



中航興業有限公司

CHINA NATIONAL AVIATION COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1110)

DISCLOSEABLE AND CONNECTED TRANSACTIONS

ACQUISITION OF BACL AND SWACL

TERMINATION OF ACQUISITION OF LLSHK

The Board announces that on 21 April, 2004, Fly Top, a wholly-owned subsidiary of the Company, entered into the following Acquisition Agreements which were supplemented on 26 April, 2004:

(i) the Beijing Contract with Air China in relation to the acquisition of 60% of the equity interest in BACL for a consideration of RMB294 million (equivalent to approximately HK\$277.4 million); and

(ii) the Chengdu Contract with Air China in relation to the acquisition of 60% of the equity interest in SWACL for a consideration of RMB67 million (equivalent to approximately HK\$63.2 million).

The aggregate consideration of approximately RMB361 (equivalent to approximately HK\$340.6 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% 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, the Acquisitions constitute connected transactions for the Company under the Listing Rules and require independent Shareholders’ approval at an extraordinary general meeting of the Company. In addition, the Acquisitions in aggregate constitute discloseable transactions for the Company under the Listing Rules.

A circular containing, inter alia, details of the Acquisitions, 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 will be sent to the Shareholders as soon as practicable.

Fly Top also entered into the Hong Kong Agreement on 21 April, 2004 with CNACG in relation to the acquisition of approximately 16% of the issued share capital of LLSHK for a consideration of HK\$89 million. The Hong Kong Agreement was terminated by the parties on 26 April, 2004. Since the Company is owned as to approximately 69% by CNACG, the Hong Kong Transaction would have constituted a connected transaction for the Company under the Listing Rules.

At the request of the Company, trading in the shares of the Company has been suspended from 22 April, 2004 pending the issue of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the shares of the Company from 9:30 a.m. on 27 April, 2004.

The Board is pleased to announce that on 21 April, 2004, Fly Top entered into the Beijing Contract and the Chengdu Contract with Air China, which were supplemented on 26 April, 2004.

THE BEIJING ACQUISITION

Principal Terms of the Beijing Contract

Date:	21 April, 2004, supplemented on 26 April, 2004
Purchaser:	Fly Top, a wholly-owned subsidiary of the Company
Vendor:	Air China
Assets to be acquired:	60% of the equity interest in BACL

Consideration and payment terms

The total consideration payable by Fly Top under the Beijing Contract is RMB294 million, to be paid in cash upon completion of the Beijing Contract. The consideration will be funded by the Group’s internal resources.

The consideration for the Beijing Acquisition has been arrived at after arm’s length negotiation between the parties taking into consideration the value and financial position of BACL and represents a price earnings multiple of approximately 10.6 times of the unaudited net profit of BACL for the year ended 31 December, 2002 after tax and after taking into account the effect of disposal of BACL’s investment in the finance company to CNAH (as referred to in paragraph (d) of the section headed “Pre-Completion Undertakings under the Beijing Contract” below). The Company believes that it is not appropriate to determine the consideration based on the profit figures for the year 2003 because of the impact of the outbreak of Severe Acute Respiratory Syndrome on the financial performance of companies in the aviation-related businesses.

Effective Date of the Beijing Contract

The Beijing Contract will only take effect upon completion of the following matters:

(a) the PRC Ministry of Commerce having approved the Beijing Contract; and

(b) the PRC State-owned Assets Supervision and Administration Commission or its local counterpart having confirmed the valuation of the 60% equity interest in BACL as prepared by a qualified state-owned asset valuer and having recorded the equity transfer.

If the PRC Ministry of Commerce approval is not obtained within 75 days after the date of the Beijing Contract (or such later date as the parties may agree), Fly Top has the right to terminate the Beijing Contract.

