



中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1110)

CONNECTED TRANSACTIONS:

ACQUISITION OF LLSHK AND ONGOING CONNECTED TRANSACTIONS

Further to the Announcement and the Circular, the Board is pleased to announce the following transactions.

The Acquisitions

On 19 August 2004, Fly Top, a wholly-owned subsidiary of the Company entered into the following Acquisition Agreements:

1. the CNACG Agreement with CNACG in relation to the acquisition of approximately 16% of the issued share capital of LLSHK for a consideration of HK\$89 million; and
2. the HKIAC Agreement with HKIAC in relation to the acquisition of approximately 4.2% of the issued share capital of LLSHK for a consideration of HK\$24.5 million.

The aggregate consideration of approximately HK\$113.5 million under the Acquisition Agreements will be paid in cash which will be funded by the Group’s internal resources.

The Company is owned as to approximately 69.5% by CNACG. Since CNACG is a substantial shareholder of the Company, the CNACG Acquisition constitutes a connected transaction for the Company under the Listing Rules.

Since the HKIAC Acquisition involves the Company acquiring the HKIAC Sale Shares from HKIAC, where CNACG, being a substantial shareholder of LLSHK, is also a controlling shareholder (as defined under the Listing Rules) of the Company, the HKIAC Acquisition constitutes a connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules.

Both the CNACG Agreement and the HKIAC Agreement therefore require independent Shareholders’ approval at an extraordinary general meeting of the Company.

Ongoing Connected Transactions

Following completion of the Beijing Contract and the Chengdu Contract, the Ongoing Connected Transactions will constitute connected transactions for the Company for the purpose of the Listing Rules.

BACL has entered into the BACL Contract with Air China in relation to the provision of Inflight Catering Services to Air China in respect of all Beijing CA Flights. SWACL has entered into (a) the SWACL Catering Contracts with Air China, Air China Southwest and Air China Zhejiang; and (b) the SWACL Supply Contract with Air China Southwest in relation to the provision of Inflight Catering Services and other ancillary services to Air China, Air China Southwest and Air China Zhejiang in respect of all Chengdu CA Flights operated by Air China, Air China Southwest and Air China Zhejiang.

The Company is owned as to approximately 69.5% by CNACG, which in turn is a wholly-owned subsidiary of CNAH. Air China is also a wholly-owned subsidiary of CNAH. Since Air China is an associate (within the meaning of the Listing Rules) of CNAH, which is an indirect controlling shareholder of the Company, upon completion of the Beijing Acquisition and the Chengdu Acquisition, the Ongoing Connected Transactions will constitute continuing connected transactions for the Company under the Listing Rules. It is expected that the Ongoing Connected Transactions will be subject to reporting, announcement and independent Shareholders’ approval requirements under the Listing Rules. Considering that the Ongoing Connected Transactions are conducted on a regular basis, the Directors would like to seek independent Shareholders’ approval for the BACL Contract and the SWACL Contracts and the Proposed Caps.

There will also be certain continuing connected transactions which will be exempted from the reporting, announcement and independent Shareholders’ approval requirements under Rule 14A.33(3) and Rule 14A.65(4) of the Listing Rules.

A circular containing, among other things, details of the Acquisitions and the Ongoing Connected Transactions, an advice from the independent financial adviser, a recommendation of the independent board committee and a notice convening an extraordinary general meeting to approve the Acquisitions, the Ongoing Connected Transactions and the Proposed Caps will be sent to the Shareholders as soon as practicable.

Further to the Announcement and the Circular, the Board is pleased to announce the following transactions.

THE CNACG ACQUISITION

Principal Terms of the CNACG Agreement

Date: 19 August 2004

Purchaser: Fly Top, a wholly-owned subsidiary of the Company

Vendor: CNACG

Assets to be acquired: the CNACG Sale Shares, representing approximately 16% of the issued share capital of LLSHK

Consideration and payment terms

The consideration payable by Fly Top under the CNACG Agreement is HK\$89 million, to be paid in cash upon completion of the CNACG Agreement. The consideration will be funded by the Group’s internal resources.

