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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

The Board announces that on 15 March, 2005, Air Macau entered into the Wet Lease Agreement with Air China pursuant to which Air Macau agreed to lease to Air China, on a wet lease basis, the Aircraft for a six month period from 20 October, 2004 to 19 April, 2005 at the monthly fixed rent of US\$358,500 (equivalent to approximately HK\$2,796,300). Air China is also required to pay a monthly maintenance hourly payment for each block hour flown at US\$470 (equivalent to approximately HK\$3,666) per block hour. It is anticipated that the total maximum maintenance hourly payment under the Wet Lease Agreement will amount to US\$1,043,400 (equivalent to approximately HK\$8,138,520).

Air Macau is indirectly owned as to 51% by the Company, which in turn is owned as to approximately 69% by Air China. Since Air China is a substantial shareholder of the Company, the Wet Lease Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to reporting and announcement requirements.

The Company's failure to issue a public announcement concerning the wet leasing of the Aircraft has constituted a breach of Rule 14A.34 of the Listing Rules. The Stock Exchange has indicated to the Company that it reserves the rights to take appropriate action against the Company and the Directors in respect of such breaches of the Listing Rules.

WET LEASE AGREEMENT

The Board wishes to announce that Air Macau entered into the Wet Lease Agreement with Air China on 15 March, 2005, pursuant to which Air Macau agreed to lease to Air China, on a wet lease basis, the Aircraft. Set out below are the principal terms of the Wet Lease Agreement.

Principal Terms of the Wet Lease Agreement

Date:	15 March, 2005
Parties:	Air Macau, as lessor Air China, as lessee
Subject matter:	Wet lease of one Airbus A319-100 aircraft with Macanese registration mark B-MAO. Air Macau shall be responsible for the operation and maintenance of the Aircraft during the lease term.
Lease term:	6 months, from 20 October, 2004 to 19 April, 2005
Lease payments:	The lease payments comprise the monthly fixed rental payment and the monthly maintenance hourly payment. The monthly fixed rental payment of US\$358,500 (equivalent to approximately HK\$2,796,300) per month is payable by Air China in three installments. The total fixed rental payment under the Wet Lease Agreement will amount to US\$2,180,000 (equivalent to approximately HK\$17,004,000). The fixed rental payment covers the provision of the Aircraft, the cockpit crew and the maintenance crew and Aircraft related insurance. Air China is also required to pay a monthly maintenance hourly payment for each block hour flown at US\$470 (equivalent to approximately HK\$3,666) per block hour. It is anticipated that the total maximum maintenance hourly payment under the Wet Lease Agreement will amount to US\$1,043,400 (equivalent to approximately HK\$8,138,520). Air Macau has been receiving the monthly fixed rental payment and the monthly maintenance hourly payment in respect of the wet lease of the Aircraft since the commencement of the lease term, i.e. since 20 October, 2004. The lease payments have been arrived at after arm's length negotiation between the parties taking into consideration the prevailing market level of rent payable for the wet leases of Airbus A319-100 and the provision of services under the Wet Lease Agreement.
Other costs:	Air China shall be responsible for other costs incurred in connection with the operation of the Aircraft (e.g., landing and navigation fees, airport and aircraft handling fees, fuel).
Other compensation:	Air Macau shall pay Air China the amount of US\$11,373 (equivalent to approximately HK\$88,709) per day when there is no operation of the Aircraft due to Air Macau's mechanic breakdown or other flight crew-related causes calculated at the end of the lease term, provided that such situation exceed 10 operating days for the entire lease term.

Proposed Cap

Based on the terms of the Wet Lease Agreement and assume that the Aircraft will fly the number of block hours according to the flight schedule under the Wet Lease Agreement together with any delay that may occur, the Directors propose that the maximum aggregate annual value contemplated under the Wet Lease Agreement shall be US\$3,223,400 (equivalent to approximately HK\$25,142,520).

Reasons for and benefits of the Wet Lease Agreement

The Directors consider it to be in the interest of Air Macau to enter into the Wet Lease Agreement as the lease payments to be received by Air Macau under the Wet Lease Agreement will generate a steady stream of income for Air Macau. Furthermore, the entering into of the Wet Lease Agreement will enable Air Macau to enhance its aircraft utilization.

