Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

1. COMPANY ORGANISATION AND PRINCIPAL ACTIVITIES

Beijing Capital International Airport Company Limited (the "Company") was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 15 October 1999, to take over and operate the International Airport in Beijing ("Beijing Airport"), the PRC and certain ancillary commercial businesses. Prior to the formation of the Company, the businesses were carried on by the operating departments, subsidiaries and joint ventures (hereinafter collectively referred to as the "Predecessor Entities") of Beijing Capital International Airport (hereinafter referred to as the "Parent Company"). The Parent Company underwent a group restructuring (the "Restructuring") in preparation for an offering of the Company's shares (the "Offering"). Pursuant to the Restructuring, the Company issued 100% of its Domestic Shares in exchange for the assets, liabilities, equity interests in certain joint ventures, and the business of operating the Beijing Airport and related commercial businesses previously owned by the Parent Company and its subsidiaries. The Company, its joint ventures and subsidiaries are hereinafter collectively referred to as the "Group". The Parent Company retained the ownership of certain assets, liabilities and businesses not assumed by the Company, including units providing power and water supply, emergency medical services, repairs and maintenance services, staff quarters, certain social services such as health care, education, training, public security and other ancillary services, and certain subsidiaries engaged in the hotel and beverage business. The Parent Company is under the direct supervision and control of Civil Aviation Administration of China ("CAAC"), a ministry-level body under the direct supervision of the State Council of the PRC responsible for the administration and development of the civil aviation industry in the PRC. A significant portion of the transactions undertaken by the Group before the Company's incorporation were effected on terms determined by CAAC and other PRC authorities.

On 27 January 2000, 1,346,150,000 H shares in the Company of Rmb1.00 each were issued to the public at HK$1.87 per share and such shares were listed on the Stock Exchange of Hong Kong Limited on 1 February 2000.

As at 31 December 2001, the Group and the Company had 3,161 and 1,665 employees, respectively (2000: 3,045 and 1,443 employees).

The principal activities of the Group are the ownership and operation of an international airport and the provision of related services.

(Amounts expressed in Rmb unless otherwise stated)

1. COMPANY ORGANISATION AND PRINCIPAL ACTIVITIES (continued)

As at 31 December 2001, the Company had equity interests in the following joint ventures and subsidiaries:

Name	Place and date of incorporation	Percentage of equity interest held	Issued and fully paid capital (‘000)	Principal activities
Beijing Aviation Ground Services Co., Ltd. (“BGS”)	Beijing, PRC 18 August 1994	60%	US$9,900	Airport ground handling services
Beijing Airport Inflight Kitchen Ltd. (“BAIK”)	Beijing, PRC 27 April 1993	60%	US$24,000	Air catering services
Beijing Airport Foods Service Co., Ltd. (“BAFS”)	Beijing, PRC 31 December 1986	75%	Rmb27,000	Operation of restaurants and shops
Beijing Bowei Airport Support Limited (“Bowei”)	Beijing, PRC 26 August 1999	60%	US$4,200	Provision of repairs and maintenance services for airport related facilities

The above joint ventures and subsidiaries are Sino-foreign equity joint ventures enterprises incorporated in the PRC. The Company’s profit and loss sharing from these joint ventures corresponds to its equity interest percentages. BAIK and BGS are considered joint ventures for International Financial Reporting Standards (“IAS”) reporting purposes because their strategic operating, investing and financing activities are jointly controlled by the Company and the respective joint venture partners. Bowei is considered a subsidiary for IAS reporting purposes because the Company has control over such activities of Bowei.

BAFS was originally considered a joint venture for IAS reporting purposes. 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 (see Note 28(c) below). 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.

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

1. COMPANY ORGANISATION AND PRINCIPAL ACTIVITIES (continued)

The fair market values of the identifiable assets and liabilities of BAFS on 10 October 2001 were as follows:

	Rmb'000	*Rmb'000*
Total consideration		6,676
Assets		
Cash and cash equivalents	26,467	
Other current assets	4,886	
Property, plant and equipment, net	7,873	
	39,226	
Liabilities		
Due to related parties	8,366	
Due to Parent Company	80	
Other current liabilities	7,151	
	15,597	
Fair value of net assets	23,629	
25% of net assets		5,907
Goodwill		769

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

1. COMPANY ORGANISATION AND PRINCIPAL ACTIVITIES (continued)

The aggregate amounts of assets, liabilities, revenues and expenses related to the Group's interest in the two joint ventures are summarised as follows:

	As at 31 December	
	2001	2000
	Rmb'000	*Rmb'000*
Current assets	**102,956**	86,663
Non-current assets	**95,274**	105,899
Current liabilities	**15,424**	26,664
Non-current liabilities	**93**	86

	For the year ended 31 December	
	2001	2000
	Rmb'000	*Rmb'000*
Revenues	**163,292**	156,128
Expenses	**134,392**	144,729

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company, its joint ventures and subsidiaries are as follows:

(a) General

The accompanying financial statements are prepared in accordance with IAS as published by the International Accounting Standards Board ("IASB") effective as at 31 December 2001.

The principal accounting policies adopted for the preparation of the consolidated financial statements as at and for the year ended 31 December 2001 are consistent with those adopted for the preparation of the financial statements as at and for the year ended 31 December 2000, except that investments are recognised and measured in accordance with IAS 39, which is effective from 1 January 2001 (see Note 2(f)).

(Amounts expressed in Rmb unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of presentation

The accompanying financial statements are prepared under the historical cost convention, except that buildings and runways are carried at revalued amount (see Note 2(d)), and investments held for trading are stated at their fair values (see Note 2(f)).

(c) Principles of consolidation

The consolidated financial statements of the Group include those of the Company and its subsidiaries and also incorporate the Group's interests in joint ventures on the basis set out in Note 2(g) below.

The purchase method of accounting is used for acquired businesses. Results of operations of subsidiaries are included in the consolidated financial statements from the date of acquisition. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively.

All significant intra-group balances and transactions, including intra-group profits and unrealised profits and losses, are eliminated upon consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in joint ventures and subsidiaries are accounted for using the equity method.

