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 (the "Restructuring") of Capital Airport Holding Company (formerly known as Beijing Capital International Airport, hereinafter referred to as the "Parent Company"). The Company and its subsidiaries are hereinafter collectively referred to as the "Group".

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.

The principal activities of the Group are the ownership and operation of Beijing Airport and the provision of related services. During 2004, the Group disposed of one of its subsidiaries, Beijing Airport Huaxia Air Services Development Co., Ltd. ("Huaxia"). The financial summary of Huaxia is set out in note 6. On 13 December 2004, the Board of Directors approved the disposal of the relative assets and liabilities used to operate the Company's retailing and advertising businesses and Beijing Airport Foods Service Co., Ltd. ("BAFS"). The financial summaries of these businesses and BAFS are set out in note 40.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investment and trading investments.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

The Group adopted IFRS 3 "Business Combinations", International Accounting Standard ("IAS") 36 "Impairment of Assets" and IAS 38 "Intangible Assets" in relation to acquisitions with respective agreement dated on or after 31 March 2004 (notes 2 (f), (g) and (h)). Goodwill arising from the acquisition with the agreement date before 31 March 2004 was amortised using the straight-line method over their estimated useful lives and recognised in the income statement. In accordance with the provisions of IFRS 3, goodwill arising from acquisition on or after 31 March 2004 is tested annually for impairment and carried at cost less accumulated impairment losses. There is no impact on opening retained earnings as at 1 January 2004 from the adoption of these standards.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

In the current year, the Group changed its accounting policy in accounting for buildings and runways from the revaluation model to the historical cost model. This has been accounted for retrospectively and a prior year adjustment has been made in the financial statements. The change in the Group's accounting policy and the effect of adopting this revised policy are set out in notes 2(d) and 14 below.

(b) Group accounting

(1) Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, are consolidated.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See note 2 (f) below for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

Investments in subsidiaries are accounted for using the equity method in the Company's financial statements. Equity accounting involves recognising in the income statement the Company's share of the subsidiaries' profit or loss for the year. The Company's interests in the subsidiaries are carried in the balance sheet at amounts that reflect its share of the net assets of the subsidiaries and include goodwill on acquisition.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(2) Associated companies

Investments in associated companies are accounted for by the equity method of accounting. Under this method, the Company's share of the post-acquisition profits or losses of associated companies is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Associated companies are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interests in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investments in associated companies includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associated company equals or exceeds its interests in the associated companies, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of associated companies.

(3) Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the other venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. Under this method the Group includes its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows in the relevant components of the financial statements.

The Group recognises the portion of gains or losses on the sale of assets or provision of services to jointly controlled entities that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from jointly controlled entities that result from the purchase of assets or services by the Group from jointly controlled entities until the Group resells the assets or services to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

Investments in jointly controlled entities are accounted for using the equity method in the Company's financial statements.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Foreign currency translation

(1) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "measurement currency"). The consolidated financial statements are presented in Renminbi ("Rmb"), which is the measurement currency of the parent.

(2) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

(d) Property, plant and equipment

With effect from 1 January 2004, buildings and runways are stated at cost less accumulated depreciation and impairment losses. In prior years, buildings and runways were stated at revalued amounts, based on valuations by external independent valuers conducted at least every five years or sooner if considered necessary by the directors, less accumulated depreciation and impairment losses. The change in accounting policy from the revaluation model to the historical cost model in accounting for buildings and runways has been applied retrospectively and a prior year adjustment has been made in the financial statements. The effect of adopting this revised policy is set out in note 14.

Depreciation is calculated on the straight-line method to write off the cost less accumulated impairment losses of each asset to their residual values over their estimated useful lives as follows:

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit from operations.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment *(Continued)*

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Repairs and maintenance are charged to the income statement during the financial period in which they incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Assets under construction represent buildings under construction and plant and machinery pending installation and are stated at cost. This includes the cost of construction, costs of plant and equipment and other direct costs plus cost 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.

(e) Land use rights

Costs of land use rights are recognised as expenses on the straight-line basis over the duration of the land use rights of 14.5 to 50 years.

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill arising from acquisitions dated before 31 March 2004 are amortised using the straight-line method over their estimated useful lives and recognised in the income statement. Management determines the estimated useful lives of goodwill based on the remaining weighted average useful lives of the identifiable acquired depreciable / amortisable assets of the respective business at the time of acquisition. In accordance with the provision of IFRS 3, goodwill arising from acquisitions on or after 31 March 2004 is tested annually for impairment (see note 2(h)) and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each subsidiary.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Intangible assets

Expenditures to acquire utilisation rights of utilities facilities, software and software use rights are capitalised and amortised using the straight-line method on their estimated useful lives, but not exceeding 20 years. Intangible assets are not revalued.

(h) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(i) Investments

The Group classified its investments into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale and are included in non-current assets unless management has the express intention of holding the investments for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. The fair value of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price / earnings or price / cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(1) The Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(2) The Group is the lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

(k) Inventories

Inventories consist mainly of merchandise for resale, raw materials, spare parts and consumable items. Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. Net realisable value of spare parts and consumable items is the expected amount to be realised from use, whereas that of raw materials and merchandise for resale is the estimated selling price in the ordinary course of business, less the costs of completion and marketing and distribution expenses.

