

Beijing Capital International Airport Company Limited

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In the notes all amounts are shown in thousands of Rmb except 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 pursuant to a group restructuring in preparation of an offering of the Company's shares. On 27 January 2000, 1,346,150,000 H shares in the Company of RMB1.00 ("H Shares") each were issued to the public at HK\$1.87 per share and such H shares were listed on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 1 February 2000.

The Company and its subsidiaries are hereinafter collectively referred to as the "Group".

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The principal accounting policies adopted for the preparation of the unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2003 are consistent with those adopted for the preparation of the consolidated financial statements as at and for the year ended 31 December 2002.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of buildings and runways and trading investments. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

In 2002, the Group began to account for its post-retirement benefit costs of the employees in accordance with IFRS 19, "Employee Benefits". This has been accounted for as a prior period adjustment. This retrospective adjustment resulted in an increase of post-retirement benefit obligations of the Group as at 1 January 2002 of Rmb97,206,000, a reduction in share premium of the Group as at 1 January 2002 of Rmb43,355,000, a reduction in retained earnings of the Group as at 1 January 2002 of Rmb16,902,000 and a reduction in the consolidated profit of the Group for the six months ended 30 June 2002 of Rmb2,683,000.

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3. REVENUES

Revenues are comprised of (according to categories)

	For the six months ended 30 June	
	2003	2002
Aeronautical:		
Passenger charges	176,896	276,794
Aircraft movement fees and related charges	218,621	164,406
Airport fee	126,304	165,248
Ground handling facilities charge	54,067	94,107
Ground handling services income	57,398	47,582
Total aeronautical revenues	633,286	748,137
Less: Business tax and levies	(18,998)	(22,444)
Net aeronautical revenues	614,288	725,693
Non-aeronautical:		
Retailing	112,748	117,025
Air catering	24,433	28,965
Rental and others	68,077	89,072
Restaurant income	28,575	16,001
Advertising	44,095	40,461
Car parking	12,289	17,112
Repairs and maintenance services	1,213	9,957
Total non-aeronautical revenues	291,430	318,593
Less: Business tax and levies	(12,272)	(14,175)
Net non-aeronautical revenues	279,158	304,418
Revenues, net of business tax and levies	893,446	1,030,111



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4. SEGMENT INFORMATION

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 condensed consolidated income statement. No segment income statement has been prepared by the Group during the six months ended 30 June 2003. The Group 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.

5. PROFIT FROM OPERATIONS

The following items have been included in arriving at profit from operations:

	For the six months ended 30 June	
	2003	2002
Depreciation on property, plant and equipment		
— owned assets	212,673	204,107
— owned assets leased out under operating leases	2,843	4,897
Impairment of property, plant and equipment (included in other costs)		
— impairment losses	—	127
Loss on disposal of property, plant and equipment	—	599
Repairs and maintenance expenditure on property, plant and equipment	56,506	39,671
Amortisation of intangible assets (included in other costs)	2,388	522
Amortisation of goodwill (included in other costs)	53	50
Operating lease rentals payable		
— buildings	6,296	4,960
— equipment	—	1,210
— land use rights	6,335	5,919
Trade receivables		
— impairment charge for bad and doubtful debts	51	435
Staff costs	119,688	118,344

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6. FINANCE COSTS - net

	For the six months ended 30 June	
	2003	2002
Interest expenses:		
-bank loans repayable within five years	(39,336)	(48,323)
-bank loans repayable after five years	(1,498)	(13,265)
Interest income	5,144	7,582
Exchange losses	(99)	(2,331)
	<u>(35,789)</u>	<u>(56,337)</u>

7. TAXATION

Taxation has been provided 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.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Under PRC income tax law, except for certain exemption available to certain of the Company's jointly controlled entities, the entities within the Group are subject to enterprise income tax at a rate of 33% (2002: 33%) on the taxable income as reported in their statutory accounts which are prepared in accordance with the accounting principles and financial regulations applicable to PRC enterprises.

8. PROFIT APPROPRIATIONS

(a) Statutory and discretionary reserves

In accordance with the relevant laws and regulations of the PRC and the Articles of Association of the Company, when distributing the net profit of each year, the Company shall set aside 10% of its net profit (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, at the discretion of the directors, to 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 six months ended 30 June 2003, approximately Rmb10,322,000 and Rmb10,322,000 (representing 10% and 10% of net profit determined under PRC accounting standards) have been appropriated to the statutory surplus reserve fund and statutory public welfare fund, respectively.

