

## BUSINESS REVIEW

Benefiting from the continuing strong growth of China's economy, as well as stable performance of the global economy, the air traffic volume at the Beijing Airport showed a strong growth trend in 2004.

The negative influence caused by the outbreak of the Severe Acute Respiratory Syndrome ("SARS") was completely eliminated, and aircraft movements, passenger throughput and freight throughput all increased, especially that the aircraft movements and the passenger throughput both recorded double-digit increase.

Details of the air traffic volume at the Beijing Airport in 2004 are as follows:

	2004	2003	Change
<b>Aircraft Movements</b>	<b>304,778</b>	235,861	29.2%
Domestic	<b>237,724</b>	187,338	26.9%
International, Hong Kong & Macau	<b>67,054</b>	48,523	38.2%
<b>Passenger Throughput</b>	<b>34,883,190</b>	24,363,860	43.2%
Domestic	<b>26,560,565</b>	18,856,884	40.9%
International, Hong Kong & Macau	<b>8,322,625</b>	5,506,976	51.1%
<b>Freight Throughput</b>	<b>668,690</b>	662,142	1.0%
Domestic	<b>448,072</b>	424,129	5.6%
International, Hong Kong & Macau	<b>220,618</b>	238,013	(7.3%)

On 20 September 2004, Terminal 1 was re-opened after renovation, which effectively releasing the operational pressure of over capacity at the Beijing Airport. However, the pressure on terminal area as well as the air-field still exists. Therefore, the Company continued re-constructing the operational resources at the terminal area and the air-field so as to improve the operational environment. On one hand, the Company built 11 new aircraft parking stands to enhance its aircraft handling capacity, on the other hand, the Company added more security check channels and immigration counters to speed up the passenger flows.

## OVERVIEW OF THE AERONAUTICAL BUSINESS

The aeronautical revenues less business tax and levies of the Group in 2004 were Rmb1,727,927,000, while those in the previous year were Rmb1,256,138,000. Details are as follows:

	2004 (Rmb'000)	2003 (Rmb'000) (Restated)	Change
Passenger charges	<b>590,954</b>	448,588	31.7%
Aircraft movement fees and related charges	<b>708,471</b>	511,872	38.4%
Airport fee	<b>481,943</b>	334,528	44.1%
<b>Total aeronautical revenues</b>	<b>1,781,368</b>	1,294,988	37.6%
Business tax and levies	<b>(53,441)</b>	(38,850)	37.6%
<b>Aeronautical revenues less business tax and levies</b>	<b>1,727,927</b>	1,256,138	37.6%

In 2004, in addition to the growth of traffic volume which contributed to the growth of aeronautical revenues of the Group, the following factors also influenced the related revenues:

1. Aircraft movements and passenger throughput were severely affected during the SARS period in 2003, and the Group temporarily decreased its aeronautical charges on airlines, following guidance from CAAC.
2. In 2004, the movements of large aircrafts increased more significantly than those of the smaller aircrafts, and the contribution to the Group's aeronautical revenues of a large aircraft is significantly higher than that of a smaller aircraft.

Major Airlines at the Beijing Airport:

	Contribution to Aircraft Movements		Contribution to Passenger Throughput		Contribution to Freight Throughput	
	2004	2003	2004	2003	2004	2003
Air China Group (CA)	<b>36.1%</b>	36.1%	<b>40.5%</b>	42.0%	<b>45.2%</b>	46.1%
China Southern Airlines Group (CZ)	<b>20.4%</b>	23.0%	<b>21.0%</b>	21.2%	<b>15.1%</b>	20.4%
China Eastern Airlines Group (MU)	<b>12.6%</b>	13.6%	<b>12.5%</b>	13.1%	<b>11.2%</b>	10.9%
Hainan Airlines Group (HU)	<b>13.0%</b>	12.1%	<b>7.6%</b>	4.5%	<b>6.3%</b>	5.0%

Top 3 Domestic Originating / Destination Locations in 2004 Based on Traffic Volumes:

