

CHINA CIVIL AVIATION REPORT

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Event Coverage **Asian Business Aviation** **Conference and Expo**

**Beijing Capital Airport and China
Aviation Oil Sign Unprecedented Deal**

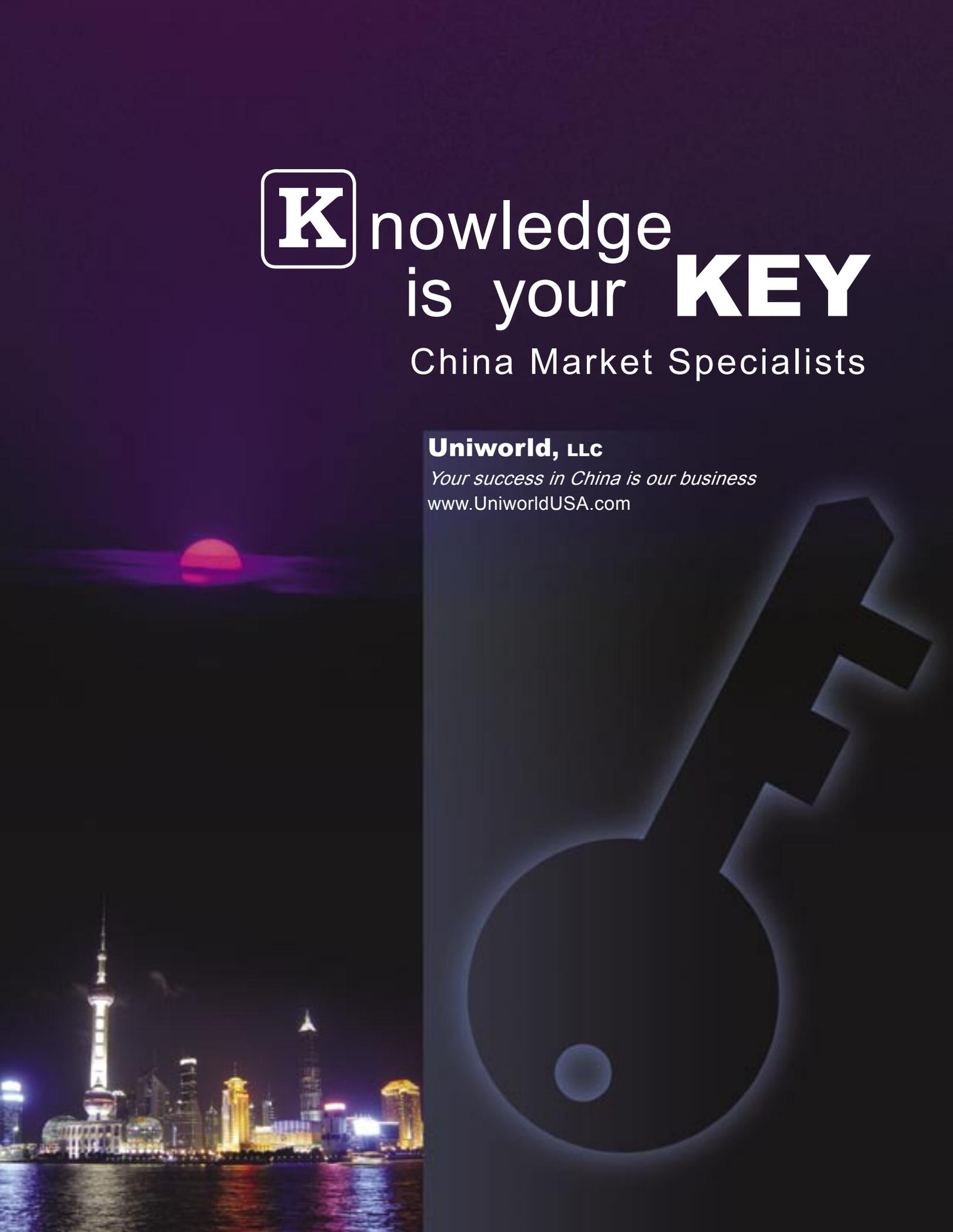
China and Boeing Ink USD 5 Billion Deal

**US TDA to Fund Yangtze River Delta
Region Research**

**CAAC Announce Plans to Strengthen
Aviation in China's Northwest**

**New Regulations Further Relax Aviation
Investments**

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China aviation...in 60 seconds!*

