

# 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 31 December 2001.

## Principal Businesses

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 building and parking lot, leasing of advertising spaces inside and outside the terminals and operation of VIP and first-class lounges in the terminals. In addition, through the Company's joint ventures and subsidiaries including Beijing Aviation Ground Service Co.,Ltd. ("BGS"), Beijing Airport Inflight Kitchen Ltd. ("BAIK"), Beijing Airport Foods Service Co., Ltd. ("BAFS") and Beijing Bowei Airport Support Limited ("Bowe"), the Company also provides ground handling and air catering services for domestic and foreign airlines, operates some 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 31 December 2001 and the financial position of the Company and the Group as at 31 December 2001 based on International Financial Reporting Standards are set out on pages 32 to 35 of the Annual Report.

## Dividends

Subject to the approval by the general meeting of the Company, the Board recommends the payment of a final dividend of Rmb0.03424 per share, totalling Rmb131,692,000 for the year ended 31 December 2001. The aforesaid general meeting is scheduled to be held on Wednesday, 12 June 2002 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 paid on or before Friday, 28 June 2002 to shareholders of the Company whose names appear on the register of shareholders on Tuesday, 21 May 2002.

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The register of shareholders of the Company will be temporarily closed from Monday, 13 May 2002 to Wednesday, 12 June 2002 (both dates inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend, holders of H Shares whose transfers have not been registered are requested to deposit the transfer documents together with the relevant share certificates to the Company's H Share Registrars: Hong Kong Registrars Limited at 2/F, Vicwood Plaza, No. 199, Des Voeux Road, Central, Hong Kong not later than 4:00 p.m. on Friday 10 May 2002.

Pursuant to the resolution of the board of directors on 27 August 2001, the Company has declared to the shareholders of the Company an interim dividend of Rmb0.01518 per share, totalling Rmb58,385,000. These interim dividends were paid on 18 October 2001, to the shareholders whose names appeared on the register of shareholders on 28 September 2001.

## Bank Loans

Details of the bank loans of the Group and the Company are set out in Note 13 to the financial statements.

## Fixed Assets

The fixed assets as at 31 December 2001 and the change in fixed assets of the Group and the Company for the fiscal year ended 31 December 2001 are set out in Note 3 to the financial statements.



## Major Customers and Suppliers

The largest customer and the five largest customers of the Group represented 17.5% and 27.1% of the total operating revenues of the Group for the fiscal year ended 31 December 2001, respectively.

The largest supplier and the five largest suppliers of the Group represented 13.1% and 20.9% of the total operating costs of the Group for the fiscal year ended 31 December 2001, respectively.

To the knowledge of the board of directors the Company, none of the Company's directors and their respective associates (as defined in the Listing Rules of the Hong Kong Stock Exchange (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 31 December 2001.

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## Taxation

Details of taxation of the Group and the Company for the fiscal year ended 31 December 2001 are set out in Note 19 to the financial statements.

## Reserves

Change in reserves of the Company and the Group for the fiscal year ended 31 December 2001 is set out on page 33 of the annual report.

## Joint Ventures and Subsidiaries

Details of the Company's major joint ventures and subsidiaries as at 31 December 2001 are set out in Note 1 to the financial statements.

## Capital structure

The total number of outstanding shares of the Company as at 31 December 2001 was 3,846,150,000 shares. 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%

As at 31 December 2001, the shareholders having an interest of 10% or more in the respective class of share capital of the Company as registered in the register required to be kept under Section 16(1) of the Securities (Disclosure of Interests) Ordinance of Hong Kong ("SDI Ordinance") are listed as follows:

Name of shareholders	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 ( <i>Note</i> )	28.54%	9.99%

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*Note:*

*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.*

## Use of Proceeds from Issue of H shares

As at 31 December 2001, the use of proceeds from issue of H shares was as follows:

- Approximately Rmb420,000,000 had been paid for the remaining construction cost of Terminal Two and the related facilities;
- Approximately Rmb156,000,000 had been paid for the cost of rehabilitating the West Runway and the lighting system;
- Approximately Rmb249,461,000 had been paid for the cost of construction of the Cross-Field Taxiway;
- Approximately Rmb1,321,886,000 had been used for repayment of the bank loans.

The remaining proceeds were deposited in Bank of China.

## Purchase, Sale or Redemption of the Company's Shares

There were no purchase, sale or redemption of the Company's shares by the Company or any of its joint ventures or subsidiaries, during the year ended 31 December 2001.

