

REPORT OF THE DIRECTORS



The Board is pleased to present the Annual Report of the Group, and audited financial statements of the Group and the Company for the fiscal year ended 31 December 2002.

PRINCIPAL BUSINESSES

The Company is engaged in both aeronautical and non-aeronautical businesses at Beijing Airport. 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 and leasing of advertising spaces inside and outside the terminals. In addition, through the Company's jointly controlled entities and subsidiaries including BGS, BAIK, BAFS, Bowei and Huaxia, the Company also provides ground handling and air catering services for domestic and foreign airlines, operates some restaurants in the terminals, provides maintenance and repair services for facilities at the terminals and provides services for passengers inside terminals.

OPERATION RESULTS AND FINANCIAL POSITION

The Group's operating results for the year ended 31 December 2002 and the financial position of the Group and the Company as at 31 December 2002 based on IFRS are set out on pages 36 to 38 of the Annual Report.

DIVIDENDS

The Board proposes the payment of a final dividend of Rmb0.05404 per share for the year of 2002, in the total amount of approximately Rmb207,846,000. Such proposal is subject to the approval by the annual general meeting of the Company. The aforesaid annual general meeting is scheduled to be held on Thursday, 12 June 2003 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 Monday, 30 June 2003 to shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 20 May 2003.



The register of members of the Company will be temporarily closed from Tuesday, 13 May 2003 to Thursday, 12 June 2003 (both days 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 Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 12 May 2003.

Pursuant to the resolution of the Board passed on 19 August 2002, the Company has declared to the shareholders of the Company an interim dividend of Rmb0.01758 per share. This interim dividend was paid on 25 October 2002, to the shareholders whose names appeared on the register of the members of the Company on 30 September 2002.

The total dividend of the Company for 2002 was Rmb0.07162 per share, representing approximately 55% of the earnings per share of the Company for the year of 2002. The total dividend of the Company for the year of 2001 was 0.04942 per share.

BANK LOANS

Details of the bank loans of the Group and the Company are set out in note 25 to the financial statements.

FIXED ASSETS

The fixed assets as at 31 December 2002 and the change in fixed assets of the Group and the Company for the fiscal year ended 31 December 2002 are set out in note 13 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the five largest customers of the Group represented 20.7% and 40.8% of the gross operating revenues of the Group for the fiscal year ended 31 December 2002 respectively.

The largest supplier and the five largest suppliers of the Group represented 10.2% and 15.9% of the total operating costs of the Group for the fiscal year ended 31 December 2002 respectively.

To the knowledge of the Board, none of the Company's directors and their respective associates (as defined in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules")) or 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 2002.



TAXATION

Details of taxation of the Group and the Company for the fiscal year ended 31 December 2002 are set out in note 9 to the financial statements.

RESERVES

Change in reserves of the Group and the Company for the fiscal year ended 31 December 2002 is set out on page 39 of the financial statements.

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Details of the Company's subsidiaries and jointly controlled entities as at 31 December 2002 are set out in notes 39 and 40 to the financial statements respectively.

CAPITAL STRUCTURE

The total number of outstanding shares of the Company as at 31 December 2002 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 2002, 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") (which has been superseded and replaced by section 336 of Securities and Futures Ordinance ("SFO") with effect from 1 April 2003) 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	100.00%	65.00%
ADP Management	H shares	384,230,000 (Note)	28.54%	9.99%

Note: Aeroports de Paris, Suez Lyonnaise Des Eaux and Group 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

Up to 31 December 2002, the use of proceeds from issue of H shares was as follows:

- Approximately Rmb420,000,000 had been paid for part of the 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 Rmb315,587,000 had been paid for the cost of construction of the Cross-Field Taxiway;
- Approximately Rmb1,342,299,000 had been used for the repayment of part of the bank loans.

The remaining proceeds were deposited in Bank of China.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2002. Neither the Company nor any of its subsidiaries has purchased or sold any of the shares of the Company during the year ended 31 December 2002.

PRE-EMPTIVE RIGHTS

Pursuant to the articles of associations of the Company and the laws of the PRC, the Company is not subject to any pre-emptive rights requiring it to offer new shares to its existing shareholders in proportion to their shareholding.