Pre-Completion Undertakings under the Beijing Contract

The parties agree that the following matters must be completed before completion of the Beijing Contract:

- (a) Fly Top having notified Air China in writing that it is satisfied with the due diligence investigation with respect to BACL;
- (b) the passing by the independent Shareholders in an extraordinary general meeting of an ordinary resolution approving the Beijing Acquisition in accordance with the requirements of the Listing Rules;
- (c) the receipt of a satisfactory legal opinion by a PRC law firm in relation to, inter alia, the establishment and operation of BACL and the approvals required for the Beijing Acquisition;
- (d) BACL having disposed of its investment in a finance company, being a company engaged in financing and investment activities and hence unrelated to the main business operated by BACL, to CNAH and having received the consideration for such a disposal; and
- (e) the China Securities Regulatory Commission having approved, or having indicated no objection to, the Beijing Contract or the Beijing Acquisition.

The Beijing Contract does not provide for a long stop date for completion of the above matters.

Completion of the Beijing Contract

Completion of the Beijing Contract will take place 7 days after the latest of the occurrence or waiver of the following matters:

- (a) the Beijing Contract having become effective (as referred to in the section headed “Effective Date of the Beijing Contract” above) 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” above); and
- (b) the Chengdu Contract having become effective (as referred to in the section headed “Effective Date of the Chengdu Contract” below) 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” below).

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

Other Major Terms

In relation to the land currently used by BACL for its production facilities, Air China has undertaken under the Beijing Contract to complete, at its expense, the formal procedures for obtaining the land use rights with respect to the authorized operation of the land within 6 months of the date of the Beijing Contract (or such later time as the parties may agree), and to lease such land to BACL for a term of up to 30 April, 2023 at a rent to be calculated on the basis of the original costs for obtaining such land use rights once the land use rights certificate is obtained. Until such time, Air China has agreed that BACL may continue to use such land at nominal consideration. Such lease arrangement will constitute an ongoing connected transaction of the Company under the Listing Rules. The Company will ensure compliance with the Listing Rules in this regard. Further details of such arrangement will be set out in a further announcement to be made by the Company.

Air China has further agreed to complete, at its expense, the formal procedures for transferring the building ownership rights of part of the production facilities from Air China to BACL within 6 months of the date of the Beijing Contract (or such later time as the parties may agree). Such part of the production facilities relate to the production facilities agreed to be injected by Air China into BACL as part of its initial capital contribution when BACL was established. Please refer to the section headed “Information on BACL” below for information relating to the status of contribution by Air China into the registered capital of BACL.

The above matters will not affect the completion of the Beijing Contract.

Information on BACL

BACL was established as a sino-foreign joint venture in May 1988. BACL is now owned as to 60% by Air China and as to 40% by HKBACL. Upon completion of the Beijing Contract, BACL will become a wholly foreign owned enterprise in the PRC, which will be owned as to 60% by the Company and as to 40% by HKBACL. At present, the total investment of BACL is US\$20 million and the registered capital is US\$8 million. As at the date hereof, there is no outstanding shareholder’s loan owing from BACL to Air China. Based on the capital verification report for BACL, both Air China and HKBACL have contributed the registered capital of BACL in full. As at the date of completion of the Beijing Contract, Fly Top will not be subject to any commitment to make additional capital contribution into BACL.

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 table below sets out the unaudited results of BACL for the two years ended 31 December, 2002 and 2003 and the unaudited net asset value of BACL as at 31 December, 2002 and 2003 which are based on the audited accounts of BACL for the years ended 31 December, 2002 and 2003 prepared in accordance with PRC Accounting Regulations, after making adjustments to comply with HKSSAP:

	Year ended 31 December, 2003	2002
	RMB’000	RMB’000
Unaudited profit before taxation	26,438	67,599
Unaudited profit after taxation	18,612	47,616
	As at 31 December, 2003	2002
	RMB’000	RMB’000
Unaudited net asset value	133,926	151,074

Upon completion of the Beijing Acquisition, BACL will become a subsidiary of the Company. Since the Company does not have unilateral control over BACL, the financial results and positions of BACL will be equity accounted for (i.e., not consolidated) in the consolidated accounts of the Company in accordance with HKSSAP.