(l) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in the current liabilities on the balance sheet.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Term deposits with initial term of over three months

Term deposits with initial term of over three months are cash invested in fixed-term deposits with original maturities ranging from more than three months to one year and are carried at cost.

(o) Share capital

(1) Ordinary shares with discretionary dividends are classified as equity.

(2) Incremental external costs directly attributable to the issue of new shares, other than in connection with business combination, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

(p) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

(q) Taxation

The Group provides for taxation on the basis of the results for the year as adjusted for items which are not assessable or deductible for income tax purposes. Taxation of the Group is determined in accordance with relevant tax rules and regulations applicable in the jurisdictions where the Group operates.

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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits

(1) Pension obligations

The Group has various pension schemes in accordance with the requirements and practices in the PRC in which it operates.

For defined contribution plans, the Group participates in employee retirement schemes regarding pension benefits required under existing PRC legislation. 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. The regular contributions, which are charged to the income statement on an accrual basis, constitute net periodic costs for the year in which they are due and as such are included in staff costs. Once the contributions have been paid, the Group has no further payment obligations.

For defined benefit plans, the Company and certain of its subsidiaries provide pension subsidies to its retirees. The payment is calculated based on a number of factors, including position, number of years of service, technical ability, etc and includes various categories of allowances. The Group accounts for its defined benefit pension costs in respect of pension subsidies in accordance with IAS 19 "Employee Benefits". The liability in respect of defined benefit pension costs is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for actuarial gains and losses and past service cost. The defined benefit obligation is calculated on an actuarial basis and recognised over the employees' service period by using the projected unit credit method. The present value of the defined benefit obligations is determined by the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to income statement in the year in which they occur.

Defined benefit pension costs recognised in the income statement, include, if applicable, current service cost, interest cost and actuarial gains and losses.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits *(Continued)*

(2) Other post-retirement benefit obligations

The Company and certain of its subsidiaries provide post-retirement medical benefits to the retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age. The Group accounts for its post-retirement benefit costs in respect of medical benefits in accordance with IAS 19 "Employee Benefits". The expected costs of these benefits are accrued for over the period of employment, using an accounting methodology similar to that for defined benefit pension costs.

(3) Bonus entitlements

A liability for employee benefits in the form of bonus entitlements is recognised in payroll and welfare payable when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

— there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or

— past practice has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Liabilities for bonus entitlements are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Revenue recognition

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

Revenues are shown net of value-added tax, if applicable, and are recognised on the following bases;

(i) Airport fee is recognised upon receipt from outbound passengers when departing from the airport;

(ii) Aeronautical revenues other than airport fee are recognised when the related airport services are rendered;

(iii) Revenues from duty free shops and other shops, air catering, restaurants and lounges are recognised upon delivery of goods and/or when the title is passed to customers, or upon rendering of services;

(iv) Rental income is recognised on the straight-line basis over the lease period;

(v) Advertising income is recognised on the straight-line basis over the period of display of the advertisements;

(vi) Car parking fees are recognised when the parking services are rendered; and

(vii) Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

(u) Dividends

Dividends are recognised as liabilities in the financial statements in the period in which they are approved by the Company's shareholders.

(v) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

(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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(x) Comparatives

Where necessary, comparative figures have been reclassified and restated to conform with changes in presentation in the current year.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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.

The Group's overall financial risk management programme focuses on the unpredictability of the financial markets, optimising the level of financial risks the Group can bear, and minimising any potential adverse effects on the financial performance of the Group. Financial risk management is carried out by a treasury division and a revenue division under the Group's finance department, following the overall directions determined by the Board of Directors. The treasury division identifies and evaluates financial risks in close co-operation with the Group's operating units and makes decisions on portfolio of currencies and term of deposits. The revenue division monitors the Group's exposure to credit risks with respect to its customers and coordinate collection efforts. The Board of Directors provides directions on overall risk management and makes key decisions on matters which may give rise to significant financial risks.

(1) Foreign exchange 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 dollars. Dividends to shareholders holding H Shares are declared in Rmb and paid in Hong Kong dollars. As at 31 December 2004, all of the Group's assets and liabilities were denominated in Rmb except that 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 nil (2003: Rmb35,239,000) 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. The Group has not used any forward contracts or currency borrowings to hedge its exposure to foreign currency risk.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(2) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The interest rates and terms of repayment of the bank loans of the Group and the Company are disclosed in note 25. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(3) Credit risk

The extent of the Group's credit exposure is represented by the aggregate balance of term deposits with initial term of over three months, accounts receivable, notes 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 Rmb904,205,000 and Rmb842,228,000 as at 31 December 2004 and 2003 respectively.

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

(4) 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 25.

Any excess cash is invested mostly in term deposits with initial term of over three months with maturities between 3 to 12 months.

(b) Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

4 REVENUE AND 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. As the products and services provided by the Group are all related to the operation of an airport and subject to similar business risks, no segment income statement has been prepared by the Group during the year ended 31 December 2004. The Group also operates within one geographical segment because its revenues are primarily generated and its assets are located in the PRC. Accordingly, no geographical segment data are presented.

