

Report of the Directors

The board of directors of the Company is pleased to present the annual report and audited financial statements of the Group for the fiscal year ended 31st December, 2000.

PRINCIPAL BUSINESS

The Company is engaged in both aeronautical and non-aeronautical businesses. Its aeronautical business consists of the provision of aircraft movement and passenger service facilities, safety and security services, fire-fighting services and ground handling services for domestic and foreign airlines. Its non-aeronautical business includes operation of duty free and other retail shops, leasing of properties in the terminals, operation and management of car parking facilities, leasing of advertising spaces inside and outside the terminals and operation of VIP lounges in the terminals. In addition, through the Company's joint ventures and subsidiary including Beijing Aviation Ground Services Co.,Ltd. ("BGS"), Beijing Airport Inflight Kitchen Ltd. ("BAIK"), Beijing Airport Foods Service Co., Ltd. ("BAFS") and Beijing Bowei Airport Support Limited ("Boweï"), the Company also provides ground handling and air catering services, operates certain restaurants in the terminals and provides maintenance and repair services for facilities at the terminals.



OPERATING RESULTS AND FINANCIAL POSITION

The Group's operating results for the year ended 31st December, 2000 prepared in accordance with International Accounting Standards and the financial position of the Company and the Group as at 31st December, 2000 are set out on pages 27 to 30 of the Annual Report.

INFRASTRUCTURE CONSTRUCTION

In 2000, the Company completed the renovation of west runway and construction of the cross-field taxiway. These facilities improved the handling capacity of Beijing Airport to meet the growing air traffic demand in the future.

The Company is formulating a master plan on which the final renovation plan of Terminal 1 and other major infrastructure programs will base.

DIVIDENDS

Subject to the approval by the general meeting of the Company, the Board recommends the payment of a final dividend of Rmb0.0407 per share, totalling Rmb156,538,000 for the year ended 31st December, 2000. The aforesaid general meeting is scheduled to be held on June 13th, 2001 to seek, inter alia, shareholders' approval on such payment of final dividend. In the event that such approval by shareholders of the Company is obtained, the final dividend will be distributed to shareholders of the Company as soon as practicable after the aforesaid meeting of the Company, which is expected to take place on or before 29th June, 2001.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of the bank loans of the Company and the Group are set out in Note 11 to the financial statements.

FIXED ASSETS

The fixed assets as at 31st December, 2000 and the change in fixed assets of the Company and the Group for the fiscal year ended 31st December, 2000 are set out in Note 4 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the five largest customers of the Group represented 16% and 25% of the total operating revenue of the Group for the fiscal year ended 31st December, 2000, respectively.

The largest supplier and the five largest suppliers of the Group represented 14% and 22% of the total operating costs of the Group for the fiscal year ended 31st December, 2000, respectively.

To the knowledge of the board of directors of the Company, none of the Company's directors and their respective associates (as defined in the Listing Rules) and shareholders holding more than 5% of the Company's issued share capital (excluding the Company's parent company, Beijing Capital Airport Group Corporation ("Parent Company")) owned any interests in the Group's five largest customers or five largest suppliers at any time during the fiscal year ended 31st December, 2000.



TAXATION

Details of taxation of the Company and the Group for the fiscal year ended 31st December, 2000 are set out in Note 17 to the financial statements.

RESERVES

Change in reserves of the Company and the Group for the fiscal year ended 31st December, 2000 is set out on page 31 of the Annual Report.

Employees and Employee Pension Scheme

As at 31st December, 2000, the Group had 4,502 employees, of which 3,045 were contracted employees and 1,457 were temporary employees. Details of employees' pension scheme and other welfare are set out in Note 20 to the financial statements.

JOINT VENTURES AND SUBSIDIARY

Details of the Company's major joint ventures and subsidiary as at 31st December, 2000 are set out in Note 1 to the financial statements.

