

REPORT OF THE DIRECTORS



The board of directors of the Company (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 2003.

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 and Bowei, the Company also provides ground handling and air catering services for domestic and foreign airlines, operates some restaurants in the terminal, and provides maintenance and repair services for facilities at the terminal.

OPERATION RESULTS AND FINANCIAL POSITION

The Group's operating results for the year ended 31 December 2003 and the financial position of the Group and the Company as at 31 December 2003 based on International Financial Reporting Standards ("IFRS") are set out on pages 43 to 45 of the Annual Report.

DIVIDENDS

The Board proposes the payment of a final dividend of Rmb0.04007 per share for the year of 2003, with a total amount of approximately Rmb154,115,000. Such proposal is subject to the approval by shareholders at the Annual General Meeting of the Company. The aforesaid Annual General Meeting is scheduled to be held on Tuesday, 8 June 2004 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 Wednesday, 30 June 2004 to shareholders of the Company whose names appear on the register of members of the Company on Friday, 14 May 2004.

The register of members of the Company will be temporarily closed from Friday, 7 May 2004 to Tuesday, 8 June 2004 (both days inclusive). 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 Registrar: 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 Thursday, 6 May 2004.

Pursuant to the resolution of the Board passed on 20 August 2003, the Company declared to the shareholders of the Company an interim dividend of Rmb0.01291 per share for the half year of 2003. This interim dividend was paid on Friday, 31 October 2003 to the shareholders whose names appeared on the register of the members of the Company on Wednesday, 24 September 2003.



The total dividends of the Company for 2003 were Rmb0.05298 per share, representing approximately 52.98% of the earnings per share of the Company for the year of 2003. The total dividends of the Company for the year of 2002 were 0.07162 per share.

RESERVES

Change in reserves of the Group and the Company for the fiscal year ended 31 December 2003 is set out on page 46 of the Annual Report.

GROUP FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 4.

BANK LOANS

As at 31 December 2003, the Group's long-term bank loans amounted to Rmb813,239,000 (not including long-term bank loans payable within one year), long-term bank loans payable within one year amounted to Rmb230,000,000, with effective annual interest rates ranging from 2.3% to 5.7%.

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

PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment as at 31 December 2003 and the change in property, plant and equipment of the Group and the Company for the fiscal year ended 31 December 2003 are set out in note 13 to the financial statements.

ISSUED SHARE CAPITAL

During the fiscal year ended 31 December 2003, no share capital has been issued by the Company.

TAXATION

Details of taxation of the Group and the Company for the fiscal year ended 31 December 2003 are set out in note 9 to the financial statements.

ENTRUSTED LOANS AND OVERDUE FIXED DEPOSITS

As at 31 December 2003, the Group did not have entrusted loans or any matured but not yet withdrawn fixed deposits placed in financial institutions or any other entities.



MAJOR CUSTOMERS AND SUPPLIERS

The largest customer and the five largest customers of the Group represented 24.6% and 44.2% of the gross operating revenues of the Group for the fiscal year ended 31 December 2003 respectively.

The largest supplier and the five largest suppliers of the Group represented 10.2% and 17.6% of the total operating costs of the Group for the fiscal year ended 31 December 2003 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, Capital Airports Holding Company (formerly known as 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 2003.

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Details of the Company's subsidiaries and jointly controlled entities as at 31 December 2003 are set out in notes 39 and 40 to the financial statements respectively.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year ended 31 December 2003. Neither the Company nor any of its subsidiaries has purchased or sold any of the listed securities of the Company during the year ended 31 December 2003.

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.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2003 are disclosed in Note 38 to the financial statements. These transactions also constitute connected transactions under the Listing Rules, except for the Rmb59,884,000 of aircraft movement fees for emergency medical services received by the Company on behalf of the Parent Company.