There are currently 9 directors on the board of directors of BACL, of which 5 are nominated by Air China. Upon completion of the Beijing Contract, the Company will nominate 5 persons as directors of BACL in substitution of the existing directors nominated by Air China. Under the Articles of Association of BACL, other than certain material matters that require unanimous board approval, all other matters requiring board approval must be approved by at least two-thirds of the directors present at the board meeting.

For illustrative purpose only, the table below sets out the unaudited financial information of BACL for each of the two years ended 31 December, 2002 and 2003 which is based on the audited accounts of BACL for the years ended 31 December, 2002 and 2003 prepared in accordance with PRC Accounting Regulations, after making adjustments to comply with HKSSAP and to reflect the effect of disposal of BACL’s investment in the finance company to CNAH (as referred to in paragraph (d) of the section headed “Pre-Completion Undertakings under the Beijing Contract” above) as if the disposal had been completed prior to the periods presented below:

	(For illustrative purpose only) Year ended 31 December, 2003	2002
	RMB’000	RMB’000
Unaudited illustrative profit before taxation	26,438	66,028
Unaudited illustrative profit after taxation	18,612	46,045
	(For illustrative purpose only) As at 31 December, 2003	2002
	RMB’000	RMB’000
Unaudited illustrative net asset value	135,148	152,297

THE CHENGDU ACQUISITION

Principal Terms of the Chengdu Contract

Date: 21 April, 2004, supplemented on 26 April, 2004

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

Vendor: Air China

Assets to be acquired: 60% of the equity interest in SWACL

Consideration and payment terms

The total consideration payable by Fly Top under the Chengdu Contract is RMB67 million, to be paid in cash upon completion of the Chengdu Contract. The consideration will be funded by the Group’s internal resources.

The consideration for the Chengdu Acquisition has been arrived at after arm’s length negotiation between the parties taking into consideration the value and financial position of SWACL and represents a price earnings multiple of approximately 8.4 times of the unaudited net profit after tax of SWACL for the year ended 31 December, 2002.

Effective Date of the Chengdu Contract

The Chengdu Contract will only take effect upon completion of the following matters:

- (a) the PRC Ministry of Commerce having approved the Chengdu Contract;
- (b) the PRC State-owned Assets Supervision and Administration Commission or its local counterpart having confirmed the valuation of the 60% equity interest in SWACL as prepared by a qualified state-owned asset valuer and having recorded the equity transfer; and
- (c) the completion of all relevant registration showing Air China as the shareholder of SWACL.

If the PRC Ministry of Commerce approval is not obtained within 75 days after the date of the Chengdu Contract (or such later date as the parties may agree), Fly Top has the right to terminate the Chengdu Contract.

Pre-Completion Undertakings under the Chengdu Contract

The parties agree that the following matters must be completed before completion of the Chengdu Contract:

- (a) Fly Top having notified Air China in writing that it is satisfied with the due diligence investigation with respect to SWACL;
- (b) the passing by the independent Shareholders in an extraordinary general meeting of an ordinary resolution approving the Chengdu Acquisition in accordance with the requirements of the Listing Rules;
- (c) the receipt of a satisfactory legal opinion by a PRC legal adviser in relation to, inter alia, the establishment and operation of SWACL and the approvals required for the Chengdu Acquisition;
- (d) the China Securities Regulatory Commission having approved, or having indicated no objection to, the Chengdu Contract or the Chengdu Acquisition; and
- (e) SWACL having executed labour contracts directly with those employees who are presently being supplied by Air China to SWACL.

The Chengdu Contract does not provide for a long stop date for completion of the above matters.

Completion of the Chengdu Contract

Completion of the Chengdu Contract will take place simultaneously with the completion of the Beijing Contract. Please refer to the section headed “Completion of the Beijing Contract” for further details.

Other Major Terms

Air China has agreed, at its expense, to complete the formal procedures for transferring the land use rights of certain land and the building ownership rights of certain production facilities from Air China to SWACL within 6 months of the date of the Chengdu Contract (or such later time as the parties may agree). Such land and production facilities relate to land and production facilities agreed to be injected by Air China into SWACL as part of its initial capital contribution when SWACL was established. Please refer to the section headed “Information on SWACL” below for information relating to the status of contribution by Air China into the registered capital of SWACL.