(d) Property, plant and equipment

Property, plant and equipment, other than buildings and runways, are stated at cost less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation and accumulated impairment loss are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Buildings and runways are stated at revalued amounts less accumulated depreciation and accumulated impairment loss. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Any increase in valuation of buildings and runways is credited to the revaluation surplus in equity, unless and only to the extent it reverses a revaluation decrease of the same asset previously recognised as an expense in which case it is recognised as income. Any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter recognised as an expense. Upon the disposal of revalued property, the relevant portion of the revaluation surplus realised in respect of previous valuation is released from the valuation surplus directly to retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the income statement in the period the costs are incurred. In situations where it can be clearly demonstrated that expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

Depreciation is computed on the straight-line basis over the estimated useful lives of various classes of depreciable assets, after taking into account the estimated residual value of 3% of cost or revaluation. The estimated useful lives are as follows:

Buildings and improvements	15-35 years
Runways	30 years
Plant and equipment	8-15 years
Motor vehicles	6-8 years
Furniture, fixtures and other equipment	5 years

The useful lives and depreciation method are reviewed periodically to ensure that they are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Assets under construction represent buildings under construction and plant and machinery pending installation and are stated at cost. This includes the costs of construction, costs of plant and equipment and other direct costs plus costs of borrowings (including interest charges and exchange differences arising from foreign currency borrowings to the extent these exchange differences are regarded as an adjustment to interest costs) used to finance these projects during the period of construction or installation and testing. Assets under construction are not depreciated until such time as the relevant assets are completed and ready for their intended use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Land use rights

Costs of land use rights are recognised as an expense on the straight-line basis over the duration of the land use rights of 40 to 50 years.

(f) Investments

The Company adopted IAS 39, Financial Instruments: Recognition and Measurement on 1 January 2001. Accordingly, investments are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Company, are classified as held-to-maturity investment. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale.

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realise them within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on the trade date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs. Available-for-sale and trading investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date. Equity securities classified as available-for-sale, and trading investments without quoted market price in an active market and whose fair value cannot be reliably measured, are stated at cost less accumulated impairment loss.

Gains or losses on measurement to fair value of available-for-sale investments are recognised directly in the fair value reserve in shareholders' equity until the investment is sold or otherwise disposed of, or until it is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investments (continued)

Changes in fair value of trading investments are included in the income statement.

Held-to-maturity investments are carried at amortised cost using the effective interest method.

(g) Investments in joint ventures and subsidiaries

A joint venture is a venture undertaken by two or more parties whose rights and obligations with respect to the venture are specified in a joint venture agreement. No single venturer is in a position to control unilaterally the activity of the venture.

In the consolidated financial statements, investments in joint ventures are accounted for using the proportionate consolidation method whereby the Company's share of each of the assets, liabilities, income and expenses of a joint venture is consolidated on a line-by-line basis with similar items in the consolidated balance sheet and statement of income. An assessment of interests in joint ventures and other ventures is made when there are indications that the assets have been impaired or impairment losses recognised in prior years no longer exist.

A subsidiary is a company which the Company controls. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

In the Company's financial statements, investments in joint ventures and subsidiaries are accounted for using the equity method. An assessment of investments in joint ventures and subsidiaries is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

All intra-group balances and transactions have been eliminated upon consolidation.

(Amounts expressed in Rmb unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Goodwill

The excess of the cost of an acquisition over the Company's interest in the fair value of the net identifiable assets and liabilities acquired as at the date of the exchange transaction is recorded as goodwill and recognised as an asset in the balance sheet. The identifiable assets and liabilities recognised upon acquisition are measured at their fair value as at that date.

When, subsequent to acquisition, additional evidence becomes available to assist with the estimation of the amounts assigned to identifiable assets and liabilities, those amounts and the amount assigned to goodwill (or negative goodwill) are adjusted to the extent that such adjustments are made by the end of the first annual accounting period commencing after acquisition and do not increase the carrying amount of goodwill above its recoverable amount. Otherwise, such adjustments to the identifiable assets and liabilities are recognised as income or expense.

Goodwill is carried at cost less accumulated amortisation and accumulated impairment loss. Goodwill is amortised on a straight-line basis over its estimated useful life which is determined at the time of the acquisition based upon the particular circumstances. The unamortised balances are reviewed at each balance sheet date to assess the probability of continuing future benefits. If there is an indication that goodwill may be impaired, the recoverable amount is determined for the cash-generating unit to which the goodwill belongs. If the carrying amount is more than the recoverable amount, an impairment loss is recognised.

Amortisation of goodwill is included in amortisation cost.

(i) Cash and cash equivalents

Cash includes cash on hand and deposits with banks or other financial institutions which are repayable on demand.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Temporary cash investments

Temporary cash investments are cash invested in fixed-term deposits with original maturities ranging from more than three months to one year. Temporary cash investments are classified as held-to-maturity investments and are carried at amortised cost (see Note 2(f)).

(k) Receivables

Receivables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.

(l) Inventories

Inventories consist mainly of merchandise for resale, spare parts and consumable items. Inventories are stated at the lower of weighted average cost or net realisable value, after provision for obsolete items. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion, marketing and distribution. Unrealisable inventory has been fully written off.

(m) Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Foreign currency translation

The Group maintains its books and records in Rmb. Transactions in other currencies are translated into Rmb at the applicable exchange rates quoted by the People's Bank of China (the "PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are re-translated into Rmb using the applicable PBOC exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or reported in the previous financial statements, other than those capitalised as a component of borrowing costs, are recognised in the income statement in the period in which they arise.

(o) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset are in progress. Borrowing costs are capitalised until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

(p) Financial instruments

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement on initial recognition. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instrument is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issuance, in which case the instrument is classified as equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Pension scheme

The Group is required under existing PRC legislation to provide certain staff welfare and retirement benefits to its employees. The Group's obligations include contributions to a defined contribution retirement plan administered by a government agency determined at a certain percentage of the salaries of the employees and contributions to a supplementary pension fund of a fixed monthly amount per employee. The Group accounts for these contributions on the accrual basis.

(r) Revenue and income recognition

Revenue and income are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue and income can be measured reliably.

Revenues are shown net of value-added tax and are recognised on the following bases:

- airport fee is recognised upon receipt from outbound passengers when departing from the airport;
- aeronautical revenues other than airport fee are recognised when the related airport services are rendered;
- revenues from duty free shops and other shops, air catering of BAIK and restaurants and lounges are recognised upon delivery of goods and/or when title is passed to customers, or upon rendering of services;
- rental income is recognised on the straight-line basis over the lease periods;
- advertising income is recognised on the straight-line basis over the period of display of the advertisements;
- car parking fees are recognised when the parking services are rendered; and
- interest income from deposits in banks and other financial institutions is recognised on a time proportion basis that reflects the effective yield on the assets.

(Amounts expressed in Rmb unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(t) Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on the straight-line basis over the lease term.

(u) Taxation

Taxation of the Group is based on the tax laws and regulations applicable to PRC enterprises. The Group provides for enterprise income tax on the basis of its profit for financial reporting purposes, adjusted for income and expense items that are not assessable or deductible for enterprise income tax purposes.

The income tax charge is based on profit for the year and after considering deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Taxation (continued)

Deferred tax assets and liabilities are recognised regardless of when the temporary difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet. Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each balance sheet date, the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

Other tax liabilities are provided in accordance with the regulations issued by the PRC government authorities.