## 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 31 December 2001. The directors were either elected or appointed at the Company's inaugural meeting held on 13 October 1999, the extraordinary general meeting held on 18 October 1999, the extraordinary general meeting held on 27 October 1999 or the annual general meeting held on 27 June 2000.



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The supervisory committee of the Company consisted of 3 supervisors as at 31 December 2001. The supervisors were either elected or appointed at the Company's inaugural meeting held on 13 October 1999 or the extraordinary general meeting held on 28 December 1999.

The directors and supervisors as at 31 December 2001 and the date of this report are as follows:

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

Pursuant to the articles of association of the Company, the term of each director and supervisor is three years and is eligible for re-election and re-appointment. All executive directors have each entered into 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 of 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 with the Company. Save as above-mentioned, the Company and its joint ventures and subsidiaries have not entered into any service agreement with any director or supervisor. None of the directors and supervisors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## Directors' and Supervisors' Interests in the Shares of the Company

During the fiscal year ended 31 December 2001, 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 SDI Ordinance; and the Company's register required to be kept under section 29 of the SDI Ordinance did not show such interests.

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During the fiscal year ended 31 December 2001, 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 31 December 2001, none of the directors or supervisors had any interest in any material contracts in which the Company or its joint ventures and subsidiaries was a party.

## Connected Transactions

The connected transactions between the Company and other connected parties for the year ended 31 December 2001 were disclosed in Note 20 to the financial statements.

On 24 December 2001, the Company purchased from Parent Company certain machinery, equipment and materials, which are used for providing air-conditioning, heating and electricity to the passenger terminal, for a consideration of Rmb5,076,000. The Company duly disclosed the transaction on 27 December 2001.

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 favorable 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.



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## Directors and Supervisors' Interests in competitive business

During the fiscal year ended 31 December 2001, none of the directors or supervisors of the Company had any interest in any competitive business with the Company or its joint ventures and subsidiaries.

## Sale of Staff Quarters

The Company made provision for housing fund at certain percentages of each employee's salary in accordance with the applicable financial regulations. See Note 23 to the financial statements. In addition, during the year ended 31 December 2001, the Company paid Rmb5,000,000 to its employees as cash housing subsidies and the amount has been charged to the income statement.

Moreover, the Parent Company provides housing benefits to the Company's employees who were employees of the predecessor entities prior to the incorporation of the Company and the Company has no obligations to reimburse the Parent Company for any costs or losses incurred by the Parent Company relating to such housing benefits.



As at 31 December 2001, the Company did not own any staff quarter and the Company had not sold any staff quarters to its employees.

## Trust Deposits and Overdue Fixed Deposits

As at 31 December 2001, the Group had total cash and cash equivalents and temporary cash investments amounting to approximately Rmb1,414,619,000, of which approximately Rmb259,784,000 was denominated in foreign currencies. The Company did not have any trust deposit or any overdue fixed deposit in financial institutions or any other units.

## Disclosure of Material Events

### 1. Conversion into a Sino-foreign Joint Stock Limited Company

In accordance with the relevant resolution passed by the Extraordinary General Meeting of the Company on 9 January 2001, the Company applied for its conversion into a Sino-foreign joint stock limited company in accordance with the legal procedures. This application was approved by the Ministry of Foreign Trade and Economic Co-operation of the PRC on 18 May 2001.



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## 2. Purchase of equity interest in BAFS

BAFS was originally considered a joint venture of the Company. According to an agreement dated 15 July 2001, the Company agreed to acquire an additional 25% equity interest in BAFS for a total consideration of approximately Rmb6,676,000. The Company obtained the effective control of BAFS on 10 October 2001 when all the necessary government approvals were obtained and BAFS became a subsidiary of the Company on that date.

## 3. Material Litigation or arbitration

The Company was not involved in any material litigation or arbitration during the year of 2001.

### Code of Best Practice

Throughout the year ended 31 December 2001, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. In accordance with the resolution of the Board of Directors on 10 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 • Hua Qiang Certified Public Accountants and Arthur Andersen & Co. were respectively, the Company's PRC and international auditors for the year of 2001. The Company has not changed its auditors in any of the past three years.

Whereas Andersen's practices in the PRC and Hong Kong will be combined with those of PricewaterhouseCoopers, the board of directors of the Company will propose a resolution of to appoint PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers, respectively, as the Company's PRC and international auditors for the year of 2002 at the forthcoming Annual General Meeting.

By order of the Board

**Li Peiyong**

*Chairman of the Board of Directors*

18 April 2002