The above matter will not affect the completion of the Chengdu Contract.

Information on SWACL

SWACL was established as a sino-foreign joint venture in July 1993. SWACL is now owned as to 75% by Air China and as to 25% by HKSACL. The Company understands that Air China has agreed to transfer 15% of the equity interest in SWACL to HKSACL, and the completion of such a transfer is pending approval from the relevant PRC authorities. Upon completion of the Chengdu Contract, SWACL will become a wholly foreign owned enterprise in the PRC. It is expected that SWACL will be owned as to 60% by the Company and as to 40% by HKSACL. At present, the total investment of SWACL is RMB30 million and the registered capital is RMB20 million. As at the date hereof, there is no outstanding shareholder’s loan owing from SWACL to Air China. Based on the capital verification report for SWACL, both Air China and HKSACL have contributed the registered capital of SWACL in full. As at the date of completion of the Chengdu Contract, Fly Top will not be subject to any commitment to make additional capital contribution into SWACL.

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.

The table below sets out the unaudited results of SWACL for each of the two years ended 31 December, 2002 and 2003 and unaudited net asset value of SWACL as at 31 December, 2002 and 2003 which are based on the audited accounts of SWACL for the years ended 31 December, 2002 and 2003 prepared in accordance with PRC Accounting Regulations, after making adjustments to comply with HKSSAP:

	Year ended 31 December, 2003	
	RMB’000	RMB’000
Unaudited profit before taxation	5,857	14,183
Unaudited profit after taxation	5,157	13,317

	As at 31 December, 2003	
	RMB’000	RMB’000
Unaudited net asset value	53,085	57,703

Upon completion of the Chengdu Acquisition, SWACL will become a subsidiary of the Company. Since the Company does not have unilateral control over SWACL, the financial results and positions of SWACL will be equity accounted for (i.e., not consolidated) in the consolidated accounts of the Company in accordance with HKSSAP.

There are currently 5 directors on the board of directors of SWACL, of which 3 are nominated by Air China. Upon completion of the Chengdu Contract, the Company will nominate 3 persons as directors of SWACL in substitution of the existing directors nominated by Air China. Under the Articles of Association of SWACL, other than certain material matters that require unanimous board approval, all other matters requiring board approval must be approved by more than two-thirds of the directors present at the board meeting.

THE HONG KONG TRANSACTION

Principal Terms of the Hong Kong Agreement

Fly Top entered into the Hong Kong Agreement with CNACG on 21 April, 2004 in relation to the acquisition of approximately 16% of the issued share capital of LLSHK for a cash consideration of HK\$89 million. The consideration was arrived at after arm’s length negotiation between the parties taking into consideration the value and financial position of LLSHK.

Since the Company is owned as to approximately 69% by CNACG, the Hong Kong Transaction would have constituted a connected transaction for the Company under the Listing Rules.

Termination of the Hong Kong Agreement

The Hong Kong Agreement was terminated by the parties on 26 April, 2004. Under Rule 14A.56 of the Listing Rules, the Company was required to disclose the value of, and the financial information attributable to, LLSHK in this announcement. However, as at the date hereof, the Company has not yet obtained the formal consents of LLSHK and its shareholders in relation to such disclosure. Since the Company cannot fulfill the disclosure requirements under the Listing Rules, the parties agreed to terminate the Hong Kong Agreement as of 26 April, 2004. The Board understands that it is the intention of the parties that once the relevant consents are obtained, the parties will seek to pursue the transaction again.

Information on LLSHK

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

The asset of approximately 16% of the issued share capital in LLSHK was initially acquired by CNACG in 1996 at a consideration of approximately HK\$101.8 million.

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. The Acquisitions will diversify the Group’s investment portfolio as well as to broaden its income base.