(v) Impairment of assets

Financial instruments

Financial instruments are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Group will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognised in the income statement. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognised to the extent it does not exceed what amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets, the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period when there is objective evidence that the asset is impaired. The recoverable amount of a debt instrument remeasured to fair value is the present value of expected future cash flows discounted at the current market interest rates for a similar financial asset. A reversal of an impairment loss is recorded when the decrease in the impairment loss can be objectively related to an event occurring after the write down. Such reversal is recorded in income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Impairment of assets (continued)

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property, plant and equipment and other non-current assets carried at cost, or treated as a revaluation decrease for buildings and runways that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same building and runway. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

As an exception, an impairment loss recognised for goodwill is not reversed in a subsequent period unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

(w) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(x) Subsequent events

Post-year-end events that provide additional information about the Group's or the Company's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(Amounts expressed in Rmb unless otherwise stated)

3. PROPERTY, PLANT AND EQUIPMENT, NET

Movements in property, plant and equipment of the Group were:

	The Group							
	2001							2000
	Buildings and improvements	Runways	Plant and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	Total	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cost or valuation								
Beginning of year (Note 36)	5,629,670	860,925	1,729,672	214,400	63,199	12,804	8,510,670	7,806,558
Additions	4,726	-	5,897	12,585	5,870	103,878	132,956	720,575
Acquisition of an additional equity interest in BAFS	2,319	-	1,960	568	-	68	4,915	-
Transfer from assets under construction	-	57,491	15,363	3,109	2,809	(78,772)	-	-
Disposals	(2,315)	-	(10,796)	(9,499)	(1,794)	-	(24,404)	(16,463)
End of year	5,634,400	918,416	1,742,096	221,163	70,084	37,978	8,624,137	8,510,670
Accumulated depreciation and impairment losses								
Beginning of year	(217,064)	(361,717)	(281,302)	(127,389)	(19,262)	-	(1,006,734)	(609,547)
Charge for the year	(188,916)	(25,718)	(163,454)	(25,933)	(16,246)	-	(420,267)	(406,283)
Acquisition of an additional equity interest in BAFS	(243)	-	(521)	(335)	-	-	(1,099)	-
Impairment losses	-	-	(774)	-	-	-	(774)	-
Written back on disposals	753	-	6,749	7,513	1,034	-	16,049	9,096
End of year	(405,470)	(387,435)	(439,302)	(146,144)	(34,474)	-	(1,412,825)	(1,006,734)
Net book value								
End of year	5,228,930	530,981	1,302,794	75,019	35,610	37,978	7,211,312	7,503,936
Beginning of year (Note 36)	5,412,606	499,208	1,448,370	87,011	43,937	12,804	7,503,936	7,197,011

(Amounts expressed in Rmb unless otherwise stated)

3. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

Movements in property, plant and equipment of the Company were:

	The Company							
	2001							2000
	Buildings and improvements	Runways	Plant and equipment	Motor vehicles	Furniture, fixtures and other equipment	Assets under construction	Total	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cost or valuation								
Beginning of year (Note 36)	5,555,884	860,925	1,704,146	125,542	53,411	12,736	8,312,644	7,624,549
Additions	3,010	-	4,690	11,259	4,619	100,573	124,151	704,749
Transfer from assets under construction	-	57,491	15,175	2,280	1,308	(76,254)	-	-
Disposals	(2,315)	-	(10,756)	(9,008)	(1,747)	-	(23,826)	(16,654)
End of year	5,556,579	918,416	1,713,255	130,073	57,591	37,055	8,412,969	8,312,644
Accumulated depreciation and impairment losses								
Beginning of year	(204,099)	(361,717)	(271,666)	(65,635)	(15,113)	-	(918,230)	(539,029)
Charge for the year	(184,810)	(25,718)	(160,595)	(17,894)	(14,565)	-	(403,582)	(385,962)
Impairment losses	-	-	(774)	-	-	-	(774)	-
Written back on disposals	753	-	6,730	7,057	993	-	15,533	6,761
End of year	(388,156)	(387,435)	(426,305)	(76,472)	(28,685)	-	(1,307,053)	(918,230)
Net book value								
End of year	5,168,423	530,981	1,286,950	53,601	28,906	37,055	7,105,916	7,394,414
Beginning of year (Note 36)	5,351,785	499,208	1,432,480	59,907	38,298	12,736	7,394,414	7,085,520

3. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

On 30 November 1999, the buildings, runways and assets under construction of the Group were valued by Sallmanns (Far East) Limited (the " Valuer"), a qualified independent professional valuer in Hong Kong, using a fair market value approach and a depreciated replacement cost approach. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised, in accordance with current construction costs for similar property in the locality, less depreciation whether arising from physical, functional or economic causes. The Valuer assumed that the buildings, runways and assets under construction will be used for the purposes for which they are presently used and did not consider alternative uses.

As at 31 December, the amounts of buildings and runways that would have been included in the consolidated financial statements of the Group had the assets been carried at cost less accumulated depreciation were as follows:

	2001			2000
	Buildings	**Runways**	**Total**	Total
	Rmb'000	***Rmb'000***	***Rmb'000***	*Rmb'000*
Cost	**5,027,623**	**402,424**	**5,430,047**	5,430,047
Accumulated depreciation	**(454,171)**	**(146,567)**	**(600,738)**	(425,456)
Net book value	**4,573,452**	**255,857**	**4,829,309**	5,004,591

As at 31 December 2001, the gross amounts of buildings and runways carried at valuation of the Group and the Company were approximately Rmb5,430,047,000 and Rmb5,368,240,000 respectively.

A net valuation surplus of approximately Rmb232,427,000 (net of a valuation deficit of approximately Rmb9,585,000 on certain buildings) resulted from the revaluation and was recorded in the Group's financial statements. Additional depreciation on the revaluation surplus was approximately Rmb7,503,000 and Rmb7,503,000 in 2001 and 2000, respectively.

The carrying amount of temporarily idle equipment amounted to approximately Rmb34,185,000 and Rmb34,185,000 as at 31 December 2001 and 2000, respectively. An impairment loss of Rmb774,000 has been recognised in the income statement for the above idle equipment.

No interest and foreign exchange differences were capitalised to assets under construction for the years ended 31 December 2001 and 2000.

4. LAND USE RIGHTS

Prior to the incorporation of the Company, substantially all of the buildings and runways of the Predecessor Entities were constructed on land, the use rights for which were allocated by the Government of the PRC at no cost to the Predecessor Entities.

Pursuant to an approval document issued by the Ministry of Land and Resources of the PRC dated 30 September 1999, the land use rights for a period of 50 years for the land on which the buildings are situated were contributed to the Company upon incorporation of the Company. These land use rights were acquired by the Parent Company from the Government of the PRC and contributed into the Company for 104.5 million Domestic Shares with par value of Rmb1.00 each held by the Parent Company on behalf of the Government of the PRC. Upon incorporation of the Company, these land use rights, together with the related levies, were recorded in the financial statements of the Group and the Company at Rmb261,015,000, being the carrying amount recorded by the Parent Company, which was determined with reference to a valuation performed by a qualified independent land valuer in the PRC.