	Aircraft movements	Passenger Throughput	Freight Throughput
1	ShangHai	ShangHai	ShangHai
2	Guangzhou	Guangzhou	Guangzhou
3	Chengdu	Chengdu	Chengdu

Top 3 International and Regional Originating / Destination Locations in 2004 Based on Traffic Volumes:

	Aircraft movements	Passenger Throughput	Freight Throughput
1	Inchon	Hong Kong	Hong Kong
2	Tokyo	Inchon	Singapore
3	Hong Kong	Tokyo	Tokyo

## OVERVIEW OF THE NON-AERONAUTICAL BUSINESS

In 2004, the Group's non-aeronautical revenues less business tax and levies reached Rmb1,308,010,000, compared with Rmb936,169,000 in the previous year. Details are as follows:

	2004 (Rmb'000)	2003 (Rmb'000) (Restated)	Change
Ground handling facilities and services income	<b>278,807</b>	219,482	27.0%
Retailing	<b>514,103</b>	305,205	68.4%
Air catering	<b>81,121</b>	55,889	45.1%
Rental	<b>136,077</b>	122,588	11.0%
Restaurants	<b>111,708</b>	75,513	47.9%
Advertising	<b>110,469</b>	89,598	23.3%
Car parking	<b>45,346</b>	34,717	30.6%
Repair and maintenance services	<b>59,533</b>	24,329	144.7%
Others	<b>15,098</b>	44,708	(66.2%)
<b>Total non-aeronautical revenues</b>	<b>1,352,262</b>	972,029	39.1%
Business tax and levies	<b>(44,252)</b>	(35,860)	23.4%
<b>Non-aeronautical revenues less business tax and levies</b>	<b>1,308,010</b>	936,169	39.7%

In 2004, benefiting from the elimination of the influence of SARS and the increase of the air traffic volume, the ground handling facilities and services income of the Group reached Rmb278,807,000, representing an increase of 27.0% over the previous year.

Retailing revenue of the Group reached Rmb514,103,000 in 2004, representing an increase of 68.4% over the previous year. The significant increase was partly caused by the strong growth of passenger throughput, and the revenue was also attributable to the impact of the changes in the retail layout, which caused the consumption per person at the Beijing Airport to increase in 2004.

Since the business of the in-flight catering is closely related to the aircraft movements and the passenger throughput, and due to the increase in the products of BAIK provided to the clients other than airlines, the catering revenue of the Group reached Rmb81,121,000 in 2004, representing an increase of 45.1% over the previous year.

The rental revenue of the Group reached Rmb136,077,000 in 2004, representing an increase of 11.0% over the previous year. The reasons of such increase included new rental brought by the re-opening of Terminal 1 and the three-month rental discount to the tenants in Terminal 2 during SARS in the comparative period of 2003.

Because of the increase in the passenger throughput and the opening of new restaurants in the terminals, the Group restaurants revenue reached Rmb111,708,000 in 2004, representing an increase of 47.9% over the previous year.

The advertising revenue of the Group reached Rmb110,469,000 in 2004, representing an increase of 23.3% over the previous year. The increase was due to the addition of extra advertisement areas brought by the re-opening at Terminal 1, and the adjustment of fees for new advertising contracts by bidding after the original contracts expired, while the new prices were higher than the older ones.

Benefiting from the increase of the cars parking at the airport and the re-opening of the parking lot in front of the Terminal 1, car parking revenue of the Group reached Rmb45,346,000 in 2004, representing an increase of 30.6% over the previous year.

Because the business of Bower recovered after the SARS period, the repair and maintenance services revenues of the Group recorded Rmb59,533,000 in 2004, representing an obvious increase of 144.7% over the previous year.

The other income of the Group amounted to Rmb15,098,000 in 2004, representing a decrease of 66.2% from the previous year, and it was mainly caused by the dissolution of Beijing Airport HuaXia Air Services Development Co., Ltd ("HuaXia", a former subsidiary of the Company) in 2004, which previously provided services such as sanitary and trolley services in the terminal.