The proposed profit appropriation of Rmb99,018,000 (20% of net profit determined under PRC accounting standards) to the discretionary surplus reserve fund for the year ended 31 December 2002 was recorded in the financial statements for the six months ended 30 June 2003.

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 IFRS. As at 30 June 2003, the reserve available for distribution was approximately Rmb194,315,000 (As at 31 December 2002: Rmb319,588,000).

(b) Dividends

	For the six months ended 30 June	
	2003	2002
Dividend paid		
— Last year final dividend	<u>207,846</u>	<u>131,692</u>
Last year final dividend per share (Rmb)	<u>0.05404</u>	<u>0.03424</u>
Dividend declared		
— Current year interim dividend	<u>49,654</u>	<u>67,615</u>
Current year interim dividend per share (Rmb)	<u>0.01291</u>	<u>0.01758</u>

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8. PROFIT APPROPRIATIONS (Continued)

(b) Dividends (continued)

Notes:

- (a) At the Board meeting held on 9 April 2003, the directors of the Company proposed a final dividend of Rmb0.05404 per ordinary share for the year ended 31 December 2002. The proposed dividend distribution was approved by the shareholders of the Company at the general meeting dated 12 June 2003 and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2003.
- (b) At the Board meeting held on 20 August 2003, the directors of the Company declared an interim dividend of Rmb0.01291 per ordinary share for the six months ended 30 June 2003. This declared dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the six months period.

	For the six months ended 30 June	
	2003	2002
Net profit (Rmb '000)	110,369	229,593
Weighted average number of ordinary shares in issue (thousands)	3,846,150	3,846,150
Basic earnings per share (Rmb per share)	<u>0.03</u>	<u>0.06</u>

No diluted earnings per share is presented as there were no potential dilutive ordinary shares outstanding during the six months ended 30 June 2003 and 2002.

10. INVESTMENT IN ASSOCIATED COMPANIES

	30 June 2003	31 December 2002
At beginning of year	4,798	—
Addition	15,028	4,814
Share of loss before and after taxation	<u>(634)</u>	<u>(16)</u>
At end of period	<u>19,192</u>	<u>4,798</u>



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10. INVESTMENT IN ASSOCIATED COMPANIES (Continued)

The principal associated companies, both of which are unlisted, are:

	Place of incorporation	Percentage of equity interest held
Global Airport logistics Co., Ltd.	Beijing, the PRC	33%
Beijing Tian Di Xun Jie Airport Information Technology Co., Ltd.	Beijing, the PRC	20%

There were no changes in the percentage of equity interests held in the associated companies in the six months ended 30 June 2003.

11. RECEIVABLES AND PREPAYMENTS

	30 June 2003	31 December 2002
Trade receivables	425,377	447,686
Less: Provision for impairment of receivables	(4,262)	(4,211)
Trade receivables - net	421,115	443,475
Receivables from related parties (note 16)	18,457	12,621
Other receivables and prepayments	44,600	45,182
	<u>484,172</u>	<u>501,278</u>

As at 30 June 2003, the aging analysis of the trade receivables was as follows:

	30 June 2003	31 December 2002
Less than 1 year	419,611	429,329
1-2 years	4,635	17,226
2-3 years	—	—
Over 3 years	1,131	1,131
	<u>425,377</u>	<u>447,686</u>

The credit terms given to trade customers are determined on an individual basis with a normal credit period of 3 months.

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12. TRADE AND OTHER PAYABLES

	<u>30 June 2003</u>	<u>31 December 2002</u>
Trade payables	80,609	93,961
Payables to related parties (note 16)	39,743	22,571
Dividends payable	135,100	—
Housing subsidy payable to employees	120,405	19,340
Other payables	387,979	394,076
	<u>763,836</u>	<u>529,948</u>

Housing subsidy payable to employees includes Rmb107,313,000 of one-off housing subsidy which was received from the Parent Company and is to be paid to certain employees of the Company on behalf of the Parent Company in accordance with the PRC housing reform regulations. The amount was attributable to the period prior to the group restructuring in 1999 in preparation for the offering of the Company's shares.

As at 30 June 2003, substantially all of the accounts payable were aged within one year.

13. 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 aircrafts, 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.

As at the period end, the outcome is still pending. Any 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 condensed consolidated financial statements for any costs to resolve this issue.