As at 31 December, land use rights comprised:

	The Group		The Company	
	2001	2000	**2001**	2000
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cost	**278,933**	278,933	**261,015**	261,015
Accumulated amortisation	**(14,168)**	(7,923)	**(11,529)**	(6,308)
Net	**264,765**	271,010	**249,486**	254,707

The Company also entered into an agreement with the Parent Company dated 16 November 1999 to lease the land use rights for the land on which the runways, taxiways, aprons and certain parking areas are situated, that the Parent Company leased from the Government of the PRC of a period of 50 years (for runways, taxiways and aprons) and 40 years (for certain parking areas) with provisions for early termination on specified circumstances, at an annual rental of Rmb5,594,000.

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

5. GOODWILL

Goodwill arose from the acquisition of an additional 25% equity interest in BAFS. It is accounted for by using the purchase method of accounting. Goodwill is amortised on a straight-line basis over its estimated useful life of 7 years and recognised in the income statement as amortisation cost.

	2001
	Rmb'000
Beginning of year	-
Addition	769
Amortisation during the year	(27)
End of year	742

6. OTHER LONG-TERM ASSETS

As at 31 December, other long-term assets comprised:

	The Group		**The Company**	
	2001	2000	**2001**	2000
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Deferred expenditures	**7,737**	4,627	**7,008**	3,170
Others	**3,025**	2,722	**43**	-
Total	**10,762**	7,349	**7,051**	3,170

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

7. ACCOUNTS RECEIVABLE, NET

As at 31 December, accounts receivable comprised:

	The Group		The Company	
	2001	2000	**2001**	2000
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Accounts receivable	**296,773**	429,549	**273,281**	404,601
Provision for doubtful accounts	**(3,299)**	(5,285)	**(3,299)**	(5,285)
Accounts receivable, net	**293,474**	424,264	**269,982**	399,316

As at 31 December 2001 and 2000, substantially all of the accounts receivable were aged within one year.

8. BALANCES WITH RELATED PARTIES

As at 31 December, balances with related parties comprised:

(a) Due from related parties

	The Group		The Company	
	2001	2000	**2001**	2000
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Parent Company	**9,132**	-	**9,862**	-
Singapore Airlines Limited ("SAL")	**10,425**	14,837	**-**	14,837
Singapore Airport Terminal Services Limited ("SATS")	**75**	-	**-**	-
Foreign joint venture partner in BGS	**7,230**	17,919	**-**	-
Foreign joint venture partner in BAIK	**-**	1,391	**-**	-
Foreign joint venture partners in BAFS	**-**	4,271	**-**	-
BGS	**-**	-	**18,372**	33,892
BAFS	**-**	-	**3,622**	8,495
Bowei	**-**	-	**-**	1,310
Total	**26,862**	38,418	**31,856**	58,534

8. BALANCES WITH RELATED PARTIES (continued)

(b) Due to related parties

	The Group		The Company	
	2001	2000	**2001**	2000
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
SATS	**-**	6,872	**-**	-
BAIK	**-**	-	**-**	1,496
Bowei	**-**	-	**4,650**	-
Parent Company	**-**	192,870	**-**	192,056
Total	**-**	199,742	**4,650**	193,552

Amounts due from/to related parties are unsecured, non-interest bearing and payable on demand. The balances primarily arose from the related party transactions as shown in Note 20 below.

9. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 31 December, prepayments and other current assets comprised:

	The Group		The Company	
	2001	2000	**2001**	2000
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Receivables from contractors for returned construction materials	**15,215**	42,900	**15,215**	42,900
Prepayments	**8,119**	8,868	**4,838**	8,098
Interest receivable	**1,557**	8,015	**1,557**	8,015
Others	**21,038**	32,235	**14,786**	24,670
Total	**45,929**	92,018	**36,396**	83,683

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

10. INVESTMENTS HELD FOR TRADING

The Group entered into certain investment agreements with a financial institution in the PRC. According to the investment agreements, the financial institution would make investments on behalf of the Group and such investments must be invested in securities issued by or guaranteed by the Government of the PRC and approved by the Group. The financial institution receives commissions according to the investment returns. The investments have original maturities of at least one year but can be withdrawn by the Group upon 20 days' notice before the maturity dates. The fair values of these investments are assessed each year at the balance sheet date by reference to the quoted market prices of the underlying securities as at 31 December.

At the beginning of 2001 when IAS 39 was initially applied, the Group and the Company measured the investments held for trading at fair value. The difference between the previous carrying amount and the current fair value as at 1 January 2001 amounted to approximately Rmb6,548,000, which was recognised as an adjustment to the balance of retained earnings as at 1 January 2001. Comparative figures in 2000 have not been restated in accordance with IAS 39.

During the year ended 31 December 2001, the Company recorded a gain amounting to approximately Rmb6,939,000 arising from the changes in the fair value of the investments held for trading during the year.

11. SHARE CAPITAL

As at 31 December 2001 and 2000, the authorised share capital of the Company was Rmb3,846,150,000, divided into 3,846,150,000 shares of Rmb1 each. The issued and fully paid share capital of the Company as at 31 December 2001 and 2000 was as follows:

	Number of shares	Nominal value	Share interest percentage
	'000	*Rmb'000*	*%*
Domestic shares	2,500,000	2,500,000	65
Overseas public shares shares ("H shares")	1,346,150	1,346,150	35
Total	3,846,150	3,846,150	100

12. APPROPRIATIONS AND DISTRIBUTION OF PROFIT

According to the Articles of Association of the Company, when distributing the net profit of each year, the Company shall set aside 10% of its profit after tax (based on the Company's local statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's registered capital), and 5% to 10% for the statutory public welfare fund and, on an optional basis, the discretionary surplus reserve fund. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. The statutory public welfare fund can only be utilised on capital items for the collective benefit of the Company's employees. Title to these capital items will remain with the Company. This fund is non-distributable other than in liquidation.

For the year ended 31 December 2001, the Board of Directors proposed appropriations of 10%, 10% and 20% of profit after tax (2000: 10%, 10% and 20% respectively) determined under PRC accounting standards, of Rmb38,013,000, Rmb38,012,000 and Rmb76,024,000 (2000: Rmb43,893,000, Rmb43,892,000 and Rmb87,784,000 respectively), to the statutory surplus reserve fund, the statutory public welfare fund and the discretionary surplus reserve fund, respectively.