The consideration for the CNACG Acquisition has been arrived at after arm’s length negotiation between the parties taking into consideration the value and financial position of LLSHK and represents a price earnings multiple of approximately 10.5 times of the audited net profit after tax of LLSHK for the year ended 31 December 2002. The Company believes that it is not appropriate to determine the consideration based on the profit figures for the year ended 31 December 2003 because of the impact of the outbreak of Severe Acute Respiratory Syndrome (“SARS”) on the financial performance of companies in the aviation-related businesses.

Conditions under the CNACG Agreement

The parties agree that, among other things, the following conditions must be fulfilled (or waived by Fly Top on such terms that may be reasonably prescribed) on or before 30 October 2004 or such other date as may be agreed between CNACG and Fly Top:

- (a) Fly Top having notified CNACG in writing that it is satisfied with the due diligence investigation with respect to LLSHK;
- (b) the passing by the independent Shareholders in an extraordinary general meeting of the Company of the ordinary resolution approving the CNACG Acquisition in accordance with the requirements of the Listing Rules;
- (c) the obtaining of consents from the other shareholders of LLSHK and the Airport Authority in relation to the CNACG Acquisition; and
- (d) any notification or consent being made to or being obtained from the banks, financial institutions and other lenders in respect of any banking or other loan facilities granted to LLSHK that is required as a consequence of the transfer of the CNACG Sale Shares.

Completion of the CNACG Agreement

Completion of the CNACG Agreement will take place 7 Business Days after the latest of the occurrence of:–

- (a) the Beijing Contract having become effective (as referred to in the section headed “Effective Date of the Beijing Contract” in the Announcement and the Circular) and all the pre-completion undertakings under the Beijing Contract having been satisfied (as referred to in the section headed “Pre-Completion Undertakings under the Beijing Contract” in the Announcement and the Circular);
- (b) the Chengdu Contract having become effective (as referred to in the section headed “Effective Date of the Chengdu Contract” in the Announcement and the Circular) and all the pre-completion undertakings under the Chengdu Contract having been satisfied (as referred to in the section headed “Pre-Completion Undertakings under the Chengdu Contract” in the Announcement and the Circular); and
- (c) all the conditions under the CNACG Agreement having been fulfilled or waived (as referred to in the section headed “Conditions of the CNACG Agreement” above).

The parties agree that completion of the Beijing Contract, the Chengdu Contract and the CNACG Agreement shall take place simultaneously.

THE HKIAC ACQUISITION

Principal Terms of the HKIAC Agreement

Date: 19 August 2004

Purchaser: Fly Top, a wholly-owned subsidiary of the Company

Vendor: HKIAC

Assets to be acquired: the HKIAC Sale Shares, representing approximately 4.2% of the issued share capital of LLSHK

Consideration and payment terms

The consideration payable by Fly Top under the HKIAC Agreement is HK\$24.5 million, to be paid in cash upon completion of the HKIAC Agreement. The consideration will be funded by the Group’s internal resources.

The consideration for the HKIAC Acquisition has been arrived at after arm’s length negotiation between the parties taking into consideration the value and financial position of LLSHK and represents a price earnings multiple of approximately 11 times of the audited net profit after tax of LLSHK for the year ended 31 December 2002.

Conditions under the HKIAC Agreement

The parties agree that, among other things, the following conditions must be fulfilled (or waived by Fly Top on such terms that may reasonably prescribed) on or before 30 October 2004 or such other date as may be agreed between HKIAC and Fly Top:

- (a) the passing by the independent Shareholders in an extraordinary general meeting of the Company of the ordinary resolution approving the HKIAC Acquisition in accordance with the requirements of the Listing Rules;
- (b) the obtaining of consents from the other shareholders of LLSHK and the Airport Authority in relation to the HKIAC Acquisition;
- (c) any notification or consent being made to or being obtained from the banks, financial institutions and other lenders in respect of any banking or other loan facilities granted to LLSHK that is required as a consequence of the transfer of the HKIAC Sale Shares; and
- (d) all the conditions under the CNACG Agreement having been fulfilled or waived.

Completion of the HKIAC Agreement

The parties agree that completion of the HKIAC Agreement will take place simultaneously with or after the completion of the Beijing Contract, the Chengdu Contract and the CNACG Agreement.