## OPERATING COSTS

In 2004, the operating costs of the Group amounted to Rmb1,895,467,000, while those of the previous year were Rmb1,506,631,000. Details are as follows:

	<b>2004</b> <i>(Rmb'000)</i>	2003 <i>(Rmb'000)</i> <i>(Restated)</i>	Change
Depreciation	<b>(458,939)</b>	(446,365)	2.8%
Staff costs	<b>(369,342)</b>	(303,014)	21.9%
Goods and materials	<b>(335,391)</b>	(220,039)	52.4%
Utilities and power	<b>(166,465)</b>	(142,086)	17.2%
Repairs and maintenance	<b>(124,423)</b>	(108,991)	14.2%
Other costs	<b>(440,907)</b>	(286,136)	54.1%
<b>Total operating costs</b>	<b>(1,895,467)</b>	(1,506,631)	25.8%

The depreciation of the Group reached Rmb458,939,000 in 2004, representing an increase of 2.8% over the previous year. This was mainly because of the increase in the fixed assets in accordance with the re-opening of the Terminal 1 and other re-constructions of operating resources.

In 2004, the staff costs of the Group increased by 21.9% over the previous year, which is caused by the following factors:

1. The increase in the part of the staff's salaries linked to performance, in line with the satisfactory results of the Group;
2. The increase in labour insurance based on the increase in the staff's salaries;
3. During the SARS period of 2003, the Group cancelled the staff's performance salary for two quarters.

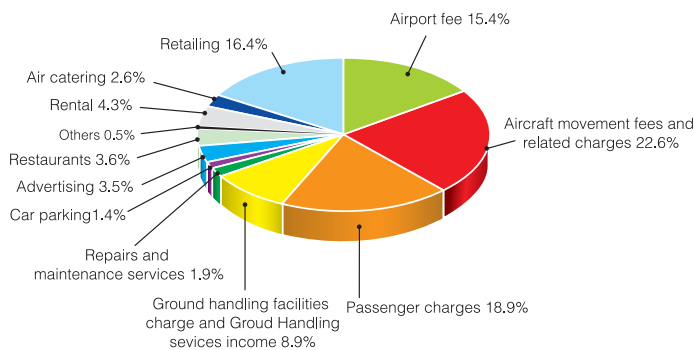
The cost of goods and materials arose along with the retailing and catering businesses of the Group. Because both retailing and catering businesses of the Group represented significant growth in 2004, the cost of goods and materials correspondingly increased by 52.4% over the previous year.

The cost of utilities and power represented an increase of 17.2% over the previous year, and this was mainly because of the increase in the air traffic volume, the increase in the prices of electricity and water supply, and the re-opening of Terminal 1.

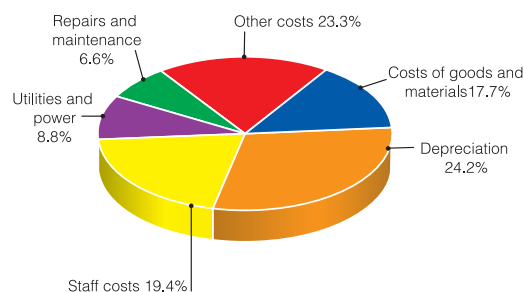
The repairs and maintenance cost of the Group increased by 14.2% over the previous year. This was mainly attributable to the facilities and systems at the air-field and the terminal areas were operating close to their designed capacities, and the Group increased the frequency of repairs and/or maintenance of these facilities and systems to reinforce the safety and efficiency of the equipment, which led to the increase in the related expenditure of the Group.

In 2004, the other costs of the Group increased by 54.1% over the previous year. The increase was led by the increase in the number and the salaries of temporary employees, as well as the costs associated with the re-opening of Terminal 1.

### Operating revenues of the Group in 2004



### Operating costs of the Group in 2004



## OTHER ITEMS IN THE INCOME STATEMENT

Gain from disposal of discontinuing operation of the Group in 2004 was Rmb6,719,000 which resulted from the reversal of the defined benefit pension and post-retirement benefit obligations related to Huaxia. Since Huaxia has been dissolved, the Group had no obligations to provide these benefits to employees of Huaxia.