NEW ISSUE AND SHARE CAPITAL

1. New issue of H shares

According to the authorisation of the extraordinary general meeting on 18th October, 1999 and the resolution of the board meeting on 10th January, 2000, the Company issued 1,346,150,000 new H shares at a price of HK\$1.87, with the nominal value of Rmb1.00 per share. The net proceeds were Rmb2,769,886,296 (approximately HK\$2,603,509,204). These H shares have been listed at the Hong Kong Stock Exchange since 1st February, 2000.

2. Share capital

The total number of outstanding shares of the Company as at 31st December, 2000 was 3,846,150,000. The structure is as follows:

Shares	percentage in total issued	share capital
Domestic shares	2,500,000,000	65%
H shares	1,346,150,000	35%



3. Substantial shareholders

As at 31st December 2000, the shareholders having an interest of 10% or more in the respective class of share capital of the Company are listed as follows:

Name	Class of shares	Number of shares held		Percentage in the respective class of share capital	Percentage in total issued share capital
Beijing Capital Airport Group Corporation	Domestic shares	2,500,000,000		100%	65%
ADP Management	H shares	384,230,000	(Note 1)	28.54%	9.99%
ABN AMRO Capital Investment Asia Limited	H shares	331,598,000	(Note 2)	24.63%	8.62%

Notes:

1. Aéroports de Paris, Suez Lyonnaise Des Eaux and Groupe GTM were deemed (by virtue of the SDI Ordinance) to be interested in 384,230,000 H shares held by ADP Management.
2. ABN AMRO Ventures B.V., ABN AMRO Bank, N.V. and ABN AMRO Holding N.V. were deemed (by virtue of the SDI ordinance) to be interested in the aggregate of 331,598,000 H shares held by ABN AMRO Capital Investment Asia Limited and 6,838,000 H shares held by ABN AMRO Asia Securities Ltd.

Use of Proceeds from Issue of H shares

The use of proceeds from issue of H shares was as follows:

- * Approximately Rmb150,000,000 was paid for the remaining construction cost of Terminal Two and the related facilities;
- * Approximately Rmb238,000,000 was paid for the cost of renovating the West Runway;

- * Approximately Rmb468,000,000 was paid for the cost of construction of the Cross-Field Taxiway;
- * Approximately Rmb1,278,000,000 was used for the repayment of bank loans.

The remaining proceeds were deposited in Bank of China.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

There was no other purchase, sale or redemption of the Company's shares except for the aforesaid new H shares issue in January 2000.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights under the articles of association of the Company or the PRC laws.

DIRECTORS AND SUPERVISORS

The board of directors of the Company consisted of 10 directors as at 31st December, 2000. The directors were either elected or appointed at the Company's inaugural meeting held on 13th October, 1999, the extraordinary general meeting held on 18th October, 1999, the extraordinary general meeting held on 27th October, 1999 or the general meeting held on 27th June, 2000.

The supervisory committee of the Company consisted of 3 supervisors as at 31st December, 2000. The supervisors were either elected or appointed at the Company's inaugural meeting held on 13th October, 1999 or extraordinary general meeting held on 28th December, 1999.

The directors and supervisors as at 31st December, 2000 and the date of this report are as follows:

Name	Position	Date of election/appointment
Li Peiying	Chairman	13th October, 1999
Wang Zhanbin	Director, General Manager	27th October, 1999
Qiao Xiangshan	Director, Deputy General Manager	13th October, 1999
Zhang Qingju	Director, Deputy General Manager	13th October, 1999
Jia Fugui	Director	13th October, 1999
Fang Youxin	Non-executive Director	27th October, 1999
Long Tao	Independent Non-executive Director	13th October, 1999
Cheng Mo Chi, Moses	Independent Non-executive Director	13th October, 1999
Kwong Che Keung, Gordon	Independent Non-executive Director	18th October, 1999
Alain Falque	Non-executive Director	27th June, 2000
Liu Fuquan	Chairman of the Supervisory Committee	13th October, 1999
Han Xiaojing	Supervisor	13th October, 1999
Xia Zhidong	Supervisor	28th December, 1999