INFORMATION ON LLSHK

LLSHK was incorporated with limited liability in Hong Kong on 2 December 1977 and is owned as to approximately 38% by LSG Catering Hong Kong Ltd., an Independent Third Party, approximately 32% by Dragonair, approximately 14% by HKIAC and approximately 16% by CNACG. At present, the authorized share capital of LLSHK is HK\$1,000 divided into 1,000 shares of HK\$1.00 each, of which 501 shares of HK\$1.00 each have been issued and fully paid up. As at the date hereof, there is no outstanding shareholders’ loan owing from LLSHK to each of CNACG and HKIAC.

LLSHK is principally engaged in the provision of inflight catering services, laundry services and the operation of airport lounges and an airport restaurant in the Hong Kong International Airport.

The table below sets out the audited results of LLSHK for the two years ended 31 December, 2002 and 2003 and the audited net asset value of LLSHK as at 31 December, 2002 and 2003 which are based on the audited accounts of LLSHK for the years ended 31 December, 2002 and 2003 prepared in accordance with HKSSAP:

	Year ended 31 December,	
	2003 HK\$’000	2002 HK\$’000
Audited profit before taxation	5,470	60,033
Audited profit after taxation	1,233	52,985
	As at 31 December,	
	2003 HK\$’000	2002 HK\$’000
Audited net asset value	286,288	305,055

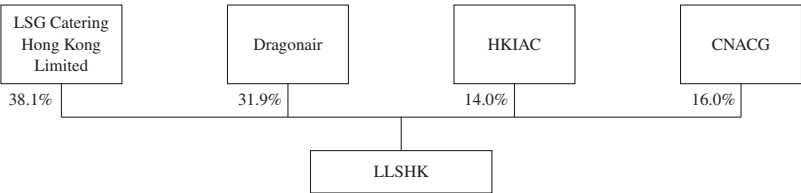
Upon completion of the Acquisitions, the Company will indirectly be interested in approximately 20.2% of the issued share capital of LLSHK. The financial results and positions of LLSHK will be equity accounted for in the consolidated accounts of the Company in accordance with HKSSAP.

There are currently 7 directors on the board of directors of LLSHK, of which 1 is nominated by CNACG and 1 is nominated by HKIAC. Upon completion of the Acquisition Agreements, the board of directors of LLSHK shall continue to be comprised of 7 persons, the Company will nominate 1 person as a director of LLSHK in substitution of the existing director nominated by CNACG.

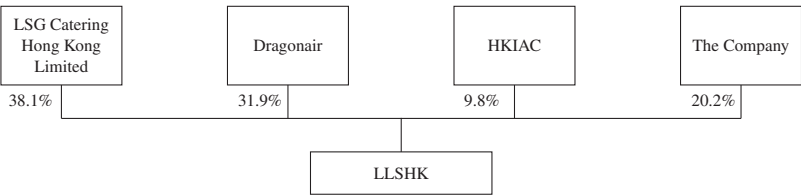
The CNACG Sale Shares was initially acquired by CNACG in 1996 at a consideration of approximately HK\$101.8 million.

SHAREHOLDING STRUCTURE OF LLSHK BEFORE AND AFTER THE ACQUISITIONS

Prior to the Acquisitions, the shareholding structure of LLSHK is as follows:



After the Acquisitions, the shareholding structure of LLSHK is as follows:



REASONS FOR THE ACQUISITIONS

The Directors believe that the Acquisitions are in line with the Group’s long-term expansion strategy and will further enhance the Group’s position as a major conglomerate in the Asia Pacific region for aviation and related businesses.

With the growing economic ties and increasing number of tourists between Hong Kong and the PRC as well as the opening of a major theme park in Hong Kong in the near future, the demand for aviation-catering service is expected to increase in the next few years. The Directors are optimistic about the growth potential of LLSHK.

Following the Acquisitions, the Directors are of the view that the Group will be interested in one of the biggest aviation-catering groups in Greater China.

The Directors, excluding the independent non-executive Directors whose views will be given after reviewing the advice from the independent financial adviser of the Company, believe that the terms of the Acquisitions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company does not have any present intention to acquire any further equity interests in LLSHK.