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Publisher
Francis Chao

Productions Director/Staff Writer
George Chao

Advertising/Subscription Director
Andrew Edlefsen

Chief China Correspondent
Lili Wang

China Correspondent
Zhang Yu

China Staff Writer
Jing Fang

Layout and Graphics Design
George Chao
Zhang Lin
Emeng Hu

To contact CCAR or Subscribe, please contact: Info@ChinaCivilAviation.com or visit: www.ChinaCivilAviation.com

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CCAR, c/o Uniworld LLC
690 Garcia Ave Ste. A/B, Pittsburg, CA 94565, USA

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Aviation Headlines

This month's aviation headlines from the fastest developing aviation nation in the world!



Beijing Capital Airport and China Aviation Oil Group Company finalized a RMB 317 million expansion project to provide increased fueling capabilities to BCIA in late July

Beijing Capital Airport and China Aviation Oil Sign Unprecedented Deal

Beijing Capital Airport held a signing ceremony on July 21st to announce their new fuel supply expansion project with China Aviation Oil Group Company (CAO). The new expansion effort calls for help of the Sichuan Provincial Industrial Equipment Installation Company to assist in the construction and installation of components for the project. The construction phase is set to begin August 1st, 2005, and conclude in May 2007. The total investment is estimated at RMB 317 million.

The new contract will be the largest single fuel supply expansion project in Chinese civil aviation history and will be designed to accommodate 176 new aircraft positions at Beijing Capital International Airport. It will increase BCIA's fueling capacity to 2.4 million tons per year and will be projected to service 200,000 aircraft by 2018.

The construction for the project entails installation and retrofitting of 40 kilometers of fuel pipelines, aviation fueling station, and retrofitting of six-10,000 cubic meter aviation fuel storage units. The service life of the new facilities will exceed 50 years.

China Takes Initial Step in Domestic Oil Market Reform

China has recently begun discussions regarding reform of their domestic oil policies. The CAAC announced on July 20th that a new Reform Plan for Aviation Kerosene is currently being drafted and will effectively break the unified jet fuel pricing practices in many airports throughout China. The reform plan is projected to lower jet fuel prices in large airports such as Beijing Capital and Shanghai Pudong but may increase fuel prices in remote facilities. According to the draft proposal, jet fuel prices in differing regions of China may experience price variations of up to RMB 1,000 per ton.

Presently, the draft proposal is being circulated to all major domestic airlines for feedback and opinions. The CAAC and the Price Department of National Development and Reform expressed their willingness to consider all possible ramifications resulting from the new proposal and work with affected parties to resolve any potential issues.

The opening of the Chinese

aviation fuel market will certainly result in the breaking up of the China Aviation Oil Company monopoly, and would be a giant first step in completely opening the domestic oil market. Currently, China Aviation Oil purchases jet fuel (at a price approved by the National Development and Reform Commission) from one of two sources, Sinopec and PetroChina. CAO then sells the jet fuel to all airports at an increased rate (RMB 480 per ton). Analyses estimate that once the market is opened, airports such as Shanghai Pudong will experience a decrease in markups to approximately RMB 320 per ton, reducing fuel costs by RMB 160 per ton.

US TDA to Fund Yangtze River Delta Region Research

On July 11th, at the Grand Hyatt Beijing Hotel, Mr. Li Junming, vice director of East China Regional Administration of CAAC, and Ms. Thelma J. Askey, the director of the US Trade and Development Agency (TDA), signed a grant agreement for Development Plan Research of Civil Aviation Infrastructure in Yangtze River Delta. Also present were special assistant of US ambassador to China, chief of TDA Asia, and related personnel of the East China Regional Administration of CAAC. According to the agreement, the TDA would award East China Regional Administration USD 269,900 to fund a technical assistance program that will define the infrastructure requirements and investment options for the aviation network in the Yangtze River Delta.

The prophase preparation of the research work was initiated in 2003, and in July 2004, the project gained the approval of the Ministry of Commerce to cooperate with

the US TDA. The project detailed the application and utilization of the US TDA grant in developing related research work between the two countries.