Analysis of revenue by category	**2004**	2003 *(Restated)*
Aeronautical:		
Passenger charges	**590,954**	448,588
Aircraft movement fees and related charges	**708,471**	511,872
Airport fee	**481,943**	334,528
Total aeronautical revenues	**1,781,368**	1,294,988
Non-aeronautical:		
Ground handling facilities and services income	**278,807**	219,482
Retailing	**514,103**	305,205
Air catering	**81,121**	55,889
Rental	**136,077**	122,588
Restaurants	**111,708**	75,513
Advertising	**110,469**	89,598
Car parking	**45,346**	34,717
Repairs and maintenance services	**59,533**	24,329
Others	**15,098**	44,708
Total non-aeronautical revenues	**1,352,262**	972,029
Total revenues	**3,133,630**	2,267,017

On 15 February 2004 the Board approved the disposal of Huaxia, the revenue of which was included in others under non-aeronautical revenues. (note 6)

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

5 PROFIT FROM OPERATIONS

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

	2004	2003 (Restated)
Depreciation on property, plant and equipment		
— owned assets	**455,025**	443,991
— owned assets leased out under operating leases	**3,914**	2,374
Loss on disposal of property, plant and equipment	**7,538**	6,481
Repairs and maintenance expenditure on property, plant and equipment	**124,423**	108,991
Amortisation of intangible assets (included in other costs)	**3,295**	4,776
Amortisation of goodwill (included in other costs)	**106**	106
Operating lease rentals payable		
— buildings	**9,191**	14,481
— land use rights	**12,396**	12,396
Inventory		
— write off of inventory	**6,265**	1,674
— inventory provision / (reversal)	**1,059**	(502)
Trade receivables		
— impairment charge for bad and doubtful debts	**5,691**	1,702
Staff costs (note 8)	**369,342**	303,014
Auditors' remuneration	**2,898**	2,701

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

6 DISCONTINUING OPERATION

On 15 February 2004 the Group disposed of its entire interest in Huaxia, a subsidiary principally engaged in the provision of passenger lounges, storage, hotel information and cleaning services. The financial summary of Huaxia was as follows:

	For the period ended 15 February 2004	For the year ended 31 December 2003
Revenues	—	30,076
Costs	—	(41,261)
Loss from operations	—	(11,185)
Finance cost, net	—	98
Loss before tax	—	(11,087)
Taxation	—	397
Net loss	—	(10,690)
Operating cash flows	—	7,664
Investing cash flows	—	(5,163)
Financing cash flows	—	—
Total cash flows	—	2,501

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

6 DISCONTINUING OPERATION *(Continued)*

	At 15 February 2004	At 31 December 2003
Non-current assets	**9,086**	9,086
Current assets	**15,052**	15,052
Total assets	**24,138**	24,138
Total liabilities	**(21,136)**	(21,136)
	3,002	3,002
Minority interest	**(600)**	(600)
Net assets	**2,402**	2,402

The gain on disposal was determined as follows:

Proceeds from disposal	**9,121**
Net assets disposed of	**(2,402)**
Gain on disposal	**6,719**

The net cash inflow on disposal is determined as follows:

Proceeds from disposal	**9,121**
Less: Cash and cash equivalents in subsidiary disposed of	**(8,993)**
Net cash inflow on disposal	**128**

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

7 FINANCE COSTS - NET

	2004	2003
Interest expenses:		
— bank loans repayable within five years	**(37,470)**	(65,544)
— bank loans repayable after five years	**—**	(608)
Interest income	**17,547**	12,519
Exchange loss	**(495)**	(2,623)
	(20,418)	(56,256)

8 STAFF COSTS

	2004	2003
Wages and salaries	**239,484**	186,784
Staff welfare	**22,065**	18,699
Housing fund (note 29)	**13,095**	11,214
Housing subsidies (note 29)	**20,278**	20,110
Pension costs — statutory pension (note 28)	**23,015**	17,986
Cost of post-retirement pension subsidies (note 28)	**5,419**	(334)
Cost of post-retirement medical benefits (note 28)	**(7,708)**	4,559
Other allowances and benefits	**53,694**	43,996
	369,342	303,014

As at 31 December 2004, the Group and the Company had 3,471 and 1,757 (2003: 3,528 and 1,720) employees respectively.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

9 DIRECTORS', SENIOR EXECUTIVES' AND SUPERVISORS' EMOLUMENTS

	2004	2003
Directors' emoluments		
Fees	**300**	300
Salaries and other benefits	**319**	276
Bonuses	**253**	300
Retirement scheme contributions	**28**	24
	900	900

The chairman's emoluments were paid by Parent Company, which were also included in directors' emoluments.

	2004	2003
Supervisors' emoluments		
Salaries and other benefits	**85**	94
Bonuses	**151**	48
Retirement scheme contributions	**14**	12
	250	154

Directors' emoluments disclosed above include Rmb300,000 (2003: Rmb300,000) paid to independent non-executive directors.

For the years ended 31 December 2004 and 2003, the annual emoluments paid to each of the directors, supervisors and the five highest paid employees fell within the band from Rmb nil to Rmb1 million.

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

The five highest-paid individuals include two directors, one supervisor and two senior executives (2003: two directors, one supervisor and two senior executives). The details of the emoluments of the directors and supervisors are set out above. The details of the two highest paid senior executives were as follows:

	2004	2003
Basic salaries and allowances	**175**	193
Bonuses	**297**	98
Retirement benefits	**28**	23
	500	314

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

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

10 TAXATION

Enterprise income tax

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

Under PRC income tax law, except for certain exemption available to certain Company's jointly controlled entities, the entities within the Group are subject to enterprise income tax and local income tax rate of 30% and 3% respectively, resulting in an aggregate tax rate of 33% (2003: 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.