ONGOING CONNECTED TRANSACTIONS

Following completion of the Beijing Contract and the Chengdu Contract, the Ongoing Connected Transactions will constitute connected transactions for the Company under the Listing Rules. As at the date of this announcement, both the Beijing Contract and the Chengdu Contract have not yet been completed. Applications have already been submitted to the relevant governmental authority in the PRC for obtaining an approval in respect of the Beijing Contract and Chengdu Contract and such approvals are still pending.

Prior to the completion of the Beijing Contract, BACL is a sino-foreign joint venture, owned as to 60% by Air China and as to 40% by Hongkong Beijing Air Catering Limited (“HKBACL”), an Independent Third Party. Upon completion of the Beijing Contract, BACL will become a wholly foreign owned enterprise in the PRC and a subsidiary of the Company, which will be owned as to 60% by the Company and 40% by HKBACL.

Prior to the completion of the Chengdu Contract, SWACL is a sino-foreign joint venture, owned as to 75% by Air China and as to 25% by Hongkong Southwest Air Catering Limited (“HKSACL”), an Independent Third Party. Upon completion of the Chengdu Contract, SWACL will become a wholly foreign owned enterprise in the PRC and a subsidiary of the Company, which will be owned as to 60% by the Company and 40% by HKSACL.

BACL has entered into the BACL Contract with Air China. SWACL has entered into (a) the SWACL Catering Contracts with Air China, Air China Zhejiang and Air China Southwest; and (b) the SWACL Supply Contract with Air China Southwest. Brief details of the BACL Contract and the SWACL Contracts are set out below.

BACL Contract

Date: 5 August 2004

Parties: BACL and Air China

Pursuant to the BACL Contract, BACL agrees to provide Inflight Catering Services to Air China in respect of all Beijing CA Flights for a term of three years commencing on 5 August 2004. Unless the terms of the BACL Contract are amended or the BACL Contract is terminated by either party by way of 30 days prior written notice after the expiry of its term, the BACL Contract shall continue for another three years until it is terminated by either party by way of 30 days prior written notice. If the BACL Contract will continue or be renewed after the initial 3 years term, the Company will comply with the relevant requirements under the Listing Rules upon its renewal.

In accordance with the terms of the BACL Contract, BACL will charge a service fee for the Inflight Catering Services which is determined by reference to the number and type of meals being provided and the type of aircraft to which service is being provided by BACL to Air China in respect of all Beijing CA Flights.

BACL is principally engaged in the provision of inflight catering services and other related inflight food and beverage services and the production of Chinese and western snacks and beverages.

The amounts received by BACL for the provision of Inflight Catering Services to Air China in respect of all Beijing CA Flights for the three years ended 31 December 2001, 2002 and 2003 in accordance with PRC Accounting Regulations are set out below:

	Year ended 31 December,		
	2001	2002	2003
Provision of Inflight Catering Services to Air China in respect of all Beijing CA Flights (net/excluding tax)			
– RMB million	100	139	119
– equivalent to HK\$ million	94	131	112
Percentage of BACL’s audited turnover for the relevant year	37%	43%	45%

SWACL Catering Contracts

SWACL Air China Catering Contract

Date: 7 March 2003

Parties: SWACL and Air China

SWACL Air China Zhejiang Catering Contract

Date: 15 December 2003

Parties: SWACL and Air China Zhejiang

SWACL Air China Southwest Catering Contract

Date: 25 June 2002

Parties: SWACL and Air China Southwest

Pursuant to the SWACL Catering Contracts, SWACL agrees to provide Inflight Catering Services to Air China, Air China Zhejiang and Air China Southwest in respect of all Chengdu CA Flights operated by Air China, Air China Zhejiang and Air China Southwest. Apart from the SWACL Air China Zhejiang Catering Contract which has a term of one year that had commenced on 15 December 2003 and shall continue for another year until it is being terminated by either party by way of 30 days prior written notice, the term for each of the other SWACL Catering Contracts has already been renewed and shall continue for another year until it is terminated by either party by way of 30 days prior written notice. The Company undertakes that upon completion of the Chengdu Contract, the Company shall procure SWACL to revise the term of each of the SWACL Catering Contracts to a fixed term of not more than 3 years in compliance with the relevant requirements under the Listing Rules and the Company will issue a further announcement in compliance with the Listing Rules upon the revision of the terms of any of the SWACL Catering Contract. If any of the SWACL Catering Contract will continue or be renewed after such 3 years term, the Company will comply with the relevant requirements under the Listing Rules upon its renewal.