Certain of these transactions constitute continuing connected transactions under the Listing Rules and are required to be disclosed in accordance with Rule 14.25 of the Listing Rules. Brief details of such transactions are as follows:



(a) Transactions with Parent Company:

2003*Rmb '000*

Revenues:

Leasing of premises to a subsidiary of the Parent Company	11,639
Provision of sewage processing services to the Parent Company	683
Provision of security services to the Parent Company and its units, subsidiaries and affiliates	144

Expenses:

Provision of utilities and power supply by the Parent Company	(142,086)
Leasing of land use rights from the Parent Company	(6,153)

(b) Transactions with Singapore Airlines Limited ("SAL"), parent company of Singapore Airport Terminal Services Limited ("SATS"), foreign joint venture partner in BAIK and BGS, jointly controlled entities of the Company:

2003*Rmb '000*

Provision of landing facilities, basic ground handling service, passenger and baggage security checks and other related services to SAL	10,451
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(c) 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):

2003*Rmb '000*

Share of ground handling services income from BGS	10,683
Rental income from BGS for leasing of counters, premises and office space	19,597



- (d) 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.

	2003
	<i>Rmb '000</i>
Revenues / (expenses)	
Transactions between BGS and SAL:	
Income from ground handling services provided to SAL	12,850
Transactions between BAIK and SAL:	
Income from air catering services to SAL	6,949

The Company has obtained waivers in relation to the continuing connected transactions of the Group described above from the Hong Kong Stock Exchange.

The independent non-executive directors of the Company have reviewed above continuing connected transactions and confirmed that:

- (a) the transactions have been entered into:
- (i) in the ordinary and usual course of business of the Company;
 - (ii) on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and
 - (iii) on terms fair and reasonable so far as the shareholders of the Company are concerned.
- (b) each category of the transactions did not exceed the higher of HK\$10,000,000 or 3% of the Group's consolidated net tangible assets for the relevant financial year as disclosed in the latest published audited accounts.

The auditors of the Company have examined above continuing connected transactions and have advised the directors in writing that:

- (a) each of the transactions has received approval of the Board;
- (b) each of the transactions has been entered into in accordance with the terms of the agreement governing the transaction or the related regulation stipulated by CAAC; and
- (c) each of the transactions has not exceed the higher of HK\$10,000,000 or 3% of the Group's consolidated net tangible assets for the relevant financial year as disclosed in the latest published audited accounts.



PROFILE OF DIRECTORS, SUPERVISORS AND THE MANAGEMENT

Directors, Supervisors and Senior Management

In January 2003, Mr. Li Peiyong tendered his resignation as director of the Company because of the change in his position 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 respectively. The Board of the Company consisted of 9 directors as at 31 December 2003.

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 change in his position. 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 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 respectively. The supervisory committee of the Company consisted of 4 supervisors as at 31 December 2003.

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 of 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).

The brief introduction of directors, supervisors and senior management of the Company is as follows:

Executive Directors

Mr. Wang Zhanbin, 47, was re-elected a director in June 2002 and was elected the chairman of the Board in March 2003. He is a senior engineer and obtained an MBA degree from Tsinghua University. During 1987 to 1995, he was the deputy head and then head of the China Airport Planning, Design and Research Institute of CAAC. From 1995 to October 1999, he was the general manager of China Airport Construction Corporation of CAAC. From October 1999 to January 2003, he was the Executive Director and General Manager of the Company.

Mr. Wang Jiadong, 51, was elected a director in March 2003. He has over 20 years of experience in civil aviation communications and airport management. From 1988 to 1993, Mr. Wang was the deputy head of the Parent Company's human resource division. From 1993 to 1994, he was the general manager of a subsidiary of the Parent Company. From 1994 to 2000, he was the deputy general manager, and subsequently the general manager of BGS. From October 2000 to January 2003, he was the Deputy General Manager of the Company, and was appointed the General Manager in January 2003.

Non-executive Directors

Mr. Dominique M. Pannier, 49, was elected a non-executive director in June 2002. He is the chairman of ADP Management, as well as the vice president of strategy at ADP Group, and the chairman of the world standing economic committee of Airports Council International. He is also a member of the respective boards of directors of Mexican Airport Operator Company, Cambodian Airport Management Company, Alyzia Airport Services (France) and ADP Telecommunications. Mr. Pannier has extensive knowledge and experience in finance and has occupied important positions in the General Accounting Office of France, Ministry of Finance of France, French Telecommunications, Radio and Television Transmission Corporation, the World Bank and Airports de Paris in the past 20 years.