DIRECTORS AND SUPERVISORS

The Board of the Company consisted of 9 directors as at 31 December 2002. The directors were elected as members of the second term of office of the Board at the Company's annual general meeting held on 12 June 2002.

In January 2003, Mr. Li Peiyong tendered his resignation as director of the Company because of the transfer of his post, and Mr. Qiao Xiangshan, Mr. Zhang Qingju and Mr. Jia Fugui tendered their resignations as directors of the Company because they were approaching the retirement age. An extraordinary general meeting of the Company was held on 18 March 2003, in which Mr. Wang Jiadong was elected as an executive director of the Company, while Mr. Chen Guoxing, Mr. Zheng Hui and Mr. Wang Zengyi were elected as non-executive directors of the Company. Announcements were made by the Company on 24 January 2003 and on 18 March 2003. Details of the newly elected directors are set out in the Profiles of Directors, Supervisors and the Management.

The supervisory committee of the Company consisted of 3 supervisors as at 31 December 2002. The supervisors were elected as members of the second term of office of the supervisory committee at the annual general meeting held on 12 June 2002.

In January 2003, Mr. Liu Fuquan, who had been the supervisor of the Company representing the staff, tendered his resignation as a supervisor of the Company because of the transfer of his post. In order to further enhance the function of the supervisory committee of the Company, an extraordinary general meeting of the Company was held on 18 March 2003, in which the Article 117 of the articles of association of the Company was amended under a special resolution changing the composition of the supervisory committee from 3 members to 4 members, and a supervisor representing the shareholders as well as a supervisor representing the staff were newly elected. Announcements were made by the Company on 24 January 2003 and on 18 March 2003. Details of the newly elected supervisors are set out in the Profiles of Directors, Supervisors and the Management.

All executive directors have 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 2005. All non-executive directors and supervisors have entered into letters of undertaking to perform the obligations of non-executive directors and supervisors, respectively, in accordance with the articles of the associations with the Company. Except as mentioned above, the Company and its subsidiaries have not entered into any service agreement with any director or supervisor. None of the directors or 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 2002, none of the directors or supervisors had any interests in any shares or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance (which has been superseded and replaced by such definition under the SFO with effect from 1 April 2003)) as recorded in the Company's register required to be kept under section 29 of the SDI Ordinance (which has been superseded and replaced by section 352 of the SFO with effect from 1 April 2003), or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or, in the case of supervisors, which would be required, as it applies to directors, to be notified as above.

During the fiscal year ended 31 December 2002, 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 2002, none of the directors or supervisors was materially interested in any contracts or arrangements to which the Company or its subsidiaries or its jointly controlled entities was a party and which are significant to the business of the Group.

CONNECTED TRANSACTIONS

The connected transactions between the Group and other connected parties for the year ended 31 December 2002 were disclosed in note 38 to the financial statements.

The independent non-executive directors have reviewed the connected transactions, and confirmed to the Board 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.



DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETITIVE BUSINESS

During the fiscal year ended 31 December 2002, none of the directors or supervisors of the Company had any interest in any competitive business with the Company or its jointly controlled entities or its subsidiaries.

ENTRUSTED LOANS AND OVERDUE FIXED DEPOSITS

As at 31 December 2002, the Group did not have entrusted loans or any matured but not yet withdrawn fixed deposit placed in financial institution or any other entities.

MATERIAL LITIGATION OR ARBITRATION

The Group was not involved in any material litigation or arbitration during the year of 2002.

SIGNIFICANT POST BALANCE SHEET EVENT

Details of significant post balance sheet event of the Group are set out in note 41 to the financial statements.

AUDITORS

The Company convened a board meeting on 18 April 2002 and resolved that the Company would not re-appoint Arthur Andersen • Hua Qiang Certified Public Accountants and Arthur Andersen & Co. as its respective PRC and international auditors for 2002; and that the Company appointed PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers as its respective PRC and international auditors for 2002. The above-mentioned resolution was approved by the annual general meeting of the Company on 12 June 2002.

The Board will submit the resolution for the re-appointment of PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd and PricewaterhouseCoopers as the Company's PRC and international auditors respectively for the year 2003 at the forthcoming annual general meeting.

By order of the board of directors

Wang Zhanbin

Chairman

Beijing, the PRC

9 April 2003