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14. COMMITMENTS

Capital commitments:

Capital commitments primarily relate to the construction of and the equipment to be installed at the airport terminal and other airport facilities upgrading projects. The Group had the following outstanding capital commitments not provided for in the financial statements:

	<u>30 June 2003</u>	31 December 2002
Authorised and contracted for	33,870	1,798
Authorised but not contracted for	<u>21,170</u>	<u>228,730</u>
	<u><u>55,040</u></u>	<u><u>230,528</u></u>

Operating lease commitments - where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>Land use rights</u>	<u>30 June 2003 Buildings</u>
Not later than 1 year	5,594	3,041
Later than 1 year and not later than 5 years	22,376	—
Later than 5 years	<u>231,473</u>	<u>—</u>
	<u><u>259,443</u></u>	<u><u>3,041</u></u>

	<u>Land use rights</u>	<u>31 December 2002 Buildings</u>
Not later than 1 year	5,594	7,442
Later than 1 year and not later than 5 years	22,376	—
Later than 5 years	<u>234,245</u>	<u>—</u>
	<u><u>262,215</u></u>	<u><u>7,442</u></u>

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14. COMMITMENTS (Continued)

Operating lease commitments - where the Group is the lessor

The future minimum lease payment receivables under non-cancellable operating leases for buildings are as follows:

	30 June 2003	31 December 2002
Not later than 1 year	68,743	60,986
Later than 1 year and not later than 5 years	32,479	30,284
Later than 5 years	7,772	8,289
	<u>108,994</u>	<u>99,559</u>

15. SUPPLEMENTARY INFORMATION TO CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Cash flow from/(used in) investing and financing activities included the following:

	For the six months ended 30 June	
	2003	2002
Investing activities:		
Purchase of property, plant and equipment	(277,130)	(55,792)
Disposal of trading investments	350,000	350,000
Purchase of trading investments	—	(350,000)
Investment in an associated company	(15,028)	—
Financing activities:		
Drawdown of long-term bank loans	—	8,456
Repayment of short-term bank loans	—	(200,000)
Repayment of long-term bank loans	(28,000)	(28,000)
Dividends paid	(72,746)	(131,692)

16. RELATED PARTY TRANSACTIONS

The Company is controlled by Beijing Capital Airport Group Corporation (established in the People's Republic of China) which owns 65% of the Company's shares. The remaining 35% of the shares are widely held. The directors of the Company consider Beijing Capital Airport Group Corporation, a PRC state-owned enterprise under the supervision of CAAC, to be the ultimate holding company.

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16. RELATED PARTY TRANSACTIONS (Continued)

The related parties of the Company are as follows:

Name of related parties	Nature of relationship
Beijing Capital Airport Group Corporation ("Parent Company")	The parent company
Singapore Airport Terminal Services Limited ("SATS")	Foreign joint venture partner in Beijing Airport Inflight Kitchen Ltd. ("BAIK") and Beijing Aviation Ground Services Co., Ltd. ("BGS"), jointly controlled entities of the Company
Singapore Airlines Limited ("SAL")	Parent company of SATS
China International Marine Containers (H. K.) LTD ("CIMC")	Minority shareholder in Beijing Bowei Airport Support Limited ("Boweit")

The following is a summary of significant transactions carried out with related parties in the ordinary course of business for the six months ended 30 June 2003:

Transactions with Parent Company:

	For the six months ended 30 June	
	2003	2002
Revenues:		
Leasing of premises to a subsidiary of the Parent Company	—	4,212
Provision of sewage processing services to the Parent Company	156	232
Provision of security services to the Parent Company and its units, subsidiaries and affiliates	89	56
Expenses:		
Provision of utilities and power supply by the Parent Company	(61,090)	(69,630)
Leasing of office space from the Parent Company	(3,300)	(3,300)
Leasing of land use rights from the Parent Company	(3,158)	(2,797)
Provision of nursery services by the Parent Company	(1,882)	(1,882)
Leasing of training centre from the Parent Company	(981)	(1,119)
Leasing of office equipment and vehicles from the Parent Company	—	(1,210)

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16. RELATED PARTY TRANSACTIONS (Continued)

On 17 March 2003, the Parent Company and the Company entered into an agreement whereby the Parent Company agreed to sell and the Company agreed to purchase the following assets for a consideration of RMB203,706,952:

- (i) the corridor linking Terminal 1 and Terminal 2 of the Beijing Airport
- (ii) the fire prevention and fighting passage of Terminal 2 of the Beijing Airport
- (iii) the platform for loading and unloading of passengers connecting Terminal 2 of the Beijing Airport; and
- (iv) the facilities and other sewage facilities connecting with the assets (i), (ii) and (iii) above.

