



中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

CHANGE IN SHAREHOLDING OF
ULTIMATE PARENT COMPANY
COMPETITION WITH AIR CHINA AND CHINA SOUTHWEST
AND ONGOING CONNECTED TRANSACTIONS
WITH AIR CHINA AND CHINA SOUTHWEST

On 11 October 2002, the CAAC issued an announcement in relation to the ownership restructuring involving Air China, China Southwest and CNAC. The Restructuring involves the establishment of Holdco which has become the immediate shareholder of CNAC. CNAC, through its wholly-owned subsidiary CNAC Group, owns an about 68.7% shareholding interest in the Company. Since Holdco is wholly-owned by the PRC state (as was CNAC before the Restructuring), there has been no change in the ultimate beneficial ownership of the 68.7% shareholding interest in the Company as a result of the Restructuring.

As each of Air China, China Southwest and the Group (together with the Company’s associated companies) is engaged in the businesses of passenger and cargo air transportation services and airport ground handling services, the Company hereby discloses in this announcement certain information on the extent of competition with the Company pursuant to the requirements of the Listing Rules.

Since Holdco has become an indirect substantial shareholder of the Company pursuant to the Restructuring, there are certain ongoing transactions between the Group on the one hand and Air China and China Southwest on the other hand which constitute connected transactions of the Company under the Listing Rules. The Company will disclose further details in relation to such transactions once the relevant information is available.

On 11 October 2002, the CAAC issued an announcement in relation to the ownership restructuring involving Air China, China Southwest and CNAC. Pursuant to the Restructuring, Holdco was established under the Company Law of the PRC on 11 October 2002 to hold the entire ownership interests in the following three companies:

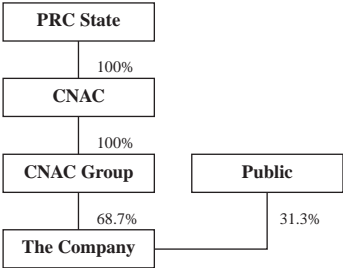
- (1) CNAC, a joint stock limited company established in the PRC which before the Restructuring was wholly-owned by the PRC state (CNAC, through its wholly-owned subsidiary CNAC Group, owns about 68.7% of the issued share capital of the Company);
- (2) Air China, a state-owned enterprise established in the PRC before the Restructuring; and
- (3) China Southwest, also a state-owned enterprise established in the PRC before the Restructuring.

The Directors wish to inform the shareholders of certain regulatory implications of the Restructuring on the Company.

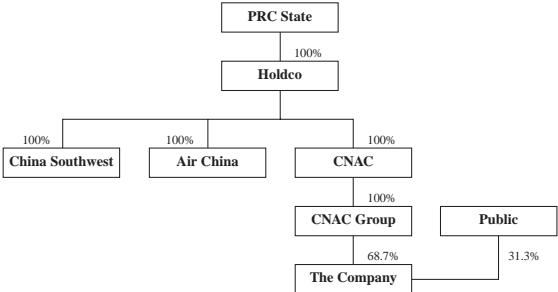
CHANGE IN SHAREHOLDING STRUCTURE OF ULTIMATE PARENT COMPANY

Set out below is the simplified shareholding structure of the Company before and after the completion of the Restructuring:

Before the Restructuring



After the Restructuring



As illustrated by the diagrams above, Holdco has become the immediate shareholder of CNAC as a result of the Restructuring. Since Holdco is wholly-owned by the PRC state (as was CNAC before the Restructuring), there has been no change in the ultimate beneficial ownership of the 68.7% shareholding interest in the Company as a result of the Restructuring.

COMPETITION WITH AIR CHINA AND CHINA SOUTHWEST

As each of Air China, China Southwest and the Group (together with the Company’s associated companies) is engaged in the businesses of passenger and cargo air transportation services and airport ground handling services, the Company would like to address to what extent these companies may compete in these types of services.

Competition with Air China

Air China is the national flag carrier of the PRC with a fleet of more than 70 aircraft. Its principal business is the operation of passenger and cargo air transportation services. Air China currently operates 41 international routes and 71 domestic routes with more than 1,000 scheduled flights per week in total.

Except as disclosed below, Air China does not compete with the Company (through Dragonair and Air Macau) in air transportation services. The Directors believe that there is no competition by the Company with Air China’s domestic routes between PRC domestic destinations because the Company does not operate and has no air traffic rights to operate such domestic routes; nor is there any competition by the Company with Air China’s international routes between China mainland cities and international destinations because, again, the Company does not operate and has no air traffic rights to operate such international routes which do not originate from Hong Kong or Macau.

Air China does compete with Dragonair to the extent that they operate concurrent routes between Beijing-Hong Kong, Dalian-Hong Kong and vice versa. In respect of these concurrent routes operated by Air China on the one hand and Dragonair on the other hand, the relevant air services arrangements provide for reciprocal air traffic rights between PRC designated airlines on the one hand and Hong Kong designated airlines on the other hand and that the published fares between the PRC designated airlines and the Hong Kong designated airline must be the same. Therefore, from the regulatory point of view, the routes concurrently operated by Air China and Dragonair reciprocate each other. However, Air China and Dragonair compete with each other in terms of quality of services, price and time schedule etc. in respect of these concurrent routes.

Air China and Air Macau does not operate any concurrent routes and hence, there is no direct competition between Air China and Air Macau in this regard.