Pursuant to the approval documents issued by Beijing State Tax Bureau and Beijing Local Tax Bureau, a jointly controlled entity has been granted a 50% reduction (i.e. 12%) in enterprise income tax from 2004 to 2007 and full exemption from local income tax from 2002 to 2006 and a 50% reduction (i.e. 1.5%) from 2007 to 2011.

Pursuant to the approval documents issued by Beijing State Tax Bureau and Beijing Local Tax Bureau, another jointly controlled entity enjoys a preferential enterprise income tax rate of 24% in 2004 and has been granted a 50% reduction (i.e. 1.5%) in local income tax from 2003 to 2007.

	2004	2003 *(Restated)*
Current tax	**368,422**	212,879
Deferred tax (note 26)	**(3,035)**	9,505
	365,387	222,384

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

10 TAXATION *(Continued)*

Enterprise income tax *(Continued)*

The difference between the annual taxation charge in the consolidated income statement and the amount which would result from applying the enacted tax rate to consolidated profit before taxation can be reconciled as follows:

	2004	2003 *(Restated)*
Profit before taxation	**1,126,079**	628,061
Tax calculated at a tax rate of 33% (2003: 33%)	**371,606**	207,260
Effect of tax holidays	**(9,415)**	(5,197)
Current year losses of subsidiaries for which no deferred tax asset is recognised	**366**	7,339
Utilisation of previously unrecognised tax losses	—	(901)
Investment income / (losses) not subject to income tax	**(212)**	449
Expenses not deductible for tax purposes	**3,042**	13,434
Tax charge	**365,387**	222,384

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, restaurants income, advertising income, car parking fee income and repairs and maintenance service 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.

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of Rmb749,354,000 (2003: Rmb400,117,000).

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

12 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 year.

	2004	2003 *(Restated)*
Net profit (Rmb'000)	**749,354**	400,117
Weighted average number of ordinary shares in issue (thousands)	**3,846,150**	3,846,150
Basic earnings per share (Rmb per share)	**0.19**	0.10

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2004 and 2003.

13 DIVIDENDS

	2004	2003
Dividend declared		
Interim dividend (Rmb'000)	**96,115**	49,654
Interim dividend per share (Rmb)	**0.02499**	0.01291
Dividend proposed		
Final dividend (Rmb'000)	**249,615**	154,115
Final dividend per share (Rmb)	**0.06490**	0.04007

At the Board of Directors' meeting held on 22 March 2005, the directors proposed a final dividend in respect of 2004 of Rmb0.06490 per ordinary share amounting to a total dividend of Rmb249,615,000. These financial statements do not reflect this dividend payable, but will reflect the proposed dividend in shareholders' equity as an appropriation of retained earnings for the year ended 31 December 2005.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

14 PROPERTY, PLANT AND EQUIPMENT

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

	Buildings and improvements	Runways	Plant, furniture, fixtures and equipment	Motor vehicles	Assets under construction	2004 Total	2003 Total
Cost							
Beginning of year, as previously reported	6,080,480	1,014,723	1,683,831	277,935	155,505	9,212,474	8,778,519
Change in accounting policy for buildings and runways	(54,380)	58,980	—	—	—	4,600	4,600
Beginning of year, as restated	6,026,100	1,073,703	1,683,831	277,935	155,505	9,217,074	8,783,119
Additions	6,119	—	22,900	18,417	710,419	757,855	486,252
Transfer	434,632	—	312,592	11,861	(759,085)	—	—
Disposals	(143,770)	—	(35,619)	(3,697)	—	(183,086)	(52,297)
Reclassification	56,780	(83,780)	26,390	610	—	—	—
End of year	6,379,861	989,923	2,010,094	305,126	106,839	9,791,843	9,217,074
Accumulated depreciation							
Beginning of year, as previously reported	778,555	465,365	798,378	213,898	—	2,256,196	1,836,124
Change in accounting policy for buildings and runways	115,321	91,695	—	—	—	207,016	214,519
Beginning of year, as restated	893,876	557,060	798,378	213,898	—	2,463,212	2,050,643
Charge for the year	204,821	35,113	193,247	25,758	—	458,939	446,365
Disposals	(143,316)	—	(13,471)	(3,330)	—	(160,117)	(33,796)
Reclassification	8,044	(10,836)	2,713	79	—	—	—
End of year	963,425	581,337	980,867	236,405	—	2,762,034	2,463,212
Net book value							
End of year	5,416,436	408,586	1,029,227	68,721	106,839	7,029,809	6,753,862
Beginning of year, as previously reported	5,301,925	549,358	885,453	64,037	155,505	6,956,278	6,942,395
Change in accounting policy for buildings and runways	(169,701)	(32,715)	—	—	—	(202,416)	(209,919)
Beginning of year, as restated	5,132,224	516,643	885,453	64,037	155,505	6,753,862	6,732,476