On 28 March 2003, the Parent Company and Beijing Airport Huaxia Air Services Development Co., Ltd. ("Huaxia"), a subsidiary of the Company, entered into an agreement whereby the Parent Company agreed to sell and Huaxia agreed to purchase certain office equipments for a cash consideration of Rmb3,853,000.

During the six months ended 30 June 2003, the Company sold all the assets of its VIP service department which mainly comprise electrical appliances, telecommunication equipment and motor vehicles to the Parent Company for a consideration of Rmb1,507,000, according to the agreement dated 25 December 2002.

For the six months ended 30 June 2003, the Company received approximately Rmb27,309,000 on behalf of the Parent Company, representing the Parent Company's share of the aircraft movement fees for emergency medical services provided.

Transactions with SAL:

	For the six months ended 30 June	
	2003	2002
Ground handling services income	4,788	7,211

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

	For the six months ended 30 June	
	2003	2002
Share of ground handling services income from BGS	4,741	5,031
Rental income from BGS for leasing of counters, premises and office space	9,734	8,318

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16. RELATED PARTY TRANSACTIONS (Continued)

The following transactions were carried out by the Company's jointly controlled entities 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 jointly controlled entities.

	For the six months ended 30 June	
	2003	2002
Revenues / (expenses)		
Transactions between BGS and SAL:		
Income from ground handling services provided to SAL	6,233	8,655
Charges by SAL for the use of Cargo Departure Documentation System and Departure Control System	338	(481)
Transactions between BAIK and SAL:		
Income from air catering services to SAL	2,886	4,904
Charges by SAL for use of Kriscom System	(40)	—
Transactions between BAIK and SATS:		
Purchase of materials from SATS	(19)	(22)

The above transactions with related parties were entered into in accordance with the terms as set out in the agreements governing the transactions or as mutually agreed between the parties.

Year-end balances with related parties

As at 30 June 2003, balances with related parties comprised:

	30 June 2003	31 December 2002
Receivables from related parties:		
SAL	2,711	7,522
SATS	1,055	841
Foreign joint venture partner in BGS	14,691	4,258
Total	<u>18,457</u>	<u>12,621</u>
	30 June 2003	31 December 2002
Payable to related parties:		
Parent Company	38,400	22,571
Foreign joint-venture partner in BAIK	320	—
CIMC	1,023	—
Total	<u>39,743</u>	<u>22,571</u>

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17. INTERESTS IN SUBSIDIARIES

As at 30 June 2003, the Company had equity interests in the following subsidiaries, all of which are Sino-foreign equity joint ventures and operate in the PRC:

Name	Place and date of establishment	Percentage of equity interest held	Issued and fully paid capital ('000)	Principal activities
Beijing Airport Foods Service Co., Ltd.	Beijing, the PRC 31 December 1986	75%	Rmb27,000	Operation of restaurants and shops
Beijing Bowei Airport Support Limited	Beijing, the PRC 26 August 1999	60%	US\$4,200	Provision of repair and maintenance services for airport related facilities
Beijing Airport Huaxia Air Services Development Co., Ltd.	Beijing, the PRC 28 May 2002	80%	Rmb10,000	Provision of passenger lounge, storage, hotel information and cleaning services

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 30 June 2003, the Company had equity interests in the following jointly controlled entities, all of which are Sino-foreign equity joint ventures and operate in the PRC:

Name	Place and date of establishment	Percentage of equity interest held/voting power /profit sharing	Issued and fully paid capital ('000)	Principal activities
Beijing Aviation Ground Services Co., Ltd.	Beijing, the PRC 18 August 1994	60%	US\$9,900	Airport ground handling services
Beijing Airport Inflight Kitchen Ltd.	Beijing, the PRC 27 April 1993	60%	US\$24,000	Air catering services

The strategic operating, investing and financing activities of BAIK and BGS are jointly controlled by the Company and the respective joint venture partners.

19. ADDITIONAL FINANCIAL INFORMATION ON BALANCE SHEET

As at 30 June 2003, the net current assets of the Group amounted to approximately Rmb973,016,000. On the same date, the total assets less current liabilities of the Group were approximately Rmb8,284,286,000.

20. PRIOR YEAR COMPARATIVES

Certain 2002 comparative figures have been reclassified and restated to conform with the changes in presentation in the current period.