Because of the adoption of the revised IAS 10, "Events After the Balance Sheet Date", the proposed profit appropriation of Rmb76,024,000 (20% of profit after tax) to the discretionary surplus reserve fund for the year ended 31 December 2001 will be recorded in the financial statements for the year ending 31 December 2002.

Before 2000, discretionary surplus reserve funds proposed after the balance sheet date were recognised as a reserve as at the balance sheet date. Because of the adoption of the revised IAS 10 "Events After the Balance Sheet Date", conditions that arise after the balance sheet date are no longer treated as adjusting events. As a result, the discretionary surplus reserve fund of Rmb87,784,000 for the year ended 31 December 2000 proposed by the Board of Directors on 23 April 2001 was recorded in the Group's financial statements for the year ended 31 December 2001.

This change in accounting policy in 2000 has been applied retrospectively with the result that the Group's retained earnings as at 31 December 1999 were increased by Rmb4,226,000, being the amount of appropriation of profit into discretionary surplus reserve fund that was proposed by the Company after the balance sheet date. Comparative figures as at 31 December 1999 have been restated to reflect this change in accounting policy.

According to the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined under IAS. As at 31 December 2001, the reserve available for distribution was approximately Rmb282,800,000 (2000: Rmb302,310,000).

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

13. BORROWINGS

(a) Short-term borrowings

As at 31 December 2001, the Group and the Company had short-term bank loans granted by various banks amounting to approximately Rmb300 million (2000: Rmb400 million). These loans bear interest of 5.022%-5.265% (2000: 5.265%) per annum. As at 31 December 2000, short-term bank loans were secured by bank deposits of approximately Rmb318 million of the Group and the Company. As at 31 December 2001, all the short-term bank loans were unsecured.

(b) Long-term borrowings

As at 31 December 2001, substantially all of the bank loans were borrowed by the Group and the Company to finance the construction of an airport terminal and the related premises and facilities and were guaranteed by CAAC. As at 31 December 2001, approximately Rmb1,860,000,000 and Rmb23,204,000 of these loans were denominated in Rmb and Japanese yen, respectively (2000: all long-term bank loans were denominated in Rmb).

Approximately Rmb432,000,000 (2000: Rmb442,000,000) of these loans were granted by the State Development Bank at a preferential rate of 5.9% per annum with maturities through 2011 (2000: 5.9% per annum). As at 31 December 2001, approximately 364,453,000 Japanese yen (equivalent of Rmb23,204,000) of these loans were extended by the China Import and Export Bank at interest rates ranging from 2.3% to 2.6% per annum with maturities through 2011. All other loans bear interest at commercial rates ranging from 6.2% to 7.6% per annum with maturities through 2008 (2000: 6.2%-7.6% per annum).

13. BORROWINGS (continued)

(b) Long-term borrowings (continued)

The repayment schedule of the long-term bank loans is as follows:

	The Group		The Company	
	2001	2000	**2001**	2000
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Within one year	**220,000**	140,000	**220,000**	140,000
Between one and two years	**257,000**	220,000	**257,000**	220,000
Between two and five years	**960,000**	877,000	**960,000**	877,000
Over five years	**446,204**	763,000	**446,204**	763,000
Total long-term bank loans	**1,883,204**	2,000,000	**1,883,204**	2,000,000
Less: Amounts due within one year included in current liabilities	**(220,000)**	(140,000)	**(220,000)**	(140,000)
	1,663,204	1,860,000	**1,663,204**	1,860,000

As at 31 December 2001, the Group and the Company had unused loan facilities (denominated in Japanese yen) totalling approximately Rmb379 million (2000: approximately Rmb462 million).

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

14. DEFERRED TAXATION

Components of deferred tax liabilities are as follows:

	The Group		The Company	
	2001	2000	**2001**	2000
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Valuation surplus	**11,366**	11,758	**11,366**	11,758
Investments held for trading at fair value	**2,376**	-	**2,376**	-
Total	**13,742**	11,758	**13,742**	11,758

(1) The Group and the Company recognised a deferred tax liability arising from the initial recognition of assets and liabilities acquired from the Parent Company pursuant to the Restructuring in 1999. The initial recognition of buildings and runways completed and under construction upon Restructuring was based on valuations performed by valuers. The result of the valuation was a non-tax deductible surplus of approximately Rmb36,819,000 (after deducting tax deductible internal valuation surplus). The deferred tax liability of Rmb12,150,000 relating to this temporary difference was recorded in 1999, with a corresponding adjustment to the share premium that had been recorded to reflect the revaluation surplus when the assets were acquired.

(2) Investments held for trading stated at fair value have different tax base and carrying amount because revaluation is only done for accounting purposes.

15. ACCOUNTS PAYABLE

As at 31 December 2001, all accounts payable were aged within one year (2000: all aged within one year).

(Amounts expressed in Rmb unless otherwise stated)

16. ACCRUED LIABILITIES AND OTHER PAYABLES

As at 31 December, accrued liabilities and other payables comprised:

	The Group		The Company	
	2001	2000	**2001**	2000
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
		(Note 36)		(Note 36)
Payroll and welfare payable	**46,634**	31,423	**36,309**	20,977
Airport Fee and tourism development fund payable	**27,783**	20,678	**27,783**	20,678
Interest payable	**3,566**	3,947	**3,566**	3,947
Receipts on behalf of Air China	**22,208**	8,292	**22,208**	8,292
Receipts on behalf of North China Air Traffic Control Bureau	**62,436**	78,419	**62,436**	78,419
Adjustment fee payable	**42,631**	42,631	**42,631**	42,631
Advertising customer advances	**24,451**	19,934	**24,451**	19,934
Refundable deposits	**9,830**	2,016	**9,830**	2,016
Consulting fee payable	**12,816**	23,258	**12,816**	23,258
Planting fee payable	**1,267**	-	**1,267**	-
Pension payable	**4,970**	3,100	**4,970**	3,100
Receipts on behalf of IATA	**1,051**	3,940	**-**	-
Maintenance fee payable	**3,950**	-	**3,950**	-
Material cost payable	**2,836**	3,846	**2,836**	3,846
Payable for acquisition of an additional equity interest in BAFS	**3,912**	-	**-**	-
Others	**37,734**	27,104	**23,165**	18,398
Total	**308,075**	268,588	**278,218**	245,496

In accordance with regulations promulgated by the Ministry of Finance of the PRC and CAAC, the Company is required to collect on behalf of CAAC a civil airport management and construction fee ("Airport Fee"), subject to certain exemptions, from each outbound passenger (Rmb50 per domestic passenger and Rmb70 per international passenger), CAAC refunded 50% of the fee collected to the Company as revenue. Tourism development fund (Rmb20 per passenger) is collected together with the Airport Fee from each outbound international passenger on behalf of and payable to the PRC government after deducting certain handling charges.