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	Buildings and improvements	Runways	Plant, furniture, fixtures and other equipment	Motor vehicles	Assets under construction	2004 Total	2003 Total
Cost							
Beginning of year, as previously reported	5,989,852	1,014,723	1,628,256	177,813	154,514	8,965,158	8,547,760
Change in accounting policy for buildings and runways	(54,380)	58,980	—	—	—	4,600	4,600
Beginning of year, as restated	5,935,472	1,073,703	1,628,256	177,813	154,514	8,969,758	8,552,360
Additions	338	—	15,279	5,196	696,389	717,202	467,444
Transfer	434,435	—	311,389	5,462	(751,286)	—	—
Disposals	(143,735)	—	(28,365)	(2,214)	—	(174,314)	(50,046)
Reclassification	56,780	(83,780)	26,390	610	—	—	—
End of year	6,283,290	989,923	1,952,949	186,867	99,617	9,512,646	8,969,758
Accumulated depreciation							
Beginning of year, as previously reported	742,996	465,365	767,467	135,260	—	2,111,088	1,709,694
Change in accounting policy for buildings and runways	115,321	91,695	—	—	—	207,016	214,519
Beginning of year, as restated	858,317	557,060	767,467	135,260	—	2,318,104	1,924,213
Charge for the year	197,621	35,113	186,743	18,986	—	438,463	425,964
Disposals	(143,290)	—	(10,897)	(1,921)	—	(156,108)	(32,073)
Reclassification	8,044	(10,836)	2,713	79	—	—	—
End of year	920,692	581,337	946,026	152,404	—	2,600,459	2,318,104
Net book value							
End of year	5,362,598	408,586	1,006,923	34,463	99,617	6,912,187	6,651,654
Beginning of year, as previously reported	5,246,856	549,358	860,789	42,553	154,514	6,854,070	6,838,066
Change in accounting policy for buildings and runways	(169,701)	(32,715)	—	—	—	(202,416)	(209,919)
Beginning of year, as restated	5,077,155	516,643	860,789	42,553	154,514	6,651,654	6,628,147

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Leased assets, where the Group is a lessor, comprise buildings leased to third parties under operating leases with cost and accumulated depreciation as follows:

	2004	2003 *(Restated)*
Cost	**129,417**	73,491
Accumulated depreciation	**(19,443)**	(10,089)
Net book amount	**109,974**	63,402

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 depreciated replacement cost approach.

The revaluation surplus of approximately Rmb229,862,000 (net of deferred taxation) was recorded in the Group's and the Company's financial statements prior to 2004.

During the year ended 31 December 2004, the Group changed its accounting policy with respect to its buildings and runways. In previous years, the Group carried its buildings and runways at revalued amounts, based on valuations by external independent valuers conducted at least every five years or sooner if considered necessary by the directors, less accumulated depreciation and impairment losses. With effect from 1 January 2004, the Group decided to carry its buildings and runways at historical cost less accumulated depreciation and impairment losses in order to conform with the benchmark treatment in IAS 16. Retrospective adjustments have been made to account for the change in accounting policy.

The retrospective adjustments resulted in a reduction in net book value of property, plant and equipment of the Group and the Company as at 1 January 2004 and 1 January 2003 of Rmb202,416,000 and Rmb209,919,000 respectively, a reduction in revaluation surplus of the Group and the Company as at 1 January 2004 and 1 January 2003 of Rmb229,862,000, a reduction in retained earnings of the Group and the Company as at 1 January 2004 and 1 January 2003 of Rmb38,093,000 and Rmb30,982,000 respectively and an increase in the net profit of the Group and the Company for the years ended 31 December 2004 and 2003 of Rmb7,111,000.

Interest expenses capitalised to assets under construction for the year ended 31 December 2004 amounted to Rmb13,232,000 (2003: Rmb5,682,000). The capitalisation rate used to determine the amount of borrowing cost eligible for the capitalisation was 4.536% per annum for the year ended 31 December 2004 (2003: 5.21%).

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

15 LAND USE RIGHTS

As at 31 December 2004, land use rights comprised:

	The Group		The Company	
	2004	2003	**2004**	2003
Cost	**278,933**	278,933	**261,015**	261,015
Accumulated amortisation	**(32,897)**	(26,654)	**(27,189)**	(21,969)
Net	**246,036**	252,279	**233,826**	239,046

In addition, the Company 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 for 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 Rmb6,153,000 (2003: Rmb6,153,000).

16 GOODWILL

Goodwill arose from the acquisition of an additional 25% equity interest in BAFS, a subsidiary.

	The Group and the Company	
	2004	2003
Cost		
At beginning and end of year	**769**	769
Accumulated amortisation		
At beginning of year	**236**	130
Amortisation for the year	**106**	106
At end of year	**342**	236
Net book amount		
At end of year	**427**	533

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

17 INTANGIBLE ASSETS

Intangible assets comprised utilisation rights of utility facilities and software use rights which are amortised on a straight-line basis over 14.5 years and 3 years respectively.