With the future expansion of the Beijing Capital International Airport and the Chengdu Shuangliu International Airport, as well as the coming 2008 Beijing Olympic Games, the demand for aviation-catering service is expected to increase in the next few years. The Directors are optimistic about the growth potential of these acquired companies.

The Group always maintains its prudent financial and risk management polices in pursuing its business development, and the Directors consider it is a good opportunity to utilize the Group’s funds to acquire assets that offer long-term stable return and good growth potential.

Following the Acquisitions, the Group will become one of the biggest aviation-catering groups within mainland China. The efficiency of the aviation-catering companies being acquired will also be improved by future cooperation and sharing of more effective management techniques.

The Group, with its extensive experience in operating international flights and airport-related services for multi-national carriers, is well prepared for further expansion into major aviation hubs in mainland China and in the Asia Pacific region.

The Directors 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 any of BACL or SWACL.

ONGOING CONNECTED TRANSACTIONS

Following completion of the Beijing Contract and the Chengdu Contract, certain transactions now being carried on by BACL and SWACL with connected persons (as defined in the Listing Rules) of the Company will constitute continuing connected transactions of the Group. The details of such transactions will be contained in the circular to the Shareholders.

Further announcement in respect of such transactions will be made separately. The Company will ensure compliance with the Listing Rules in respect of the continuing connected transactions.

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 logistic 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 and Gu Tiefei 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% 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, the Acquisitions constitute connected transactions for the Company under the Listing Rules and 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 Acquisitions in aggregate also constitute discloseable transactions for the Company under the Listing Rules.

An independent board committee will be appointed to advise the independent Shareholders in relation to the Acquisitions. An independent financial adviser will be appointed to advise the independent board committee in relation to the Acquisitions.

A circular containing, inter alia, details of the Acquisitions, 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 will be sent to the Shareholders as soon as practicable.

At the request of the Company, trading in the shares of the Company has been suspended from 22 April, 2004 pending the issue of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the shares of the Company from 9:30 a.m. on 27 April, 2004.

DEFINITIONS

“Acquisition Agreements”	the Beijing Contract and the Chengdu Contract
“Acquisitions”	the Beijing Acquisition and the Chengdu Acquisition
“Air China”	Air China International Corporation, a company established in the PRC
“Air Macau”	Air Macau Company Limited, a company incorporated in Macau with limited liability and a 51% indirectly owned subsidiary of the Company
“BACL”	Beijing Air Catering Co., Ltd., a company established in the PRC
“Beijing Acquisition”	the acquisition of 60% of the equity interest in BACL from Air China
“Beijing Contract”	the share transfer contract dated 21 April, 2004 between Fly Top and Air China in relation to the Beijing Acquisition
“Board”	the board of Directors
“Chengdu Acquisition”	the acquisition of 60% of the equity interest in SWACL from Air China
“Chengdu Contract”	the share transfer contract dated 21 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% in the issued share capital of the Company
“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
“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
“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
“HKBACL”	Hongkong Beijing Air Catering Limited, a company incorporated in Hong Kong and, as at the date hereof, not a connected person (as defined under the Listing Rules) of the Company
“HKSACL”	Hongkong Southwest Air Catering Limited, a company incorporated in Hong Kong and, as at the date hereof, not a connected person (as defined under the Listing Rules) of the Company
“HKSSAP”	Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Agreement”	the sale and purchase agreement dated 21 April, 2004 between Fly Top and CNACG in relation to the Hong Kong Transaction
“Hong Kong Transaction”	the proposed acquisition of approximately 16% of the issued share capital of LLSHK from CNACG
“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
“Macau”	the Macau Special Administrative Region of the PRC
“PRC”	The People’s Republic of China
“PRC Accounting Regulations”	Accounting Standards for Business Enterprises and Accounting System for Business Enterprises in the PRC
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SWACL”	Southwest Air Catering Company Limited, a company established in the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America

In this announcement, except as otherwise indicated, RMB has been translated into HK\$ at the rate of HK\$1.00 = RMB1.06 for reference purpose only.

On behalf of the Board
Kong Dong
Chairman

Hong Kong, 26 April, 2004