Both Air China and the Company (through JASL and Menzies Macau) are engaged in airport ground handling services. However, since these services are all location- and airport-specific (in the sense that Air China’s operations are based in the Beijing Capital International Airport and the Company’s operations are based in the Hong Kong International Airport and the Macau International Airport), the Directors believe that there is no competition between Air China and the Company in these services.

Competition with China Southwest

China Southwest is also principally engaged in the operation of passenger and cargo air transportation services. It has a fleet of 39 aircraft and operates approximately 120 domestic and international routes in total.

Except as disclosed below, China Southwest does not compete with the Company (through Dragonair and Air Macau) in air transportation services. For the same reasons stated above with respect to Air China, the Directors believe that there is no competition by the Company with China Southwest’s domestic routes between PRC domestic destinations or international routes between China mainland cities and international destinations.

China Southwest does compete with Dragonair and Air Macau to the extent that they operate concurrent routes between Chengdu-Hong Kong, Chongqing-Hong Kong and Guilin-Macau and vice versa. Again, as stated above with respect to Air China, the routes concurrently operated by China Southwest and Dragonair reciprocate each other from the regulatory point of view.

In respect of the route concurrently operated by China Southwest on the one hand and Air Macau on the other hand, the relevant air services arrangements provide for reciprocal air traffic rights between PRC designated airlines on the one hand and Macau designated airlines on the other hand and that the published fares between the PRC designated airlines and the Macau designated airline must be the same. Therefore, from the regulatory point of view, the routes concurrently operated by China Southwest and Air Macau reciprocate each other.

However, China Southwest on the one hand, and Dragonair and Air Macau on the other hand, compete with each other in terms of quality of services, price and time schedule etc. in respect of these concurrent routes.

Both China Southwest and the Company (through JASL and Menzies Macau) are engaged in airport ground handling services. However, since these services are all location- and airport-specific (in the sense that China Southwest’s operations are based in Chengdu Shuangliu International Airport and Chongqing Jiangbei International Airport and the Company’s operations are based in the Hong Kong International Airport and the Macau International Airport), the Directors believe that there is no competition between China Southwest and the Company in these services.

Relationships with Holdco, Air China and China Southwest

At the initial stage, the Restructuring has involved the consolidation into Holdco of the ownership interests in Air China, China Southwest and CNAC. The operations and management of the three companies will remain separate, nor is there any specific injection or acquisition plan between them, in the foreseeable future. Further, the Company is not aware of any present plans of Holdco to eliminate competition between the concurrent routes operated by Air China and China Southwest, on the one hand, and Dragonair and Air Macau, on the other hand. However, the Company will make enquiry with Holdco in this regard. If and when there is any specific further restructuring plan along these lines or any future plans regarding competition, the Company will make a further announcement to update the shareholders of the development of the Restructuring or such plans as soon as practicable. The Company will also comply with the Listing Rules where applicable.

ONGOING CONNECTED TRANSACTIONS WITH AIR CHINA AND CHINA SOUTHWEST

Since Holdco has become an indirect substantial shareholder of the Company pursuant to the Restructuring, certain transactions between the Group on the one hand and Air China and China Southwest on the other hand constitute connected transactions of the Company under the Listing Rules. These transactions include agency sales transactions in relation to the sale of air passenger transportation and air cargo transportation between Air Macau and travel agencies operated by associates of Air China and China Southwest. It is expected that the transaction amounts in respect of each of these transactions for any financial year will be less than 3% of the consolidated net tangible assets of the Group for the relevant financial year and accordingly, the transactions are only required to be disclosed by way of announcement and in the Company’s subsequent annual reports pursuant to Rule 14.25(1) of the Listing Rules. The Company will disclose further information in relation to such transactions once the relevant information is available. The Company will also apply for a waiver from strict compliance with Chapter 14 of the Listing Rules if necessary.

DEFINITIONS

“Air China”	Air China, a state-owned enterprise established in the PRC before the Restructuring (including, if the context is appropriate, its subsidiaries)
“Air Macau”	Air Macau Company Limited, a company owned as to 51% by the Company
“CAAC”	the General Administration of Civil Aviation of China
“China Southwest”	China Southwest Airlines, a state-owned enterprise established in the PRC before the Restructuring (including, if the context is appropriate, its subsidiaries)
“CNAC”	China National Aviation Corporation, a joint stock limited company established in the PRC which, before the Restructuring, was wholly-owned by the PRC state
“CNAC Group”	China National Aviation Corporation (Group) Limited, a company incorporated in Hong Kong with limited liability which is wholly-owned by CNAC
“Company”	China National Aviation Company Limited, a company incorporated in Hong Kong with limited liability and whose shares are listed on The Stock Exchange of Hong Kong Limited, about 68.7% of which are owned by CNAC Group
“Directors”	the directors of the Company
“Dragonair”	Hong Kong Dragon Airlines Limited, a company owned as to about 43.3% by the Company
“Group”	the Company and its subsidiaries
“Holdco”	China National Aviation Holding Company, a PRC company established under the Company Law of the PRC pursuant to the Restructuring and which is wholly-owned by the PRC state
“JASL”	Jardine Airport Services Limited, a company owned as to 50.0% by the Company
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Menzies Macau”	Menzies Macau Airport Services Limited, a company in which the Company owns an effective interest of about 33.7% indirectly
“PRC”	the People’s Republic of China
“Restructuring”	the ownership restructuring involving Air China, China Southwest and CNAC as announced by the CAAC on 11 October 2002

By Order of the Board of Directors
China National Aviation Company Limited
Li Man Kit
Company Secretary

Hong Kong, 11 October 2002