Pursuant to the articles of association of the Company, each director and supervisor serves a term of three years and is eligible for re-election and re-appointment. All executive directors have each entered into the director service agreements with the Company with a term expiring at the date of the annual general meeting of the Company to be held in the year 2002. All non-executive directors and supervisors have entered into a letter of undertaking to perform the obligations of non-executive directors and supervisors, respectively, in accordance with the articles of associations of the Company. Save as above-mentioned, the Company and its subsidiary have not entered and agreed to enter into any service agreement with any director or supervisor. None of the directors and supervisors has a service contract with the Company which cannot be terminated by the Company within a year without compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE SHARES OF THE COMPANY

During the fiscal year ended 31st December, 2000, none of the directors or supervisors or their associate companies had any interests which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to section 28 of the Securities (Disclosure of Interests) Ordinance of Hong Kong ("SDI Ordinance"); and the Company's register required to be kept under section 29 of the SDI Ordinance did not show such interests.

During the fiscal year ended 31st December, 2000, none of the directors, supervisors, senior management or their spouses and children under the age of 18 was given the right to acquire shares or debentures of the Company.

DIRECTORS AND SUPERVISORS' INTERESTS IN CONTRACTS

During the fiscal year ended 31st December, 2000, none of the directors or supervisors had any interest in any material contracts in which the Company or its joint ventures and subsidiary was a party.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of Directors and Supervisors are set out in Note 19 to the financial statements.

CONNECTED TRANSACTIONS

The connected transactions between the Company and other connected parties for the year ended 31st December, 2000 were recorded in Note 18 to the financial statements.

The independent non-executive directors have reviewed the connected transactions, and confirmed to the board of the directors that:

1. the transactions were entered into in the ordinary and usual course of the business of the Group;

2. the transactions were entered into on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and
3. the transactions were entered into in accordance with terms which were fair and reasonable so far as the shareholders of the Company are concerned.

DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETITIVE BUSINESS

During the fiscal year ended 31st December, 2000, none of the directors or supervisors of the Company had any interest in any competitive business with the Company or its joint ventures and subsidiary.

SALE OF STAFF QUARTERS

Upon the incorporation of the Company on 15th October, 1999, the Company and the Parent Company has agreed that i) the Parent Company would continue to provide housing benefits available to the Company's employees prior to the incorporation of the Company and ii) the Company has no obligations to reimburse the Parent Company any cost or losses incurred by the Parent Company relating to such housing benefits. The Company does not own any staff quarters and the Company did not sell any staff quarters to its employees in 2000.

The Company made provisions for housing fund at certain percentages of each employee's salary in accordance with the applicable financial regulations. See Note 21 to the financial statements.

The Company has noted that on 6th September, 2000, the Ministry of Finance issued the document Cai Qi [2000] No. 295 (the "Document") which specified certain financial treatments for staff housing subsidies. Currently the Company does not have any formal scheme to provide cash housing subsidies to its employees.

TRUST DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31st December, 2000, the Company did not have any trust deposit or any overdue fixed deposit in financial institutions or any other units.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the year.

UNIFIED INCOME TAX AND CANCELLATION OF LOCAL TAX REBATE

The Company has noted that the PRC government issued a notice in February 2000 requiring a unified income tax and, commencing 1st January, 2000, cancellation of tax rebate policies formulated by local governments.

As the Group has been paying the state required income tax at 33% since its establishment, the requirement of a unified income tax and cancellation of local tax rebate policies is not expected to have any impact on the results of the Group.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange throughout the year ended 31st December, 2000. In accordance with the resolution of the board of directors on 10th January, 2000, an Audit Committee has been established in compliance with the requirements of Paragraph 14 of the Code of Best Practice.

AUDITORS

Arthur Andersen * Huaqiang Certified Public Accountants and Arthur Andersen & Co. were respectively, the Company's PRC and international auditors for the year 2000.

The board of directors of the Company will submit the resolution of re-appointing Arthur Andersen * Huaqiang Certified Public Accountants and Arthur Andersen & Co., respectively, as the Company's PRC and international auditors for 2001 to the forthcoming annual general meeting.

By order of the Board
Li Peiyong
Chairman of the Board of Directors

23rd April, 2001