Mr. Chen Guoxing, 49, was elected a non-executive director in March 2003. He is a graduate of Tongji University and a senior engineer. He has plenty of experience in infrastructure constructions, especially in airport constructions. From 1992 to 2002, Mr. Chen Guoxing was the vice director of the Planning Committee of Jiangxi Province, the director of the Engineering Administration Section of Communications Bureau, Jiangxi Province, then the General Commander of the Command Office for Construction of Changbei Airport (which is located in Nanchang, Jiangxi Province, PRC), and subsequently the deputy mayor of Nanchang city. From March 2002, he was the Vice General Manager of the Parent Company.

Mr. Zheng Hui, 46, was elected a non-executive director in March 2003. He graduated from Commercial College of Hunan University with a master degree in business administration. From February 1982 to September 1997, Mr. Zheng took important positions in the Central Disciplinary Committee, and subsequently in Supervision Bureau of CAAC. In September 1997, he was appointed the Vice Secretary of Communist Party and the Disciplinary Secretary of Air China. Mr. Zheng was the disciplinary secretary of the Parent Company from November 2000 to December 2002, and has been the vice secretary of Communist Party of the Parent Company since December 2002.

Mr. Wang Zengyi, 59, was elected a non-executive director in March 2003. He is a senior engineer and has abundant experience in civil aviation transportation and airport management. From December 1986 to 2002, he was the vice general manager of China General Aviation Corporation, the deputy director of the Shanxi Administration of Civil Aviation of China of CAAC and subsequently the director of the Tianjin Administration of Civil Aviation of China of CAAC. Mr. Wang Zengyi has been the general manager of Tianjin Binhai International Airport since January 2003.



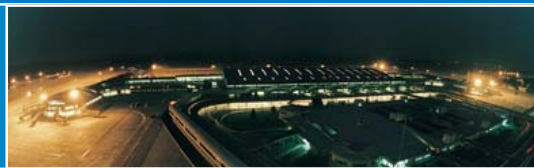
Mr. Long Tao, 52, was re-elected a non-executive director in June 2002. He holds a bachelor degree and a master degree in economics. He has over 15 years of experience in accounting, finance, securities and investment, including the experience gained when he worked with the New York office of Peat Marwick, Certified Public Accountants. Apart from being the chairman of Beijing Investment Consultants, Inc. and an assistant professor in the accounting department of Central Financial and Economics University, he is also an independent non-executive director of various companies listed on the Hong Kong Stock Exchange. Mr. Long has been elected an independent non-executive director of the Company since October 1999.

Mr. Moses Cheng Mo Chi, 54, was re-elected a non-executive director in June 2002. He graduated from the University of Hong Kong with a bachelor's degree in law. He was qualified as a solicitor of the Supreme Court of Hong Kong in 1975 and has since been qualified as a solicitor of the Supreme Court of England & Wales, a solicitor and a barrister of the Supreme Court of Victoria in Australia, a solicitor and an advocate of the Singapore Supreme Court, a notary public and an authorised attesting officer of the PRC. He was appointed and served as a member of the Legislative Council of Hong Kong from 1991 to 1995, the chairman of the Committee for Protection of Wages on Insolvency in 1992, the chairman of the Hong Kong Institute of Directors in 1995 and a Justice of the Peace in 1996. He currently holds more than twenty positions in social services. At present, apart from being a senior partner and practicing solicitor of P.C. WOO & CO., Mr. Cheng is also serving as an independent non-executive director of various companies listed on the Hong Kong Stock Exchange. Mr. Cheng has been elected an independent non-executive director of the Company since October 1999.