The program is based on the characteristics of the economic development in the Yangtze River Delta as well as its current civil aviation development. The goal of the program is to develop medium and long term strategies of civil aviation development in the region. The project will focus on nine specific topics ranging from the forecast of the next 15 years to establishment of a system requirement plan for the civil aviation infrastructure.

The Yangtze River Delta Region is one of the most rapidly developing regions in China. The region centers around Shanghai and includes 16 neighboring cities, some located in the South Jiangsu and Northwest Zhejiang areas. The Yangtze River Delta Region only comprises 1.1% of total land area in China; however, the prosperous region contributed 21.1% of China's national GDP in 2004. Naturally, proper development of the region will insure a speedy development of air transportation in the region.

In 2004, the airports in the Yangtze River Delta Region reported a passenger volume of 49.902 million, a cargo/mail volume of 2.222 million tons, effectively making up 20.6% of the country's total passenger volume and 42.5% of total cargo volume. Currently, there are 10 civil aviation airports and 5 airlines based out of the Yangtze River Delta. The US TDA – CAAC project will help determine how to fully utilize the current resources, develop airport distribution and construction plans, as well as further develop the local aviation industry to ensure effective regional economic development.

To maximise networking and local participation, a special discount of US\$400 will be given to wholly-owned Chinese carriers or airline organisations.

CHINA

AVIATION

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- Overview of the Commercial Aviation industry in China
- Latest developments of the General Aviation Industry in China
- Prospects and new opportunities in China Aviation and Airports
- Leading international aircraft manufacturers' perspectives on growth and demand of aircrafts to meet the increasing passenger demand in China
- Models and experiences of low cost carriers from Germany and Thailand - Can they work in the Chinese market?
- Role of air express service in China
- Aircraft leasing in China: terms and conditions, challenges and pitfalls
- Legal structures and regulatory challenges for foreign direct investments in China's aviation sector
- Understanding the practicalities of China dealings and negotiations to succeed in your investment project
- Fostering partnership and relationship between China airports and airlines
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First Half Statistics Confirm Continued Growth

The CAAC issued transportation statistics for the first half of 2005 earlier this month. The data showed January to June total turnover of China's civil aviation sector was 11.86 billion ton/km, an increase of 11% over the previous year. Passenger turnover for the first half of the year was 92.6 billion passengers/km, up 13.2% from 2004.

Other notable stats from the first half of 2005 include an increase in both domestic and international transportation turnover of 10.4% and 12.1%, respectively. International flight passenger turnover and Hong Kong and Macao flight passenger turnover witnessed the largest increase 19.5% and 16%, while cargo/mail transport only reported a 7% increase. The number of domestic flight increased 6.2%, international flights 9.1%, however, Hong Kong and Macao flights reported a decrease of 3.7%.

Aviation Enthusiasts Set to Compete in Nantong

China will hold their first ever national aviation sport gathering, the "National Aviation Games 2005" from October 22nd to 27th in Nantong, Jiangsu. The unprecedented event is set to exhibit approximately 100 aircraft and aviation related vehicles including ultralights, CJ-6 trainers, helicopters, gliders, Y-5 aircraft, hot air balloons and more. Slated to attend are over 600 participants including coaches, pilots, crews, and referees.

Sponsored by Aero Sports Federation of China and

Sport aviation will take centerstage at China's "National Aviation Games" in Natong later this year



coordinated by the Nantong Municipal Government and the Beijing Haiwaihai Outdoor Sports Corporation Ltd., the aviation games will feature contests ranging from precise ultralight take off and landing, helicopter hovering skills, parachuting (with categories in accuracy and style), to a model plane stunt competition. The National Aviation Games 2005 will be the first recreational aviation even in Chinese aviation history.

H410G Police Helicopter Delivered to Nanjing Police Force

China's first domestically assembled police helicopter was delivered to the Nanjing Municipal Public Security Bureau on July 26th. Manufactured by the Harbin Aviation Industry Group, the police helicopter signals HAIG's new focus in general aviation manufacturing.