	The Group					
	Utilisation rights of utility facilities		Software and software use rights		Total	
	2004	2003	**2004**	2003	**2004**	2003
Cost						
At beginning of year	**1,322**	1,322	**14,999**	14,999	**16,321**	16,321
Addition	**—**	—	**2,260**	—	**2,260**	—
At end of year	**1,322**	1,322	**17,259**	14,999	**18,581**	16,321
Accumulated amortisation						
At beginning of year	**471**	380	**9,691**	5,006	**10,162**	5,386
Amortisation for the year	**91**	91	**3,204**	4,685	**3,295**	4,776
At end of year	**562**	471	**12,895**	9,691	**13,457**	10,162
Net book amount						
At end of year	**760**	851	**4,364**	5,308	**5,124**	6,159

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

17 INTANGIBLE ASSETS *(Continued)*

	The Company	
	Software and software use right	
	2004	2003
Cost		
At beginning of year	**11,711**	11,711
Addition	**2,236**	—
At end of year	**13,947**	11,711
Accumulated amortisation		
At beginning of year	**7,265**	2,802
Amortisation for the year	**2,982**	4,463
At end of year	**10,247**	7,265
Net book amount		
At end of year	**3,700**	4,446

18 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2004	2003
At beginning of year	**41,569**	36,857
(Disposal) / addition	**(2,402)**	1,600
Share of profit*	**12,979**	10,312
Dividend received	**(6,000)**	(7,200)
At end of year	**46,146**	41,569

*Share of profit is after tax and minority interest of subsidiaries

Unlisted investments in subsidiaries at cost were approximately Rmb39,968,000 and Rmb49,568,000 as at 31 December 2004 and 2003 respectively.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

19 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	The Company	
	2004	2003
At beginning of year	**189,526**	200,261
Share of profit*	**32,810**	9,780
Dividend received	**(11,191)**	(20,515)
At end of year	**211,145**	189,526

*Share of profit is after tax and minority interest of jointly controlled entities

Unlisted investments in jointly controlled entities at cost were approximately Rmb163,788,000 and Rmb163,788,000 as at 31 December 2004 and 2003 respectively.

20 INVESTMENTS IN ASSOCIATED COMPANIES

	The Group and the Company	
	2004	2003
At beginning of year	**30,733**	4,798
Addition	—	27,294
Share of loss before and after taxation	**(692)**	(1,359)
At end of year	**30,041**	30,733

Unlisted investments in associated companies at cost were approximately Rmb32,108,000 and Rmb32,108,000 as at 31 December 2004 and 2003 respectively.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

20 INVESTMENTS IN ASSOCIATED COMPANIES *(Continued)*

The principal associated companies, all 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%
Beijing Airport Cargo Consolidation Service Co., Ltd.	Beijing, the PRC	35%

There were no changes in the percentage of equity interests held in the associated companies for the year ended 31 December 2004.

21 INVENTORIES

	The Group		The Company	
	2004	2003	**2004**	2003
Merchandise for resale	**76,936**	62,804	**76,936**	62,804
Raw materials	**36,438**	16,599	**—**	—
Spare parts and consumable items	**11,024**	14,204	**11,024**	14,204
	124,398	93,607	**87,960**	77,008
Less: Provision for inventories	**(5,699)**	(4,640)	**(2,295)**	(4,640)
	118,699	88,967	**85,665**	72,368

At 31 December 2004, the carrying amounts of inventories that are carried at net realisable value amounted to approximately Rmb2,600,000 (2003: Rmb3,920,000).

For the year ended 31 December 2004, the Group wrote off approximately Rmb6,265,000 (2003: Rmb1,674,000) of inventories and reversed the related inventory provision of Rmb2,345,000 (2003: Rmb502,000).

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

22 RECEIVABLES AND PREPAYMENTS

	The Group		The Company	
	2004	2003	**2004**	2003
Trade receivables	**792,439**	511,950	**726,644**	460,960
Less: Provision for impairment of receivables	**(11,604)**	(5,913)	**(11,604)**	(5,913)
Trade receivables - net	**780,835**	506,037	**715,040**	455,047
Notes receivables	**50,000**	—	**50,000**	—
Receivables from contractors for returned construction materials	**2,399**	3,654	**2,399**	3,654
Prepayments	**8,952**	5,223	**6,455**	3,375
Receivables from related parties (note 37)	**18,244**	14,798	**25,647**	21,501
Interest receivable	**3,010**	123	**3,010**	123
Others	**38,049**	33,331	**20,193**	27,561
	901,489	563,166	**822,744**	511,261

At 31 December 2004, the aging analysis of the trade receivables was as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
Less than 1 year	**722,567**	455,882	**657,083**	405,640
1-2 years	**69,720**	54,937	**69,475**	54,189
2-3 years	**152**	—	**86**	—
Over 3 years	—	1,131	—	1,131
	792,439	511,950	**726,644**	460,960

The credit terms given to trade customers are determined on individual basis with the normal credit period between 3 to 6 months.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

23 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	2003	**2004**	2003
Cash at bank and in hand	**936,088**	970,816	**887,162**	910,445
Short term bank deposits	**338,460**	129,119	**318,060**	93,719
	1,274,548	1,099,935	**1,205,222**	1,004,164

The effective interest rate on short term bank deposits was 1.62%-1.71% per annum (2003: 1.41%-1.80%) and these deposits have maturities ranging from one to three months.