In accordance with the terms of the SWACL Catering Contracts, SWACL will charge a service fee for the Inflight Catering Services which is determined by reference to the number and type of meals being provided the type of aircraft to which service is being provided by SWACL to Air China, Air China Zhejiang and Air China Southwest in respect of all Chengdu CA Flights operated by Air China, Air China Zhejiang and Air China Southwest.

SWACL Supply Contract

Date: 25 June 2002

Parties: SWACL and Air China Southwest

Pursuant to the SWACL Supply Contract, SWACL agrees to supply inflight accessories and other consumable items, magazines and newspapers and souvenirs and provide any ancillary and recycling services to Air China Southwest in respect of all Chengdu CA Flights operated by Air China Southwest. The term for the SWACL Supply Contract has already been renewed and shall continue for another year until it is terminated by either party by way of 30 days prior written notice. The Company undertakes that upon completion of the Chengdu Contract, the Company shall procure SWACL to revise the term of the SWACL Supply Contract to a fixed term of not more than 3 years in compliance with the relevant requirements under the Listing Rules and the Company will issue a further announcement in compliance with the Listing Rules upon the revision of the terms of the SWACL Supply Contract. If the SWACL Supply Contract will continue or be renewed after such 3 years term, the Company will comply with the relevant requirements under the Listing Rules upon its renewal.

In accordance with the terms of the SWACL Supply Contract, SWACL will charge a fee which is determined by reference to the type of aircraft to which service is being provided by SWACL to Air China Southwest in respect of all Chengdu CA Flights operated by Air China Southwest.

SWACL is principally engaged in the production of food, beverages and other inflight service products, the provision of other related services and the sale of its own products.

Turnover under the SWACL Contracts

The amounts received by SWACL for the provision of Inflight Catering Services and other ancillary services to Air China, Air China Zhejiang and Air China Southwest in respect of all Chengdu CA Flights operated by Air China, Air China Zhejiang and Air China Southwest for the three years ended 31 December 2001, 2002 and 2003 in accordance with PRC Accounting Regulations are set out below:

	Year ended 31 December,		
	2001	2002	2003
Provision of Inflight Catering Services and other ancillary services (including inflight accessories, other consumable items and recycling services under SWACL Supply Contract) to Air China, Air China Zhejiang and Air China Southwest in respect of all Chengdu CA Flights operated by Air China, Air China Zhejiang and Air China Southwest (net/excluding tax)			
– RMB million	43	56	45
– equivalent to HK\$ million	41	53	42
Percentage of SWACL’s audited turnover for the relevant year	70%	83%	70%

Reasons for and benefits of the BACL Contract and the SWACL Contracts

The terms of each of the BACL Contract and the SWACL Contracts have been determined after arm’s length negotiations between the parties thereto and will be no less favourable to BACL or SWACL than terms available to and from Independent Third Parties provided that the volume and scope of services to be provided by BACL and/or SWACL to such Independent Third Party are similar to those provided to Air China, Air China Zhejiang and Air China Southwest, as the case may be. The Directors, excluding the independent non-executive Directors whose views will be given after reviewing the advice from the independent financial adviser of the Company, are of the view that the terms of each of the BACL Contract and the SWACL Contracts are fair and reasonable so far as the independent Shareholders are concerned and each of the BACL Contract and the SWACL Contracts is on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

The Directors consider it to be in the interest of BACL and SWACL to engage in the Ongoing Connected Transactions as these transactions and the service fees to be received by BACL and SWACL under the BACL Contract and the SWACL Contracts will generate a steady stream of income for BACL and SWACL.