The H410G police helicopter is a variation of

The Nanjing Police Department is one of the few agencies in China utilizing general aviation



Harbin Aviation's Z9 model, and is an all-weather craft that can accommodate 8-14 seats. The H410G can be upgraded with advanced instruments and options at the request of customers and was developed to focus in anti-terrorism and violence prevention, anti-smuggling and drug trafficking enforcement, emergency rescue, and use as a mobile command unit.

Currently, there are over 4,000 police helicopters in operation worldwide, but only 17 in China. However, industry insiders and Harbin Aviation Industry Group expect demand for general aviation specific helicopters in China to increase in the near future.

Nothing too Dangerous for Yangtze River Express

The Yangtze River Express Airlines Company Ltd. was recently awarded the "Permission to Transport Dangerous Goods by Air Certificate" by the East China Regional Administration of the CAAC. The ceremony was held in Shanghai on July 26th and officially introduced Yangtze River Express Airlines Company Ltd. as one of the three airline operators certified to transport dangerous goods in China.

The Yangtze River Express is a domestic cargo carrier and utilized 5 B737 full cargo aircraft to transport cargo worldwide. The company has maintained an outstanding safety record in their three years of operation and currently operates freight flight routes worldwide.

Second Quarter Civil Aviation Statistics Released

On July 21st, the CAAC released the second quarter statistics for the 2005 China civil aviation industry. According to the reports, the national on time departure rate for the second quarter was

81.62%. Overall statistics reported a total of 335,426 scheduled flights, with 273,773 departing on time and 61,653 departing late. All airlines in the sector exceeded the 80% mark except for Shandong Airlines.

In addition to the on time departure rate, the CAAC also issued the industry lost luggage rate, which was 2.44 per ten thousand pieces (0.0244%), and the cargo transportation error rate for the last quarter was .22 per ten thousand pieces (0.0022%).

Other notable statistics from the second quarter show a passenger volume total of 33,604,700 persons, and a passenger complaint rate of .026 per ten thousand.

Two Sikorskys Headed to North China

On July 28th, the China Eastern General Aviation Corporation (EGAC), a subsidiary of China Eastern Air Holding Company, signed an agreement to purchase two Sikorsky S-76 helicopters to serve offshore oil support missions in the Bohai Bay areas in northern China.

Nine S-76 helicopters are currently flown by Chinese offshore

oil operators. Additionally, the Ministry of Communications has two S-76 helicopters for offshore search-and-rescue. China EGAC, a subsidiary of China Eastern Air Holding Company, recently signed the agreement with Sikorsky in Shanghai. Each S-76 will be equipped with a Health Usage and Monitoring System (HUMS) and an Enhanced Ground Proximity Warning System (EGPWS).

The S-76 has been operating in China since 1984. China (EGAC) is one of the three largest offshore helicopter operators in China and the one with the longest operating history. Based in Tianjin, China, EGAC has been supporting oil companies in northern China, especially in the Bohai Bay area, for the past 20 years.



The versatile Sikorsky S-76's will be used by China EGAC to support oil missions in northern China

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Event Coverage

China 1st Business Aviation Leasing Summit - Aug 8th, 2005

With the first ever Asian Business Aviation Conference and Exhibition (ABACE) on the horizon, the Zhejiang Businessmen Leasing Association hosted the China 1st Business Aviation Leasing Summit at the Shanghai International Conference Center on August 8th. The half-day seminar drew members of the CAAC, corporate aviation operators and investors and covered such topics as the current state of business aviation in China, opportunities in aircraft leasing and acquisition, as well as benefits offered by proper business aviation development.

The goal of this year's summit was to bring to attention the benefits associated with a healthy business aviation sector, and the proper methods to achieve this goal in the Zhejiang Province. Mr. Li Junming, Deputy Director General of the East Regional Administration of the CAAC, kicked off the summit by affirming the CAAC's support of developing business aviation in the region. The attendees were then introduced to the idea of fractional ownership and other various aircraft acquisition techniques used in the US to stimulate BA development.

