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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:**

**LEASING OF OFFICE PREMISES AND CAR PARKS**

On 31 July 2006, Air Macau entered into the Tenancy Agreement with the Landlords for the leasing by Air Macau from the Landlords of the Premises.

The Tenancy 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 Tenancy Agreement has been entered into on normal commercial terms which are fair and reasonable so far as the Company and its shareholders are concerned.

The Landlords are indirect wholly owned subsidiaries of CNAH. Air China, a non-wholly owned subsidiary of CNAH, is the controlling shareholder of the Company. The Landlords are therefore associates of Air China and are connected persons under Chapter 14A of the Listing Rules. The Tenancy Agreement is regarded as a continuing connected transaction for the Company under the Listing Rules and is subject to reporting and announcement requirements.

Since each of the percentage ratios (as defined in the Listing Rules) other than the profits ratio (as defined in the Listing Rules) in respect of the Tenancy Agreement is less than 2.5%, the transaction contemplated under the Tenancy Agreement will be subject to reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and will be exempt from the independent shareholders' approval requirements.

**TENANCY AGREEMENT**

Date: 31 July 2006

Parties: Air Macau, as tenant  
Easy Advance and Wise Advice, as landlords

**Premises Leased**

1. 16 car parks in the basement of the Building;
2. 1 shop on the Ground Floor of the Building with a gross floor area of 2,226 square feet; and
3. 7 floors, from 12th to 18th Floors, B to M of the Building with a gross floor area of 101,556 square feet.

## **Rent**

The monthly rent for the use of:

1. 1 shop on the Ground Floor of the Building and between 12th and 18th Floors, B to M of the Building is HK\$674,583 (or HK\$8,094,996 per annum); and
2. 16 car parks in the basement of the Building is MOP9,600 (equivalent to approximately HK\$9,320) (or MOP115,200 (equivalent to approximately HK\$111,845) per annum),

of which such rent payable is inclusive of all management charges paid by the company in charge of the management of the Premises, including the service of cleaning services on the common and public areas of the Premises, expenses for the guardians, central air-conditioning, repair and maintenance for fire and elevators.

## **Rent Free Period**

There is no rent free period in respect to the rental of the Premises.

## **Term of Tenancy**

The term of the tenancy under the Tenancy Agreement is 24 months commencing on 1 August 2006 and such term may be extended for further periods to be mutually agreed between Air Macau and the Landlords provided that Air Macau serves a notice in writing of its intention to renew the Tenancy Agreement not less than 3 months before the expiration of the existing tenancy term.

Upon renewal of the Tenancy Agreement, Air Macau and the Landlords will enter into a new tenancy agreement.

## **PROPOSED CAP**

Based on the terms of the Tenancy Agreement, the Directors propose that the maximum aggregate rent contemplated under the Tenancy Agreement shall be approximately HK\$8,206,841 per annum. The rental paid by Air Macau to the Landlords for leasing of the Premises during each of the last two years was approximately HK\$1,652,044.

## **CONNECTION BETWEEN THE PARTIES**

The Landlords are indirect wholly owned subsidiary of CNAH. Air China, a non-wholly owned subsidiaries of CNAH, is the controlling shareholder of the Company by beneficially holding approximately 69% of the existing issued share capital of the Company. The Landlords are therefore associates of Air China and are connected persons under Chapter 14A of the Listing Rules. Since Air Macau is a non-wholly subsidiary of the Company, the Tenancy Agreement entered into between Air Macau and the Landlords 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 TENANCY AGREEMENT**

The Tenancy Agreement is entered into as renewal of the leasing of the office premises of Air Macau located at 12th to 18th Floors of the Building. Details of the previous leasing arrangement are set out in the announcement of the Company dated 21 March 2005.

The Tenancy Agreement was negotiated on an arm's length basis between Air Macau and the Landlords. DTZ Debenham Tie Leung Limited, a firm of independent professional valuers, has confirmed in their letter dated 11 August 2006, *inter alia*, that the monthly rent payable under the Tenancy Agreement is favourable and acceptable.

The Directors (including the independent non-executive Directors) considered that the Tenancy 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, Air Macau and Macau Asia Express Limited, airline catering services, airport ground handling services and logistics services.

## **INFORMATION ON THE LANDLORDS**

The Landlords are investment holding companies and their sole asset is the Premises.

## **GENERAL**

The transaction contemplated under the Tenancy 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.

Since each of the percentage ratios (as defined in the Listing Rules) other than the profits ratio (as defined in the Listing Rules) in respect of the Tenancy Agreement is less than 2.5%, the transaction contemplated under the Tenancy Agreement will be subject to reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and will be exempt from the independent shareholders' approval requirements.

## **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 primary listed on the Stock Exchange and secondary listed on the Official List of the UK Listing Authority
“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
“Board”	the board of Directors
“Building”	398 Alameda Dr. Carlos D'Assumpcao, Macau
“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
“Easy Advance”	Easy Advance Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of CNAH;
“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
“Landlords”	Easy Advance and Wise Advise
“Premises”	the premises leased under the Tenancy Agreement as set out in the paragraph headed “Premises Leased” in this announcement

“Tenancy Agreement”	the tenancy agreement dated 31 July 2006 entered into between Air Macau and the Landlords pursuant to which the Landlords agreed to lease the Premises to Air Macau
“PRC”	The People’s Republic of China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Wise Advice”	Wise Advice Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of CNAH
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“MOP”	Macau Patacas, the lawful currency of Macau

*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 the Board  
**Li Man Kit**  
*Company Secretary*

Hong Kong, 16 August 2006

*As at the date of this announcement, the executive Directors are Messrs. Kong Dong, Chuang Shih Ping, Zhang Xianlin, Zhao Xiaohang, Tsang Hing Kwong, Thomas and Gu Tiefei 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.”