24 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
Construction payable	**214,057**	22,729	**213,576**	22,729
Receipts on behalf of North China Air Traffic Control Bureau	**209,275**	188,731	**209,275**	188,731
Payroll and welfare payable	**105,030**	71,391	**85,897**	55,820
Trade payables	**96,388**	72,704	**75,089**	59,600
Dividend payable	**62,475**	—	**62,475**	—
Housing subsidy payable to employees	**47,922**	77,780	**29,460**	53,488
Adjustment fee payable	**42,631**	42,631	**42,631**	42,631
Payables to related parties (note 37)	**29,871**	63,552	**48,703**	74,279
Rental deposit received	**28,603**	13,360	**28,603**	13,360
Advertising customer advances	**14,101**	15,064	**14,101**	15,064
Consulting fee payable	**9,850**	8,818	**8,742**	8,773
Retention monies payable on maintenance contracts	**6,737**	4,925	**6,009**	4,402
Maintenance fee payable	**1,279**	1,994	**1,279**	1,994
Planting fee payable	**1,053**	1,053	**1,053**	1,053
Airport fee and tourism development fund payable	**—**	38,397	**—**	38,397
Other payables	**80,692**	76,100	**69,392**	62,309
	949,964	699,229	**896,285**	642,630

24 TRADE AND OTHER PAYABLES *(Continued)*

As at December 2004 and 2003, all trade payables were aged within one year.

Before 1 September 2004, in accordance with regulations promulgated by the Ministry of Finance of the PRC and CAAC, the Company is required to collect on behalf of the General Administration of Civil Aviation of China ("CAAC") 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 refunds 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. In accordance with the "Notice regarding Several Questions on Levy and Management Methods of Civil Aviation Airport Construction Fee" issued jointly by General Administration of Civil Aviation of China and Ministry of Finance of People's Republic of China on 22 July 2004, with effect from 1 September 2004, Airport Fee is collected together with airtickets sold instead of being collected at airport.

Housing subsidy payable to employees includes 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 and was attributable to the period prior to the group restructuring in 1999 in preparation for the offering of the Company's shares.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

25 BANK LOANS (UNSECURED)

Short term bank loans (unsecured)

As at 31 December 2004, the Group and the Company had short term bank borrowings granted by various banks amounting to approximately Rmb750,000,000 (2003: nil). These borrowings bore interest of 4.536% per annum. As at 31 December 2004, all the short term bank borrowings were unsecured.

Long term bank loans (unsecured)

As at 31 December 2004, the Group and the Company had no long term bank borrowings.

The Group's and Company's bank borrowings were repayable as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
Within one year	—	230,000	—	230,000
In the second year	—	230,000	—	230,000
In the third to fifth year	—	548,000	—	548,000
After five years	—	35,239	—	35,239
	—	1,043,239	—	1,043,239
Less: Amounts due within one year included in current liabilities	—	(230,000)	—	(230,000)
	—	813,239	—	813,239

As at 31 December 2003, the Group and the Company had unused loan facilities (denominated in Japanese yen) totalling approximately Rmb457 million.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

26 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33% (2003: 33%).

The movement on the deferred income tax account was as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
At beginning of year, as previously reported	**28,916**	38,029	**17,654**	27,004
Effect of change in accounting policy for buildings and runways	**10,647**	11,039	**10,647**	11,039
At beginning of year, as restated	**39,563**	49,068	**28,301**	38,043
Charged to net profit (note 10)	**3,035**	(9,505)	**3,502**	(9,742)
Disposal of a subsidiary	**(4,490)**	—	**—**	—
At end of year	**38,108**	39,563	**31,803**	28,301

The movement in deferred tax assets and liabilities of the Group and Company during the year was as follows:

	The Group				The Company			
Deferred tax assets	**Defined benefit pension and post-retirement benefit obligations** (1)	**Other temporary differences** (2)	**2004 Total**	2003 Total	**Defined benefit pension and post— retirement benefit obligations** (1)	**Other temporary differences** (2)	**2004 Total**	2003 Total
Beginning of year	40,541	1,551	42,092	49,068	29,280	1,550	30,830	38,043
Credited / (charged) to net profit	(1,208)	7,956	6,748	(6,976)	(742)	7,957	7,215	(7,213)
Disposal of a subsidiary	(4,490)	—	(4,490)	—	—	—	—	—
End of year	34,843	9,507	44,350	42,092	28,538	9,507	38,045	30,830

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

26 DEFERRED INCOME TAXES *(Continued)*

Deferred tax liabilities	The Group Valuation surplus (3)	The Group Other temporary differences (2)	The Group 2004 Total	The Group 2003 Total	The Company Valuation surplus (3)	The Company Other temporary differences (2)	The Company 2004 Total	The Company 2003 Total
Beginning of year, as previously reported	10,647	2,529	13,176	11,039	10,647	2,529	13,176	11,039
Effect of change in accounting policy for buildings and runways	(10,647)	—	(10,647)	(11,039)	(10,647)	—	(10,647)	(11,039)
Beginning of year, as restated	—	2,529	2,529	—	—	2,529	2,529	—
Charged/ (credited) to net profit	—	3,713	3,713	2,529	—	3,713	3,713	2,529
End of year	—	6,242	6,242	2,529	—	6,242	6,242	2,529

(1) The Group and the Company provide defined benefit pension and post-retirement medical benefits ("post-retirement benefits") to their retired employees. The post-retirement benefits, though payable in the future, are recognised in the current period when the employees render services. The Group and the Company recognised a deferred tax asset arising from the recognition of the provision for these post-retirement benefits.

(2) Other temporary differences arose from differences between the tax bases of various assets and liabilities and their carrying amounts in the financial statements.

(3) 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 the Valuer. 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. In 2004, the company effected a change in accounting policy from the revaluation model to the historical cost model in accounting for buildings and runways (see note 14). The related deferred tax liability was reversed accordingly.