1. Attendees listening to presentations at the first-ever Business Aviation leasing Summit
2. Mr. Luo Xin, Deputy Director of the Leasing Research Institute of Tongji University speaks about the importance of business aviation leasing in China
3. Ms. Ni Li, the Deputy Director of the Business Jet Dept. of Shanghai Airlines Co. Ltd, gives her presentation



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Asian Business Aviation Conference and Exhibition Aug 9th, 2005

Over 40 of the world's premier business aviation companies met at the Shanghai New International Exhibition Center August 9th – 11th, for the inaugural Asian Business Aviation Conference and Exhibition. Hosted by the National Business Aviation Association (NBAA), the ABACE was not only a showcase of cutting edge business aviation innovations, but also a chance to raise awareness in the blossoming business aviation sector in China. The list of exhibitors included companies such as Boeing Business Jet, Raytheon Aircraft Co, Gulfstream Aerospace Corp, Honeywell, and Rockwell Collins. Every facet of business aviation was represented at the 2005 ABACE, ranging from avionics firms, business aircraft firms, fractional ownership providers, charter/leasing companies, and many more.

Spanning the course of the three days and 2,200 attendees, the ABACE covered topics ranging from safety to infrastructure and benefits of business aviation. The conference also held a simultaneous aircraft exhibition at nearby Hongqiao Airport, where attendees could take a personal tour of twelve of the world's finest business jets.

The conference concluded on August 11th and left attendees with much insight into the future of business aviation in Asia. The bottom line at this year's ABACE was that Asia is ripe for personal aviation development.

4. Photographers gather for the ribbon-cutting ceremony
5. Ed Bolen, the President and CEO of NBAA speaks on the potential of BA in China
6. Jason Liao, the President of the Asian Business Aviation Association (AsBAA) outlines the importance of BA in China
7. Barry Valentine, VP of GAMA chats with Chris Buchholz and Jolie Chung Howard of Hong Kong Aviation Group
8. Business jets parked for display at nearby Shanghai Hongqiao Airport



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Civil Aviation News

China and Boeing Ink USD 5 Billion Deal

Four of China's airlines met with Boeing executives on August 8th at the Diaoyutai State Guest House to sign a 42 aircraft deal worth USD 5.04 billion. The purchase contract is for Boeing's new flagship aircraft, the new fuel-efficient 787 Dreamliners. Priced at USD 125 – 135 million each, Air China and China Eastern both purchased 15 787s, Shanghai Airlines purchased 9 aircraft, and Xiamen Airlines added three additional 787s to the order.

Mr. Zhang Xiaoqiang, Vice Minister of the National Development and Reform Commission regarded the contract as an important step forward in future bilateral cooperation between the nations. He also noted that aviation development is a cornerstone of China's rapid overall economic development. Last year, China witnessed a 36% passenger volume increase in the aviation sector, and projections predict continued double digit growth in the upcoming years. Zhang then added that as

the leading enterprise in the international aviation industry, Boeing will undoubtedly play a major part in the future growth in Chinese aviation, and that further cooperation of the aviation manufacturing industry between will mutually benefit both countries and actively promote peace and stability in the Asia-Pacific region.

The 787 Dreamliner will add further depth to China's growing national fleet. According to Mr. Li Jun, the Vice Minister of the CAAC, throughout the next few years, China will focus on introducing more aircraft into the sector, enhancing security management, air route management and airworthiness certification.

It appears that the Boeing 787 Dreamliner has come full circle in the Chinese aviation sector. Two and a half years ago, Boeing approached six Chinese airlines regarding a proposal to help design and launch a new, revolutionary, fuel efficient jet aircraft. Now the same airlines have become the initial customers of the new jet. Robert K. Laird, Vice President China Sales for

Boeing, said at the ceremony that delivery of the new jets will begin in 2008.

Air China and CASC Order 20 Airbus A330-200 Aircraft

Air China signed a contract with Airbus on July 21, 2005, for the purchase of 20 Airbus A330-200s, scheduled for delivery from May 2006, becoming a new customer of the aircraft in China. China Aviation Supplies Import and Export Group (CASC) was also involved in this deal by signing a GTA with Airbus.

Air China operates 16 A319s, five A320s and six A340s. The selection of 20 A330-200s will further diversify its Airbus fleet.



The delivery on the new A330-200's is scheduled for May 2006

New Regional Airport in Jilin Province

Mr. Zhao Xiaojun, the Deputy Mayor of Baishan City, announced on July 28th that the Jilin Province will begin construction on the area's first regional airport, Changbaishan Airport, in August, and is expected to commence by 2007.