Proposed Caps

By reference to (a) the growth in passenger uplift as projected by the management of the Company; (b) historic percentage of Inflight Catering Services provided to Air China in respect of all Beijing CA Flights over BACL’s annual audited turnover; and (c) historic percentage of Inflight Catering Services and other ancillary services provided to Air China, Air China Zhejiang and Air China Southwest in respect of all Chengdu CA Flights operated by Air China, Air China Zhejiang and Air China Southwest over SWACL’s annual audited turnover, the Directors propose to set the Proposed Cap for the transactions under the BACL Contract and the SWACL Contracts as follows:

Agreement	Proposed Cap
BACL Contract	RMB200 million (net/excluding tax) (equivalent to approximately HK\$189 million)
SWACL Contracts	RMB70 million (net/excluding tax) (equivalent to approximately HK\$66 million)

There is a substantial increment between Proposed Caps and (a) the turnover for the year ended 31 December 2003 on the provision of Inflight Catering Services by BACL to Air China in respect of all Beijing CA Flights; and (b) the turnover for the year ended 31 December 2003 on the provision of Inflight Catering Services and other ancillary services by SWACL to Air China, Air China Zhejiang and Air China Southwest in respect of all Chengdu CA Flights operated by them because of:

- (a) the outbreak of SARS in 2003 has had a material adverse impact on the financial performance of companies in the aviation-related business and therefore led to a lower turnover in 2003; and
- (b) the Proposed Caps have been set for the coming 3 years after the date of completion of the Beijing Contract and the Chengdu Contract and the management of the Company is predicting a healthy growth in the business of BACL and SWACL in the forthcoming 3 years.

If during the period ending three years after the date of completion of the Beijing Contract and the Chengdu Contract, the aggregate annual value of the transactions contemplated under the BACL Contract and the SWACL Contracts exceed the Proposed Caps or there is a material change to any of the BACL Contract or the SWACL Contracts, the Company will take necessary steps to ensure compliance with the Listing Rules. The Company shall seek independent Shareholders’ approval on the BACL Contract and the SWACL Contracts in respect of a further three years’ period commencing three years after the date of completion of the Beijing Contract and the Chengdu Contract in accordance with the Listing Rules. In any event, the BACL Contract and the SWACL Contracts will not exceed 3 years as BACL or SWACL, as the case may be, will have the right to terminate the relevant contract by way of giving 30 days prior written notice.

The transactions contemplated under the BACL Contract and the SWACL Contracts will also be subject to the annual review requirement under Rules 14A.37 to 14A.41 and the reporting requirement under Rules 14A.45 and 14A.46 of the Listing Rules.

INFORMATION ON THE GROUP

The Group is principally engaged in the provision of air transportation services through Dragonair and Air Macau, airport ground handling services and logistics services. For the two years ended 31 December, 2002 and 2003, the Group recorded an audited profit attributable to Shareholders of approximately HK\$317,417,000 and an audited loss attributable to Shareholders of approximately HK\$18,747,000 respectively. The audited net asset value of the Group as at 31 December, 2003 was approximately HK\$2,642,331,000.

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 and Li Kwok Heem, John.

INFORMATION ON AIR CHINA

Air China is principally engaged in the provision of air transportation services and investment in aviation-related businesses. Air China is the flag carrier of the PRC and has a fleet size of over 130 aircraft of which about 40 are wide-body aircraft.

GENERAL

The Company is owned as to approximately 69.5% by CNACG. Since CNACG is a substantial shareholder of the Company, the CNACG Acquisition constitutes a connected transaction for the Company under the Listing Rules.

Since the HKIAC Acquisition involves the Company acquiring the HKIAC Sale Shares from HKIAC, where CNACG, being a substantial shareholder of LLSHK, is also a controlling shareholder (as defined under the Listing Rules) of the Company, the HKIAC Acquisition constitutes a connected transaction for the Company under Rule 14A.13(1)(b)(i) of the Listing Rules.

Both the CNACG Agreement and the HKIAC Agreement therefore require independent Shareholders' approval at an extraordinary general meeting of the Company.

