shares within the meaning of Part XV of the SFO.

Dr. Hu does not have a service contract with the Company and currently receives an annual emolument of HK\$60,000 which is determined by reference to the industry benchmark as reviewed by the Board from time to time.

**Mr. Ho Tsu Kwok, Charles**, aged 56, is presently the Chairman of Sing Tao News Corporation Limited. Mr. Ho is also the Chairman of Hong Kong Tobacco Company Limited and an independent non-executive director of China Petroleum and Chemical Corporation. Mr. Ho was educated in the USA. During the 1980s and 1990s, he worked for a number of international organizations and investment banks where he gained extensive experience in international business and finance. In the late 1990s, he started developing his family business in Hong Kong and began investing in variety of investment projects in the PRC. Mr. Ho contributes much to public affairs. He is a member of the Standing Committee of the Chinese People's Political Consultative Conference National Committee, a member of the Election Committee for the Chief Executive of the Hong Kong Special Administration

Region, an Economic Consultant of Shandong Provincial Government, an Honorary Trustee of Peking University and a Trustee of University of International Business and Economics of China. Mr. Ho has been a Non-Executive Director of the Company since August 1997.

Saved as disclosed above, he does not hold any other positions in the Company or any of its subsidiaries. Mr. Ho has no relationship with any Directors, senior management or substantial or controlling shareholders (as defined in the Listing Rules) of the Company, he does not hold any directorship in other listed companies in the past three years.

As at the Latest Practicable Date, Mr. Ho has no interest in the Shares within the meaning of Part XV of the SFO.

Mr. Ho does not have a service contract with the Company and currently receives an annual emolument of HK\$60,000 which is determined by reference to the industry benchmark as reviewed by the Board from time to time.

Save as disclosed herein, there is no other information to be disclosed pursuant to the requirements of Rule 13.51(2) of the Listing Rules (particularly in relation to subparagraphs (h) to (v) therein) nor are there other matters that need to be brought to the attention of the Shareholders.

## NOTICE OF ANNUAL GENERAL MEETING



中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 1110)**

**NOTICE IS HEREBY GIVEN** that the annual general meeting of China National Aviation Company Limited (the “Company”) will be held at Salon 6 (Level 3), JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 25 May, 2006 at 3:00 p.m. for the following purposes:–

### **AS ORDINARY BUSINESS**

1. To receive and consider the audited consolidated accounts and the Directors’ and auditors’ reports for the year ended 31 December, 2005.
2. To declare a final dividend.
3. To re-elect the retiring Directors and to authorise the Board of Directors to fix the remuneration of Directors.
4. To re-appoint auditors and to authorise the Board of Directors to fix their remuneration.

### **AS SPECIAL BUSINESS**

5. To consider and, if thought fit, pass with or without amendments, the following resolutions as an ordinary resolution of the Company:–

“**THAT:**–

- (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

## NOTICE OF ANNUAL GENERAL MEETING

- (b) the aggregate nominal amount of the shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution and the said approval shall be limited accordingly; and
  - (c) for the purposes of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:–
    - (i) the conclusion of the next annual general meeting of the Company;
    - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
    - (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”
6. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:–

“**THAT:**–

- (a) subject to paragraph (c) below, and pursuant to section 57B of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such powers be and are hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares upon

## NOTICE OF ANNUAL GENERAL MEETING

the exercise of the subscription or conversion rights attaching to any warrants of the Company or any securities which are convertible into shares of the Company; (iii) an issue of shares as scrip dividends pursuant to the Articles of Association of the Company from time to time; or (iv) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, shall not exceed 20 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this resolution,

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:–

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors of the Company to the holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company).”

7. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution of the Company:–

“**THAT** subject to the passing of the resolutions nos. 5 and 6 set out in the notice convening this meeting, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares pursuant to the resolution no. 6 set out in the notice convening this meeting be and is hereby

## NOTICE OF ANNUAL GENERAL MEETING

extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company under the authority granted pursuant to the resolution no. 5 set out in the notice convening this meeting, provided that such amount of shares shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing of this resolution.”

By Order of the Board

**Li Man Kit**

*Company Secretary*

Hong Kong, 27 April 2006

*Notes:*

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
3. The register of members of the Company will be closed from Monday, 22 May, 2006 to Thursday, 25 May 2006 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend to be approved at the meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Friday, 19 May 2006.
4. An explanatory statement as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in connection with the proposed repurchase mandate under the ordinary resolution no. 5 above will be despatched to members together with the 2005 annual report of the Company.
5. The biographical details of all the Directors to be elected or re-elected at the meeting are provided in the 2005 annual report of the Company and also Appendix III to a circular of which this notice forms part.