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

17. REVENUES

Revenues are comprised of:

	2001	2000
	Rmb'000	*Rmb'000*
		(Note 36)
Aeronautical:		
Passenger charges	**526,327**	457,912
Aircraft movement fees and related charges	**306,796**	273,522
Airport Fee	**318,523**	287,561
Ground handling facilities charge	**185,891**	175,944
Ground handling services income of BGS	**101,131**	103,111
Total aeronautical revenues	**1,438,668**	1,298,050
Non-aeronautical:		
Duty free and other shops	**230,622**	213,378
Air catering of BAIK	**58,102**	49,560
Rental and others	**154,856**	165,406
Restaurants	**25,013**	9,984
Advertising	**66,519**	57,715
Car parking	**30,389**	30,738
Repairs and maintenance services	**7,569**	3,616
Total non-aeronautical revenues	**573,070**	530,397
Total revenues	**2,011,738**	1,828,447

18. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging (crediting) the following:

	2001	2000
	Rmb'000	*Rmb'000*
		(Note 36)
Interest expenses:		
— on bank loans repayable within five years	**26,388**	64,746
— on bank loans repayable after five years	**121,901**	125,474
Total interest expenses	**148,289**	190,220
Interest income	**(24,362)**	(103,247)
Interest expenses, net	**123,927**	86,973
Exchange gain	**(1,483)**	(185,000)
Changes in fair values in investments held for trading	**6,939**	-
Cost of goods and materials	**176,067**	146,181
Depreciation of property, plant and equipment	**420,267**	406,283
Amortisation of goodwill	**27**	-
Loss on disposal of property, plant and equipment	**5,631**	5,499
Impairment losses on property, plant and equipment	**774**	-
Provision for doubtful accounts and write-off of bad debts	**7,308**	2,958
Contribution to retirement scheme	**9,979**	7,774
Contribution to supplemental pension plan	**3,015**	3,100
Provision for staff welfare	**17,566**	14,957
Contribution to housing fund	**7,554**	5,663
Operating lease charges		
-Buildings	**10,057**	9,223
-Equipment	**2,419**	2,419
-Land use rights	**11,837**	11,879
Auditors' remuneration	**2,366**	1,967

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

19. TAXATION

Enterprise income tax

Taxation in the income statement represents provision for PRC enterprise income tax.

Under PRC income tax law, except for certain preferences available to the Company's joint ventures and subsidiaries ("tax holiday"), the entities within the Group are subject to enterprise income tax at a rate of 33% on the taxable income as reported in their statutory accounts which are prepared using the accounting principles and financial regulations applicable to PRC enterprises.

The reconciliation of the effective income tax rate to the statutory income tax rate in the PRC is as follows:

	2001	2000
		(Note 36)
Statutory enterprise income tax rate	**33.0%**	33.0%
Non-deductible permanent differences	**1.3%**	1.5%
Effect of tax holidays	**(1.5%)**	(0.4%)
Others	**(0.5%)**	0.8%
Effective tax rate	**32.3%**	34.9%

Major components of income tax expenses are as follows:

	2001	2000
	Rmb'000	*Rmb'000*
		(Note 36)
PRC enterprise income tax		
—Current tax	**193,690**	258,971
—Deferred tax	**(1,241)**	(392)
	192,449	258,579

19. TAXATION (continued)

Business taxes

The Group is subject to business taxes on its service revenues at the following rates:

Aeronautical revenues	3% of service revenue
Non-aeronautical revenues	5% of rental income, advertising income and car parking fee income

Value-Added Tax ("VAT")

Output VAT is levied at a general rate of 17% on the selling price of goods and services. Input VAT paid on purchases of goods and services can be used to offset the output VAT to determine the net VAT payable.

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

20. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out with related parties in the ordinary course of business for the year ended 31 December 2001:

	2001	2000
	Rmb'000	*Rmb'000*
Transactions with Parent Company:		
Provision of security services to the Parent Company and its units, subsidiaries and affiliates	**185**	202
Leasing of office space from the Parent Company	**6,600**	6,600
Leasing of training center from the Parent Company	**2,238**	2,238
Leasing of premises to a subsidiary of the Parent Company	**8,514**	8,636
Provision of utilities and power supply by the Parent Company	**128,496**	145,673
Share of aircraft movement fees paid to the Parent Company, for the provision of emergency medical services by the Parent Company	**49,331**	42,689
Provision of maintenance and repair services by the Parent Company	**11,264**	11,376
Provision of sewage processing services to the Parent Company	**1,421**	1,406
Leasing of land use right from the Parent Company	**5,594**	5,594
Leasing of office equipment and vehicles from the Parent Company	**2,419**	2,419
Provision of staff transportation by the Parent Company	**1,125**	1,194
Provision of nursery services by the Parent Company	**3,765**	2,842

On 24 December 2001, the Parent Company and the Company entered into an agreement whereby the Parent Company agreed to sell certain air-conditioning and power distribution facilities to the Company for a cash consideration of Rmb5,076,000.

	2001	2000
	Rmb'000	*Rmb'000*
Transactions with SAL, parent company of SATS, foreign joint venture partner in BAIK and BGS:		
Ground handling services income	**14,775**	13,779

20. RELATED PARTY TRANSACTIONS (continued)

The following transactions were carried out with the Company's joint ventures (amounts shown below are after elimination of the Company's proportionate interests in these intra-group transactions):

	2001	2000
	Rmb'000	*Rmb'000*
Share of ground handling services income from BGS	**9,587**	9,067
Rental income from BGS for leasing of counters, premises and office space	**12,652**	16,721
Rental income from BAFS	**-**	5,511

The following transactions were carried out by the Company's joint ventures with the Group's related parties. Amounts shown below represent the amounts attributable to the Group based on the Company's proportionate interests in those joint ventures.

	2001	2000
	Rmb'000	*Rmb'000*
Transactions between BGS and SAL:		
Income from ground handling services provided to SAL	**17,523**	16,182
Charges by SAL for the use of Cargo Departure Documentation System and Departure Control System	**371**	939
Transactions between BGS and SATS:		
Acquisition of use right of Multi-Interaction System from SATS	**-**	2,186
Transactions between BAIK and SAL:		
Income from air catering services to SAL	**10,135**	9,526
Charges by SAL for use of Kriscom System	**52**	43
Transactions between BAIK and SATS:		
Purchase of materials from SATS	**37**	11

The directors of the Company are of the opinion that the above transactions were carried out in the ordinary course of business and on normal commercial terms.

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

21. DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS

	2001	2000
	Rmb'000	*Rmb'000*
Fees for executive directors	-	-
Fees for non-executive directors	-	-
Fees for supervisors	-	-
Other emoluments for executive directors:		
- basic salaries and allowances	**220**	176
- bonus	**131**	122
- retirement benefits	**21**	16
Other emoluments for non-executive directors	**-**	-
Other emoluments for supervisors	**86**	69

No director had waived or agreed to waive any emoluments during the year.