CNACG is a wholly-owned subsidiary of CNAH. Air China is also a wholly-owned subsidiary of CNAH. Since Air China is an associate (within the meaning of the Listing Rules) of CNAH, which is an indirect controlling shareholder of the Company, upon completion of the Beijing Acquisition and the Chengdu Acquisition, the Ongoing Connected Transactions will constitute continuing connected transactions for the Company under the Listing Rules and the BACL Contract and the SWACL Contracts and the Proposed Caps will require independent Shareholders' approval at an extraordinary general meeting of the Company.

CNACG and its associates will abstain from voting in relation to the Acquisitions, the Ongoing Connected Transactions and the Proposed Caps.

An independent board committee will be appointed to advise the independent Shareholders in relation to the Acquisitions, the Ongoing Connected Transactions and the Proposed Caps. An independent financial adviser will be appointed to advise the independent board committee and the independent Shareholders in relation to the Acquisitions, the Ongoing Connected Transactions and the Proposed Caps.

A circular containing, among other things, details of the Acquisitions and the Ongoing Connected Transactions, an advice from the independent financial adviser, a recommendation of the independent board committee and a notice convening an extraordinary general meeting to approve the Acquisitions, the Ongoing Connected Transactions and the Proposed Caps will be sent to the Shareholders as soon as practicable.

TERMS USED IN THIS ANNOUNCEMENT

“Acquisition Agreements”	the CNACG Agreement and the HKIAC Agreement
“Acquisitions”	the CNACG Acquisition and the HKIAC Acquisition
“Air China”	Air China International Corporation, a company established in the PRC
“Air China Branch Companies”	Southwest, Zhejiang, Chongqing, Inner Mongolia and Tianjin branch companies and cargo companies of Air China
“Air China Southwest”	Southwest branch company of Air China
“Air China Zhejiang”	Zhejiang branch company of Air China
“Air Macau”	Air Macau Company Limited, a company incorporated in Macau with limited liability and a 51% indirectly owned subsidiary of the Company
“Airport Authority”	the Airport Authority of Hong Kong established under the Airport Authority Ordinance (Chapter 483 of the Laws of Hong Kong)
“Announcement”	the announcement of the Company dated 26 April 2004
“associates”	has the meaning ascribed under the Listing Rules
“BACL”	Beijing Air Catering Co., Ltd., a company established in the PRC, which will become a subsidiary of the Company upon completion of the Beijing Contract
“BACL Contract”	the catering contract dated 5 August 2004 entered into between BACL and Air China for the provision of Inflight Catering Services by BACL to Air China in respect of all Beijing CA Flights
“Beijing Acquisition”	the acquisition of 60% of the equity interest in BACL from Air China, as more particularly described in the Announcement and the Circular
“Beijing CA Flights”	Air China's inbound and outbound flights and Air China Branch Companies' inbound and outbound flights with flight numbers carrying the prefix of CA to and from Beijing Capital International Airport
“Beijing Contract”	the share transfer contract dated 21 April 2004, and supplemented on 26 April 2004, between Fly Top and Air China in relation to the Beijing Acquisition
“Board”	the board of directors of the Company
“Business Day”	a day (other than a Saturday or Sunday) on which banks are open for business in Hong Kong
“CA”	the code name for Air China flights
“Chengdu Acquisition”	the acquisition of 60% of the equity interest in SWACL from Air China, as more particularly described in the Announcement and the Circular
“Chengdu CA Flights”	the inbound and outbound flights with flight numbers carrying the prefix of CA to and from Chengdu Shuangliu International Airport
“Chengdu Contract”	the share transfer contract dated 21 April 2004, and supplemented on 26 April 2004, between Fly Top and Air China in relation to the Chengdu Acquisition
“CNACG”	China National Aviation Corporation (Group) Limited, a company incorporated in Hong Kong with limited liability and which holds approximately 69.5% of the shares in the issued share capital of the Company and is an investment holding company
“CNACG Acquisition”	the acquisition of the CNACG Sale Shares from CNACG
“CNACG Agreement”	the sale and purchase agreement dated 19 August 2004 between Fly Top and CNACG in relation to the CNACG Acquisition