The net financial costs of the Group were Rmb20,418,000 in 2004, representing a decrease of 63.7% over the previous year. It is because the Company repaid all its long-term bank loans and instead borrow the short-term bank loans as the interest on the short-term bank loans is lower than the long-term loans. And the interest income increased in line with the increase in deposit interest rate stipulated by the People's Bank of China. Exchange loss decreased because of repayment of bank loans denominated in Japanese yen.



## NET PROFIT

In 2004, the group's net profit totaled Rmb749,354,000, representing an increase of 87.3% over the previous year.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's businesses are principally conducted in Rmb, except that purchases of certain equipment, goods and materials and payment of consulting fee are paid in US dollars. Dividends to shareholders holding H Shares are declared in Rmb and paid in Hong Kong dollars. As at 31 December 2004, the Group's assets and liabilities denominated in foreign currencies, principally in US dollars, HK dollars and Japanese yen, include cash and cash equivalents of approximately Rmb63,055,000 (2003: Rmb180,279,000), term deposits with initial term of over three months of approximately Rmb19,038,000 (2003: Rmb124,620,000), receivables and prepayments of approximately Rmb55,464,000 (2003: Rmb48,497,000), trade and other payables of approximately Rmb39,567,000 (2003: Rmb22,866,000) and long-term bank loans of Rmb nil (2003: Rmb35,239,000). In 2004, the Group recorded an exchange loss of Rmb495,000. The fluctuations in exchange rates did not have a significant impact on the results of the Group in 2004, and it is not expected to have a significant impact on the Group's results next year.

## CONTINGENT LIABILITY

As at 31 December 2004, the Group did not have any significant contingent liability.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had total cash and cash equivalents and term deposits with initial term over three months amounting to Rmb1,329,674,000, and those as at 31 December 2003 were Rmb1,421,328,000.

As at 31 December 2004, the current ratio of the Group was 1.23, and that as at 31 December 2003 was 1.96. Such ratios were computed by dividing the total current assets by total current liabilities as at the dates respectively.

As at 31 December 2004, the equity of the Group was Rmb7,644,139,000, and that as at 31 December 2003 was Rmb7,145,015,000.

As at 31 December 2004, the liability to asset ratio of the Group was 20.8%, and that as at 31 December 2003 was 21.8%. Such ratios were computed by dividing the total amount of liabilities by the total assets as at the dates respectively.

Details of the capital commitment of the Group for the reporting period are on the note 32 to the financial report.

## EMPLOYEES AND EMPLOYEE WELFARE

- The number of employees of the Group is set out as follows, together with comparison with those in the previous year:

	<b>As at 31 December 2004</b>	As at 31 December 2003
Total employees	<b>8,872</b>	8,184
Contracted employees	<b>3,471</b>	3,528
Temporary employees	<b>5,401</b>	4,656

The remuneration policy of employees of the Company is determined by management based on market practice, mainly consisting of two parts including basic salaries and salaries on performance valuation.

- Employees' pension scheme

Details of the employees' pension scheme are set out in note 28 to the financial statements.

- Employees' housing benefits

Details of the employees' housing benefit are set out in note 29 to the financial statements.

- Employees' basic medical insurance and commercial medical insurance

With effect from 1 January 2003, the Company and its subsidiaries have complied with the regulation of the Beijing Municipal Government for basic medical insurance. According to the regulation, the Group pays the basic medical insurance and mutual insurance for large sum medical expenses for its employees, at 9% and 1% respectively, of the average monthly salaries of its employees in the previous year.

In addition, the Company and its subsidiaries may provide supplemental medical insurance benefits to their employees on a discretionary basis within 4% of the average monthly salary of its employees in the previous years. At the same time, the Group no longer pays cash medical subsidies or medical compensations to its employees. Therefore, the implementation of the above mentioned basic medical insurance does not have any substantial effect on the consolidated balance sheet and the consolidated income statement of the Group.

## PUBLIC SHAREHOLDING

As at the date of this report, the Board acknowledges that 1,346,150,000 H shares, representing 35% of the entire issued share capital of the Company are held by the public, which compliance with the minimum requirement of public shareholding under Rule 8.08 of the Listing Rules.