For the years ended 31 December 2001 and 2000, the annual emoluments paid to each of the directors and supervisors (including the five highest paid employees) fell within the band from nil to Rmb1 million.

Details of emoluments paid to the five highest-paid individuals (mainly senior executives including directors) were:

	2001	2000
	Rmb'000	*Rmb'000*
Basic salaries and allowances	**274**	218
Bonus	**163**	152
Retirement benefits	**21**	19
	458	389
Number of directors	**4**	4
Number of employees	**1**	1
	5	5

During the year, no emolument was paid to the five highest-paid individuals (including directors and employees) as an inducement to join or upon joining the Company or as compensation for loss of office.

22. RETIREMENT BENEFITS

All of the Group's full-time Chinese employees are covered by a state-sponsored pension scheme, and are entitled to an annual pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the state-sponsored retirement plan at a rate of 16% and 14.5% of the employees' salaries in 2001 and 2000 respectively.

In addition to the government-regulated pension fund described above, a supplementary defined contribution pension plan managed by an independent insurance company has been provided at the discretion of the Group's management, to which the Group is required to make a fixed monthly contribution for each employee. Any contributions forfeited by the Group relating to employees who leave the plan will not be used to reduce the Group's contributions for other employees. There were no vested benefits attributable to past services upon adoption of the plan.

Pension expenses for the years were as follows:

	2001	2000
	Rmb'000	*Rmb'000*
Statutory pension	**9,979**	7,774
Supplementary pension	**3,015**	3,100
Total	**12,994**	10,874

The Group provides no other retirement benefits than those described above.

Notes to the Financial Statements

(Amounts expressed in Rmb unless otherwise stated)

23. HOUSING BENEFITS

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the State-sponsored housing fund at 10% of the specified salary amount of its full-time Chinese employees. At the same time, the employees are required to make a contribution equal to the Group's contributions out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31 December 2001, the Group's contribution to the housing fund was approximately Rmb7,554,000 (2000: Rmb5,663,000). In addition, during the year ended 31 December 2001, the Company paid Rmb5 million to its employees as cash housing subsidies and the amount has been charged to the income statement (2000: nil).

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 obligation 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 quarters and the Company had not sold any staff quarters to its employees.

24. DIVIDENDS

	2001	2000
	Rmb'000	*Rmb'000*
Dividend declared before year end:		
Interim dividend	**58,385**	62,923
Dividend per share (Rmb)	**0.01518**	0.01636
Dividend proposed after year end (Note 34):		
Final dividend	**131,692**	156,538
Dividend per share (Rmb)	**0.03424**	0.04070

25. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2001 is based on the net profit of Rmb401,170,000 (2000: Rmb483,487,000), divided by the weighted average number of 3,846,150,000 (2000: 3,733,970,833 shares) ordinary shares outstanding during the year.

No diluted earnings per share is presented as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2001 and 2000.

26. LEASES

Lessee - Operating Leases

The Group has entered into various operating lease agreements for land, building, equipment and other facilities. Lease terms do not contain renewal options, escalation clauses and restrictions on the Group's activities concerning dividends, additional debt or further leasing. As at 31 December 2001, the Group and the Company had the following commitments to make future minimum lease payments under operating leases:

	Land and buildings	Other leases	Total
	Rmb'000	*Rmb'000*	*Rmb'000*
Within one year	14,432	2,419	16,851
Between one and five years	27,601	1,915	29,516
Over five years	245,439	-	245,439
	287,472	4,334	291,806

(Amounts expressed in Rmb unless otherwise stated)

26. LEASES (continued)

Lessor - Operating Leases

The following is the analysis of assets leased under operating leases:

	2001	2000
	Rmb'000	*Rmb'000*
Buildings	**278,736**	278,736
Equipment	**62,670**	62,670
	341,406	341,406
Accumulated depreciation	**(34,299)**	(33,136)
Net book value	**307,107**	308,270

As at 31 December 2001, future minimum lease payments receivable under non-cancellable operating leases of the Group and the Company were as follows:

	Buildings	**Other leases**	**Total**
	Rmb'000	***Rmb'000***	***Rmb'000***
Within one year	70,433	2,630	73,063
Between one and five years	62,129	2,411	64,540
Over five years	9,540	-	9,540
	142,102	5,041	147,143

27. COMMITMENTS

Capital commitments:

Capital commitments primarily relate to the construction of, and the equipment to be installed at, on airport terminal and other airport improvement projects. As at 31 December 2001, the Group and the Company had the following outstanding capital commitments not provided for in the financial statements:

	Rmb'000
Authorised and contracted for	-
Authorised but not contracted for	21,170
Total	21,170

(Amounts expressed in Rmb unless otherwise stated)

28. NOTES TO STATEMENT OF CASH FLOWS

(a) Reconciliation from profit before taxation to net cash generated from operating activities:

	2001	2000
	Rmb'000	*Rmb'000*
		(Note 36)
Profit before taxation	**595,818**	741,483
Adjustments for:		
Depreciation and amortisation	**420,294**	406,283
Amortisation of land use rights	**6,245**	6,285
Impairment loss	**774**	-
Loss on disposals of property, plant and equipment, net	**5,631**	5,499
Provision for doubtful debts	**(1,986)**	2,958
Unrealised investment income on investments held for trading	**(6,939)**	(9,773)
Interest expenses, net	**123,927**	86,973
Exchange gain, net	**(1,483)**	(185,000)
Changes in deferred tax liabilities	**1,984**	(392)
Operating profit before working capital changes	**1,144,265**	1,054,316
(Increase) decrease in current assets:		
Accounts receivable	**132,776**	(49,054)
Inventories	**(4,469)**	(17,230)
Prepayments and other current assets	**39,629**	(51,341)
Due from related parties	**11,556**	(17,103)
Increase (decrease) in current liabilities:		
Accounts payable	**(11,270)**	34,070
Accrued liabilities and other payables	**39,868**	61,405
Due to related parties	**(199,742)**	119,039
Taxes payable	**(40,120)**	37,032
Cash generated from operations	**1,112,493**	1,171,134

28. NOTES TO STATEMENT OF CASH FLOWS (continued)

(b) Analysis of cash and cash equivalents

As at 31 December, cash and cash equivalents consisted of:

	The Group		The Company	
	2001	2000	**2001**	2000
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cash				
Rmb	**22**	30	**9**	9
US dollar denominated	**75**	82	**-**	-
	97	112	**9**	9
Demand deposits				
Rmb	**989,338**	470,062	**921,144**	394,826
US dollar denominated	**32,245**	26,673	**9,871**	8,164
Hong Kong dollar denominated	**224,973**	96,477	**224,974**	96,477
Japanese yen denominated	**2,491**	429	**-**	-
	1,249,047	593,641	**1,155,989**	499,467
Total cash and cash equivalents	**1,249,144**	593,753	**1,155,998**	499,476

28. NOTES TO STATEMENT OF CASH FLOWS (continued)

(c) Acquisition of an additional 25% of equity interest in BAFS

The Company acquired an additional 25% equity interest in BAFS on 10 October 2001 for a cash consideration of Rmb6,676,000.