“CNACG Sale Shares”	80 shares of HK\$1.00 each in LLSHK to be disposed of by CNACG under the CNACG Agreement
“CNAH”	China National Aviation Holding Company, a company established in the PRC and the ultimate holding company of the Company, CNACG and Air China
“Company”	China National Aviation Company Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Stock Exchange
“Circular”	the circular of the Company dated 15 May 2004
“Dragonair”	Hong Kong Dragon Airlines Limited, an airline operator incorporated in Hong Kong with limited liability, a 43.29% owned associated company of the Company and not a connected person of the Company as defined in the Listing Rules
“Fly Top”	Fly Top Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“HKIAC”	Hong Kong International Air Catering Ltd., a company incorporated in Hong Kong and both HKIAC and its ultimate beneficial owners (apart from Air China which is interested in 25% of the issued share capital of HKIAC) are Independent Third Parties
“HKIAC Acquisition”	the acquisition of the HKIAC Sale Shares from HKIAC
“HKIAC Agreement”	the sale and purchase agreement dated 19 August 2004 between Fly Top and HKIAC in relation to the acquisition of the HKIAC Acquisition
“HKIAC Sale Shares”	21 shares of HK\$1.00 each in LLSHK to be disposed of by HKIAC under the HKIAC Agreement
“HKSSAP”	Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants
“Independent Third Party(ies)”	party(ies) who is/are not connected with the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries or any of their respective associates and not connected person(s) of the Company as defined in the Listing Rules
“Inflight Catering Services”	inflight catering services and other related inflight food and beverages services which include among other things, (a) the preparation and assembly of aircraft meals, beverages and other consumable items for delivery onto aircraft; (b) storage, retrieval, washing, cleaning and sanitizing of catering equipment supplied by aircraft carrier; and (c) loading, unloading and transportation of meals and other supplies to and from the aircraft
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LLSHK”	LSG Lufthansa Service Hong Kong Limited, a company incorporated in Hong Kong
“Ongoing Connected Transactions”	the connected transactions to be entered into or to be continued between the Group and Air China, Air China Zhejiang or Air China Southwest on an on-going basis after completion of the Beijing Contract and the Chengdu Contract and as described in the section headed “Ongoing Connected Transactions” in this announcement
“Percentage Ratios”	the percentage ratios under Rule 14.07 of the Listing Rules, other than the equity capital ratio and profits ratio, adopted by the Company on 19 August 2004
“PRC”	The People's Republic of China
“Proposed Cap(s)”	the proposed maximum annual aggregate value of the transactions (excluding and net of tax) to be contemplated under the Beijing Contract and the SWACL Contracts
“SWACL”	Southwest Air Catering Company Limited, a company established in the PRC, which will become a subsidiary of the Company upon completion of the Chengdu Contract
“SWACL Air China Catering Contract”	the catering contract dated 13 March 2003 entered into between SWACL and Air China for the provision of Inflight Catering Services by SWACL to Air China in respect of all Chengdu CA Flights operated by Air China
“SWACL Air China Southwest Catering Contract”	the catering contract dated 25 June 2002 entered into between SWACL and Air China Southwest (formerly known as Southwest Airlines Corporation) for the provision of Inflight Catering Services by SWACL to Air China Southwest in respect of all Chengdu CA Flights operated by Air China Southwest
“SWACL Air China Zhejiang Catering Contract”	the catering contract dated 15 December 2003 entered into between SWACL and Air China Zhejiang for the provision of Inflight Catering Services by SWACL to Air China Zhejiang in respect of all Chengdu CA Flights operated by Air China Zhejiang
“SWACL Catering Contracts”	the SWACL Air China Catering Contract, the SWACL Air China Zhejiang Catering Contract and the SWACL Air China Southwest Catering Contract
“SWACL Contracts”	the SWACL Catering Contracts and the SWACL Supply Contract
“SWACL Supply Contract”	the supply contract dated 25 June 2002 entered into between SWACL and Air China Southwest (formerly known as Southwest Airlines Corporation) for the provision of inflight accessories, consumable items and recycling services by SWACL to Air China Southwest in respect of all Chengdu CA Flights operated by Air China Southwest
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

On behalf of the Board
Kong Dong
Chairman

Hong Kong, 19 August 2004

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 and Li Kwok Heem, John.