Mr. Kwong Che Keung, Gordon, 54, was re-elected as a non-executive director of the Company in June 2002. Mr. Kwong graduated from the University of Hong Kong in 1972, qualifying as a chartered accountant in England in 1977. He was a partner of Price Waterhouse from 1984 to 1998. He is currently a non-executive director of COSCO Pacific Limited and COSCO International Holdings Limited. He also serves as independent non-executive director of Tianjin Development Holdings Limited, Vision Century Corporation Limited, NWS Holdings Limited and China Oilfield Services Limited. In the public sector services, he was a part-time panel member of the Hong Kong Government's Central Policy Unit from 1993 to 1995 and was an independent member of the Council of the Hong Kong Stock Exchange from 1992 to 1997. He was a member of the Panel of Inquiry appointed by the Financial Secretary on the Penny Stocks Incident in 2002. Mr. Kwong has been elected an independent non-executive director of the Company since October 1999.

Members of the Supervisory Committee

Mr. Wang Zuoyi, aged 42, was elected a supervisor of the Company and the chairman of the Supervisory Committee in March 2003. Mr. Wang graduated from Buffalo School, New York State University of USA in 1999 with a master degree in business administration. From 1991 to 1993, Mr. Wang was engaged in the Finance Bureau of Hainan Province. From 1993 to 1996, he was the director and chief deputy general manager of Hainan Wuzhou Tourism Joint-stock Company Limited. From January 1997 to August 2001, Mr. Wang was the deputy general manager of Hainan International Trust and Investment Company. From 1998 to 2000, Mr. Wang was the director of Haikou Meilan Airport Company Limited. From August 2001 to January 2003, Mr. Wang was the financial controller of the Company. Mr. Wang has been the financial controller of the Parent Company since January 2003.



Ms. Li Xiaomei, aged 45, was elected a supervisor in March 2003. Ms. Li is an economist, and graduated from the Central Party College in economics and management. She has over 20 years of experience in labor economics and human resources. From 1994 to 1999, she was the deputy director of the Parent Company's human resources division. From October 1999 to January 2003, she was the HR manager of the Company. She has been the chairman of Labor Union of the Company and the secretary of the Disciplinary Committee of the Company since January 2003.

Mr. Han Xiaojing, 49, was re-elected a supervisor in June 2002. He graduated from the School of Law of Zhong Nan Politics and Legal Studies University with a bachelor degree in law. Thereafter, he studied at Politics and Legal Studies University of China and obtained a master degree in law in 1985. From 1985 to 1992, Mr. Han worked as a full-time lawyer in China Legal Affairs Center. In 1992, he established the Commerce & Finance Law Office in Beijing and has been the principal lawyer since then. Mr. Han has been a supervisor of the Company since October 1999.

Mr. Xia Zhidong, 50, was re-elected a supervisor in June 2002. He graduated from Tianjin Finance College with a bachelor degree in accounting and from the Research Institute of the Ministry of Finance with a master degree in economics in February 1985. From 1986 to 1988, Mr. Xia was the deputy head of the Accounting Research Division of the Research Institute of the Ministry of Finance. In 1988, he became the assistant director of the capital finance section of the international business department of the head office of the China Construction Bank. In 1989, Mr. Xia attended an Advanced Management Program at the Harvard Business School of USA. He was the deputy general manager of Ernst & Young Hua Ming, Certified Public Accountants from 1992 to 1996 and is currently the senior partner of Tin Wha CPAs. Mr. Xia has been a supervisor of the Company since December 1999.

Other Senior Management

Mr. Huang Gang, 41, was appointed a deputy general manager in January 2003. He is a senior engineer and a graduate of National Defense Technology University in electricity technology. He served in the National Defense Technology Industry Committee and then the National Transportation Investment Corporation from 1983 to 1993. He was the senior engineer of the National Development Bank from 1993 to January 2000. He participated in the management in relation to the phase two expansion project of Beijing Airport from June 1996 to January 2000, and was the assistant to the chief commander of the command office for the terminal area expansion project of Beijing Airport. He was the manager of operation department and the assistant to the general manager of the Company from January 2000 to January 2003.

Mr. Liu Fuquan, 55, was appointed the deputy general manager of the Company in January 2003. He graduated from the Central Party College in economics and management. Mr. Liu was the deputy director and then director of the Parent Company's human resources division from 1988 to 1998. From 1998 to October 1999, he was the secretary of the Disciplinary Committee of the Parent Company. From October 1999 to January 2003, he was the chairman of the Supervisory Committee and the secretary of the Disciplinary Committee of the Company.