Total investment for the project is reported at RMB 390 million and will add depth to the Northeast China civil aviation structure. The new Changbaishan



The Changbaishan Airport is projected to be in operation by 2007

Airport is located at Songjianghe Town in Fusong County. The airport will be a 4C facility with a runway occupying 2,600 meters in length, and 45 meters in width. Changbaishan Airport will accommodate B737s or smaller and primarily receive flights from Shenyang, Dalian and Changchun.

RMB 2 Billion Expansion Project Underway at Tianjin Airport

Reports from the Tianjin Municipal Government on August 9th confirmed that expansion construction of Tianjin Binhai International Airport has officially begun. The project is designed to expand the airport to support an annual passenger traffic volume of 9 million passengers, a cargo/mail throughput of 250,000 tons, and

an annual takeoff and landings of 66,000. The expansion project will be conducted in stages, and the first stage is projected to finish in 2007. Upon completion of the first stage, passenger capacity at Tianjin Airport is expected to increase to 6 million per year.

The expansion of Tianjin Airport will include both airport upgrades and external support facility construction. The airport expansion will cost a reported RMB 2 billion and is funded by the Capital Airports Holding Company and the CAAC. Upgrades include a 60,000 square meter terminal, extending the current runway to a length of

3,600 meters, construction of a new parallel taxiway east of the runway, retrofitting of the lighting system, construction of a 290,000 square meters parking apron, and other retrofitting projects such as the navigation and cargo areas. External support facility construction will be conducted by the city of Tianjin. The addition of subway lines, Beijing-Tianjin railways and a Beijing-Tianjin-Tanggu expressway will all be extended to the Tianjin Airport. New roadways and support structures such as water, power and gas are also in the works.

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Everything you need to know about China civil aviation in 60 Seconds

In light of new opportunities afforded by ever increasing living standards, life in China moves at whirlwind speeds. New buildings are erected daily, infrastructure constantly improved, and new technologies are being incorporated into every aspect of people's daily lives. The aviation industry is no different. Amidst the largest aviation boom since the USA's golden aviation era of the 50's and 60's, new headlines of aviation acquisitions and developments emerge from the Chinese civil aviation sector daily. Faced with this constant onslaught of news and information, internalizing and gaining a grasp of the overall picture of the sector can often be a daunting task. Fortunately, the CCAR is here to help! This month, we have gathered the latest statistics from the CAAC in an attempt to demystify the China civil aviation sector.

China Fast Facts

Total transport fleet in China increased from 78 (1978), to 602 (2002), to 754 in 2004.

Airports in China almost tripled from 1978 (50) to 2002 (141), however, the total number of airports by the end of 2004 dropped to 133.

As of 2004, China had 1,200 air routes consisting of 975 domestic routes (Hong Kong & Macao excluded) composed from 127 destination cities, as well as 225 international air routes to 38 countries.

More Facts...

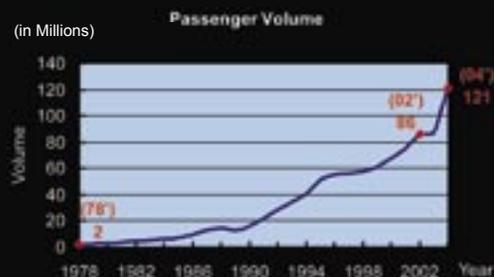
Top airports in terms of pass. throughput (2004):

1. Beijing Capital (34,883,190)
2. Shanghai Pudong (21,021,723)
3. Guangzhou New Baiyun (20,326,138)
4. Shanghai Hongqiao (14,889,198)
5. Shenzhen (14,253,046)
6. Chengdu (11,685,643)

China's air carriers:

Air China, China Eastern, China Southern, Hainan Airlines, Shanghai Airline, Sichuan, Xiamen, Shengzhen, Shandong

* Statistics for newly established private airlines have not yet been recorded by the CAAC



China's 3 Primary and 6 Supplementary Hubs





CAAC CORNER

Newest developments from the Civil Aviation Administration of China

(CAAC)

CAAC Announce Plans to Strengthen Aviation in China's Northwest

The CAAC announced a five year construction plan to strengthen China's Northwest civil aviation network of regional airports on August 1st. After two years of research and deliberations, the Northwest Regional Administration of CAAC has established a

regional aviation development plan with a main focus in increased structure development. In the near future, the Shaanxi Province will construct new Yulin, Hanzhong, Yan'an airports, as well as the Yellow River Hukou airport. The CAAC will also reopen Ankang Airport for operation.