Net cash flow from the acquisition of the additional 25% equity interest in BAFS was as follows:

	Rmb'000
25% of cash and cash equivalents of BAFS as at 10 October 2001	6,617
Less: cash settlement of purchase consideration in 2001	(2,764)
Net cash inflow	3,853

Operating results of above subsidiary acquired during the year are included in the consolidated financial statements from the effective date of acquisition.

28. NOTES TO STATEMENT OF CASH FLOWS (continued)

(c) Acquisition of an additional 25% of equity interest in BAFS (continued)

Summarised financial information of BAFS is as follows:

Balance sheet

	As at 31 December	
	2001	2000
	Rmb'000	*Rmb'000*
Current assets	**27,396**	33,061
Non-current assets	**8,586**	7,835
Total assets	**35,982**	40,896
Current liabilities	**13,241**	14,452
Non-current liabilities	**-**	-
Total liabilities	**13,241**	14,452

Income statement

	For the year ended 31 December	
	2001	2000
	Rmb'000	*Rmb'000*
Revenues	**41,440**	34,619
Expenses	**(45,143)**	(39,354)
Net loss	**(3,703)**	(4,735)

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments mainly consist of cash and cash equivalents, restricted cash, temporary cash investments, investments held for trading, accounts receivable, due from and due to related parties, other current assets, accounts payable and other payables, short-term borrowings and long-term borrowings.

The carrying amounts of the Group's financial instruments approximated their fair values as at 31 December 2001 because of the short maturities of these instruments, other than investments held for trading and long-term borrowings.

The carrying amounts of the long-term borrowings approximated their fair values based on borrowing rates currently available for loans with similar terms and maturities.

The investments held for trading were stated at their fair value as at 31 December 2001 (see Note 10).

30. CONCENTRATION OF RISK

(a) Business risk

The Group and the Company conduct their operations in the PRC and accordingly are subject to special considerations and significant risks. These include risks associated with, among others, the political, economic and legal environment, influence of national authorities over pricing regulation and competition in the industry.

Ten largest customers represented approximately 46% (2000: 53%) of the aeronautical revenues of the Group for the year ended 31 December 2001.

(b) Interest rate risk

The interest rates and terms of repayment of the bank loans of the Group and the Company are disclosed in Note 13.

30. CONCENTRATION OF RISK (continued)

(c) Foreign currency risk

The Group's businesses are principally conducted in Rmb, except that purchases of certain equipment, goods and materials and payment of consulting fee are in US dollar. Dividends to shareholders holding H Shares are declared in Rmb and paid in Hong Kong dollar. As at 31 December 2001, all of the Group's assets and liabilities were denominated in Rmb except that cash and cash equivalents of approximately Rmb259,784,000 (2000: Rmb234,845,000), accounts and other payables of approximately Rmb40,403,000 (2000: Rmb65,321,000) and long-term loans of approximately Rmb23,204,000 (2000: nil) were denominated in foreign currencies, principally in US dollars, HK dollars and Japanese yen. Fluctuation of the exchange rates of Rmb against foreign currencies could affect the Group's results of operations.

(d) Credit risk

The extent of the Group's credit exposure is represented by the aggregate balance of restricted cash, temporary cash investments, investments held for trading, accounts receivable and due from related parties. The maximum credit risk exposure in the event that other parties fail to perform their obligations under these financial instruments was approximately Rmb903 million and Rmb1,487 million as at 31 December 2001 and 2000, respectively.

Counterparties to financial instruments mainly consist of state-owned banks in the PRC, a financial institution in the PRC and a large number of airlines and related parties. The Group does not expect any counterparties to fail to meet their obligations.

(e) Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its construction commitments. The amount of undrawn credit facilities at the balance sheet date are disclosed in Note 13.

Any excess cash is invested mostly in temporary cash investments and investments held for trading (see Note 10).

31. SEGMENT REPORTING

The Group conducts its business within one business segment - the business of operating an airport and provision of related services in the PRC. The Group's chief decision maker for operation is considered to be the Group's general manager. The information reviewed by the general manager is identical to the information presented in the consolidated income statement. No segment income statement has been prepared by the Group during the years ended 31 December 2001 and 2000. The Group also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are located in the PRC. Accordingly, no geographical segment data is presented.

32. CONTINGENCIES

The directors of the Company understand that certain villagers living in the vicinity of the airport have made complaints to the Beijing Municipal Government of the aircraft engine noise created by approaching and departing aircraft, and requested relocation and/or compensation. The directors of the Company also understand that the relevant government authorities have been involved in resolving these complaints.

The outcome of this matter and the potential financial impact to the Company, if any, will depend on the final resolution of these complaints with the parties involved. The Company has no further information to ascertain any liability on its part and the extent of compensation payable, if any. No provision has been made in the consolidated financial statements for any costs to resolve this issue.

33. ULTIMATE HOLDING COMPANY

The Directors consider Beijing Capital Airport Group Corporation, a PRC state-owned enterprise under the supervision of CAAC, to be the ultimate holding company.

34. SUBSEQUENT EVENTS

On 18 April 2002, the Board of Directors proposed a final dividend of Rmb0.03424 per share for the year ended 31 December 2001, totaling approximately Rmb131,692,000 and an appropriation to the discretionary surplus reserve fund of approximately Rmb76,024,000 (20% of profit after tax). The proposed dividend distribution and the appropriation to the discretionary surplus reserve fund are subject to shareholders' approval in their next general meeting. In accordance with the revised IAS 10, "Events After the Balance Sheet Date", the dividend and appropriation to the discretionary surplus reserve fund approved after the balance sheet date will be recorded in the Group's financial statements for the year ending 31 December 2002.

(Amounts expressed in Rmb unless otherwise stated)

35. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEET

As at 31 December 2001, the net current assets and total assets less current liabilities of the Group amounted to approximately Rmb1,173 million (2000: Rmb870 million) and Rmb8,660 million (2000: Rmb8,653 million), respectively.

36. PRIOR YEAR COMPARATIVE FIGURES

Certain reclassifications among different categories under property, plant and equipment, accrued liabilities and other payables were made for balances as at 31 December 2000. In addition, certain income statement and cash flow items have been reclassified to conform with the presentation adopted for the year ended 31 December 2001. The directors are of the opinion that the reclassified presentation would better present the financial position, results of operations and cash flows of the Group and the Company as at 31 December 2000 and for the year then ended.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 18 April 2002.