Ms. Gao Lijia, 39, was appointed the deputy general manager of the Company in February 2004. Ms. Gao is a senior engineer. She graduated from the Computer Science Department, Beijing University of Aeronautics and Astronautics (BUAA) and obtained the master degree of engineering. From January 1989 to May 1995, Ms. Gao served at the branch institute of BUAA as deputy director and deputy professor of the Electronic Engineering Department. From May 1995 to June 1997, she worked in the electronic communication technology industry. From June 1997, Ms. Gao has been working at the Beijing Airport as manager of Computer Division of Technological Equipment Department and then deputy director of Computer Centre of the Parent Company. From October 1999 to October 2001, Ms. Gao was manager of the IT department of the Company and from October 2001 onwards, she became the manager of the Planning and Development Department of the Company.

Mr. Shu Yong, 31, was appointed the company secretary of the Company in January 2003. He graduated from the Law Department of Peking University with a bachelor degree in laws with double major in economic laws and international economic laws. He worked in the planning and operating division and then the corporate office of the Parent Company from August 1996 to October 1999. From October 1999 to January 2003, he was the legal affairs manager of the securities department and subsequently the manager of the Secretariat to the Board. And from May 2003, Mr. Shu has also been the deputy manager of Planning and Development Department of the Company.

DISCLOSURE OF INTERESTS

Substantial Shareholders

As at 31 December 2003, the interests and short positions of the shareholders, other than directors or supervisors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") were as follows:

Name of substantial shareholder	Class of shares	Number of shares interested	Capacity	Approximate percentage of shareholding in the relevant class of share capital	Approximate percentage of shareholding in the total issued share capital
Capital Airports Holding Company (formerly known as Beijing Capital Airport Group Corporation)	Domestic Shares	2,500,000,000 (L)	Beneficial owner	100% (L)	65% (L)
Vinci SA	H Shares	384,230,000 (L) (Note)	Interest of a controlled corporation	28.54% (L)	9.99% (L)
Aéroports de Paris	H Shares	384,230,000 (L) (Note)	Interest of a controlled corporation	28.54% (L)	9.99% (L)

(L) - Long position in shares

Note:

Pursuant to the Corporate Substantial Shareholder Notices filed by Vinci SA and Aeroports de Paris respectively on 14 April 2003, Vinci SA and Aeroports de Paris indirectly hold 384,230,000 H Shares. The following is a breakdown of the interests in shares of the Company held by Vinci SA and Aeroports de Paris:

Name of controlled corporation	Name of controlling shareholder	Percentage of control	Total interest in shares		Approximate percentage of shareholding in the relevant class of share capital
			Direct interest	Deemed interest	
ADP Management SA	Vinci Airports SA	34%	384,230,000	—	28.54%
	Aeroports de Paris	66%			
Vinci Airports SA	Vinci Concession SA	100%	—	384,230,000	28.54%
Vinci Concession SA	Vinci SA	100%	—	384,230,000	28.54%

Save as disclosed above, the register required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2003.

USE OF PROCEEDS FROM ISSUE OF H SHARES

Up to 31 December 2003, 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 Rmb127,116,000 had been used for the cost of renovating Terminal One;
- Approximately Rmb1,342,299,000 had been paid for the repayment of part of the bank loans.

The remaining proceeds were deposited in Bank of China, and will be paid for the cost of renovating Terminal One in line with the proposed use of proceeds as disclosed when such H shares of the Company were issued.

MATERIAL LITIGATION OR ARBITRATION

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

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

PricewaterhouseCoopers Zhong Tian Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers were approved by a resolution passed at the annual general meeting of the Company held on 12 June 2002 to replace Arthur Andersen · Hua Qiang Certified Public Accountants and Arther Andersen & Co., as the Company's PRC and international auditors respectively for the year 2003.

The Company's board of directors 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 2004 at the forthcoming annual general meeting.

By order of the Board

Wang Zhanbin

Chairman

Beijing, the PRC

31 March 2004