The eventual goal of the development plan is to establish Xi'an Xianyang International Airport as the regional hub by 2010, while creating an "expressway" between

Lanzhou and Xi'an in order to increase regional aviation development along the route.

New Regulations Further Relax Aviation Investments

In an attempt to continue easing investment regulations in the civil aviation sector, the CAAC will implement a trial version of the new Regulation on Investment in Civil Aviation in China, starting August 15th. The new regulation will effectively replace two older investment policies in China, the Letter on Transmitting Related

Policies about Investment in Civil Aviation Enterprises in China (issued June 24, 1993) and the Temporary Management Measures on Investment in Civil Airports by Domestic Air Transportation Enterprises (issued May 22, 1998).

The new regulation states that various ownership entities, including non-public ownership entities can now invest in China's civil aviation industry. The new regulation pertains to all facets of civil aviation except for air traffic control systems. As a result, investment firms can now invest in areas such as civil airports, public aviation transportation enterprises, service support, etc.

The Regulation on Investment in Civil Aviation in China does, however, specify "important" airlines and airport facilities that will remain under state ownership. Air China, China Eastern and China Southern Airlines all fall under the category of "important" airlines, while airports located in the capitals of all provinces, autonomous regions and municipalities directly under central government control, plus nineteen other airports (located in Shenzhen, Xiamen, Dalian, Guilin, Shantou, Qingdao, Zhuhai, Wenzhou, and Ningbo) throughout China will retain state ownership.

Also included in the regulation are rules to maintain fair competition, prevent monopolies and regional blockages. The rules include regulating mutual investments and sharing between airlines, civil airports and other civil aviation enterprises.

The new regulation offers measures against monopolies by dictating that aviation oil sales,

storage, and fueling operations, as well as electronic ticketing companies may not invest in transportation airlines. However, these types of companies may invest in cargo only transport airlines with a 25% maximum stake in the company but may not become majority shareholders.

Likewise, airlines and their related enterprises invest in airport facilities located at the capitals of provinces, autonomous regions and municipalities under the central government, as well as 19 airport facilities previously specified, the investment may not exceed 25%, and they may not become majority shareholder.

Investment by domestic entities in the aviation fuel market is encouraged under the new regulation, but aviation fuel sales, storage and fueling operations at medium and large airports are restricted. Medium and large sized airports wishing to invest in aviation oil sales, storage and fueling operations cannot exceed 25% stake or become majority shareholders.

Great Wall Airlines Gets Green Light

The CAAC recently approved the application of preparation from Great Wall Airlines. GWA will operate as a cargo transport airline funded by China Great Wall Industry Corp., Singapore Airlines Cargo and Dahlia Pte Ltd. (an unit of Temasek Holdings). The approval of application now allows Great Wall Airlines to officially enter the preparation period of the

business venture. The established preparation period of Great Wall Airlines is scheduled for July 22nd, 2005 to July 21st, 2007.

With a registered capital of RMB 1 billion, Great Wall Airlines Company Ltd. will set up base operations at Shanghai Pudong International Airport. The company will focus operations in mail/cargo transport, joint operations with airlines, and other mail/cargo related services.

New Regulation Aimed at Breaking Civil Aviation Monopolies

Starting August 20th, the CAAC will implement the new "Regulation on Management for Combination, Reconstruction and Reorganization of Civil Aviation Enterprises and Airports". The new regulation seeks to protect fair business practices as well as breaking and preventing monopolies in civil aviation.

According to the regulation, any mergers, reconstruction and re-organization of civil aviation enterprises must be approved by the proper branch of the CAAC. Any IPO and stock listings of civil aviation enterprises must also be approved by the CAAC. Once approved, the regulation stipulates that civil aviation enterprises will be monitored by their regional administration of the CAAC. The CAAC hopes the new regulation will help curb any negative effects resulting from illicit mergers, reconstruction and reorganization of civil aviation enterprises.



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