The Directors, including the independent non-executive Directors, are of the view that the terms of the Wet Lease Agreement are fair and reasonable and in the interest of the shareholders of the Company as a whole.

REASONS FOR THE DELAY IN DISCLOSURE

The Wet Lease Agreement was not entered into between the parties until some 5 months after the commencement of the wet lease of the Aircraft because for the purpose of ensuring that the Wet Lease Agreement complies with the aviation requirements in both Macau and the PRC, the parties have spent considerable amount of time to finalise the detail technical terms of the Wet Lease Agreement. However, for the purpose of better utilizing its aircrafts, Air Macau has agreed to commence the wet leasing of the Aircraft to Air China on the understanding that Air China will pay an agreed monthly rental payment and both parties would use their best endeavours to finalise the terms of the Wet Lease Agreement.

As the monthly rental payment in respect of the wet lease of the Aircraft would exceed the amount allowed by the de minimus rule under Rule 14A.33(3) of the Listing Rules as soon as the first instalment of the rental payment was received by Air Macau, such connected transaction was subject to disclosure by way of publishing an announcement on or about 15 October, 2004.

The Directors explain that the delay in disclosing details of the wet leasing of the Aircraft is due to late reporting of such transaction from the management of Air Macau. As explained by the management of Air Macau, they were of the view that such transaction would not trigger any disclosure requirement until a formal agreement has been signed between the parties. In that regard, such transaction was not reported to the Company until the Wet Lease Agreement was entered into on 15 March, 2005. The Company has only discovered that the wet leasing of the Aircraft constitutes a connected transaction and requires to disclose

when the Air Macau informed the management of the Company after the signing of the Wet Lease Agreement. Accordingly, the delay of disclosure is directly due to the unawareness of the obligation to disclose such transaction by the management of Air Macau and such delay could be avoided in the future by means of better communications between the management of Air Macau and the Company and the Company providing training to the management of Air Macau on the relevant provisions and disclosure obligations under 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 the Company approximately HK\$317,417,000 and an audited loss attributable to shareholders of the Company 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.

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 as at 31 December, 2004 has a fleet size of about 150 aircraft.

GENERAL

Air Macau is principally engaged in the operation of international air services and programme charter services in Macau. Air Macau is indirectly owned as to 51% by the Company, which in turn is owned as to approximately 69% by Air China. Since Air China is a substantial shareholder of the Company, the Wet Lease Agreement constitutes a continuing connected transaction for the Company under the Listing Rules and since its annual consideration exceeds the amount allowed by the de minimus rule under Rule 14A.33(3) of the Listing Rules but is less than 2.5% of each of the percentage ratios (as defined in the Listing Rules) (other than the profits ratio (as defined in the Listing Rules)), it is subject to reporting and announcement requirements under Rule 14A.34 of the Listing Rules.

The Company's failure to issue a public announcement concerning the continuing connected transaction has constituted a breach of Rule 14A.34 of the Listing Rules. The transaction contemplated under the Wet Lease 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.

The Stock Exchange has indicated to the Company that it reserves the rights to take appropriate action against the Company and the Directors in respect of such breach of the Listing Rules.

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 listed on the Stock Exchange
"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
"Aircraft"	the Airbus A319-100 aircraft with Macanese registration mark B-MAO
"Board"	the board of Directors
"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
"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
"PRC"	The People's Republic of China
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Wet Lease Agreement"	the aircraft wet lease agreement dated 15 March, 2005 between Air Macau and Air China pursuant to which Air Macau agreed to lease the Aircraft to Air China on a wet lease basis
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"US\$"	United States dollars, the lawful currency of the United States of America

In this announcement, except as otherwise indicated, US\$ has been translated into HK\$ at the rate of HK\$7.80 = US\$1.00 for reference purpose only.

By Order of the Board
Kong Dong
Chairman

Hong Kong, 21 March, 2005

As at the date of this announcement, the executive Directors are Messrs. Kong Dong, Chuang Shih Ping, Zhang Xianlin, Tsang Hing Kwong, Thomas, Gu Tiefert 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.