Deferred income tax assets are recognised for tax loss carry forward to the extent that the realisation of the related tax benefit through the future taxable profit is probable.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

26 DEFERRED INCOME TAXES *(Continued)*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets of the Group and the Company:

	The Group		The Company	
	2004	2003	**2004**	2003
Deferred tax assets	**38,108**	39,563	**31,803**	28,301

The amounts shown in the balance sheets of the Group and the Company include the following:

	The Group		The Company	
	2004	2003	**2004**	2003
Deferred tax assets to be recovered after more than 12 months	**37,644**	41,887	**31,791**	30,704
Deferred tax liability to be settled after more than 12 months	**6,242**	2,529	**6,242**	2,529

27 INCOME TAX AND OTHER TAXES PAYABLE

Income tax and other taxes payable comprised:

	The Group		The Company	
	2004	2003	**2004**	2003
Enterprise income tax	**165,802**	74,320	**159,268**	72,649
Business tax	**43,155**	33,849	**38,984**	31,704
Property tax	**1,633**	8,945	**1,633**	8,945
City construction tax	**94**	1,229	**—**	1,202
Value-added tax	**849**	1,602	**1,058**	1,612
	211,533	119,945	**200,943**	116,112

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

28 PENSIONS AND OTHER POST-RETIREMENT BENEFIT OBLIGATIONS

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 20% and 19% of the employees' salaries in 2004 and 2003 respectively.

Obligations in respect of the state-sponsored pension scheme and the supplementary defined contribution pension plan of Rmb4,592,000 (2003: Rmb5,830,000) and Rmb469,000 (2003: Rmb469,000) respectively are included under current liabilities.

Apart from the above, the Company and certain of its subsidiaries also provides pension subsidies and medical benefits to their retired employees. Based on the assessment and in accordance with the requirements of IAS 19, "Employee Benefits", the Group estimated that, as at 31 December 2004, provisions of Rmb105,586,000 and Rmb86,478,000 (2003: Rmb122,852,000 and Rmb88,726,000) are required to cover the future related obligations of the Group and the Company respectively.

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

The amounts recognised in the income statement were as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
Statutory pension (note 8)	**23,015**	17,986	**14,463**	8,172
Pension subsidies (note 8)	**5,419**	(334)	**4,678**	(718)
Medical benefits (note 8)	**(7,708)**	4,559	**(5,971)**	3,986
	20,726	22,211	**13,170**	11,440

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

28 PENSIONS AND OTHER POST-RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

The breakdown of retirement benefit obligations was as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
Statutory pension	**4,592**	5,830	**4,592**	5,476
Supplementary pension	**469**	469	**469**	469
Pension subsidies	**91,815**	98,944	**74,683**	70,898
Medical benefits	**13,771**	23,908	**11,795**	17,828
	110,647	129,151	**91,539**	94,671
Less: Amounts due within one year included in current liabilities	**(6,431)**	(6,919)	**(6,016)**	(6,327)
	104,216	122,232	**85,523**	88,344

Post-retirement pension subsidies

The amounts recognised in income statement were as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
Current service costs	**5,754**	4,452	**4,628**	3,391
Interest costs	**5,332**	3,993	**4,201**	2,878
Gains on curtailment	**—**	(1,492)	**—**	(1,492)
Net actuarial gains recognised during the year	**(5,667)**	(7,287)	**(4,151)**	(5,495)
Total, included in staff costs (note 8)	**5,419**	(334)	**4,678**	(718)

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

28 PENSIONS AND OTHER POST-RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

Post-retirement pension subsidies *(Continued)*

Movement in the liability recognised in the balance sheet:

	The Group		The Company	
	2004	2003	**2004**	2003
At beginning of year	**98,944**	99,808	**70,898**	71,943
Liabilities disposed	**(11,253)**	—	**—**	—
Total expense (gain) - as shown above	**5,419**	(334)	**4,678**	(718)
Benefits paid	**(1,295)**	(530)	**(893)**	(327)
At end of year	**91,815**	98,944	**74,683**	70,898

The principal actuarial assumptions used were as follows:

	2004	2003
Discount rate	**5%**	4%
Pension cost inflation rate	**3.5%**	1.5%

Post-retirement medical benefits

In addition to the assumptions used for the pension schemes, the main actuarial assumption is a long term increase in medical costs of 5% per year (2003: 5%), including a 4% (2003: 4%) per annual age increase.

The amounts recognised in the income statement were as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
Current service costs	**699**	1,066	**599**	839
Interest costs	**883**	778	**741**	556
Net actuarial (gains) losses recognised during the year	**(9,290)**	2,715	**(7,311)**	2,591
Total, included in staff costs (note 8)	**(7,708)**	4,559	**(5,971)**	3,986

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

28 PENSIONS AND OTHER POST-RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

Post-retirement medical benefits *(Continued)*

Movement in the liability recognised in the balance sheet:

	The Group		The Company	
	2004	2003	**2004**	2003
At beginning of year	**23,908**	19,439	**17,828**	13,897
Liabilities disposed	**(2,354)**	—	—	—
Total (gain) expense - as shown above	**(7,708)**	4,559	**(5,971)**	3,986
Benefits paid	**(75)**	(90)	**(62)**	(55)
At end of year	**13,771**	23,908	**11,795**	17,828

29 HOUSING FUND

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 2004, the Group's contribution to the housing fund was approximately Rmb13,095,000 (2003: Rmb11,214,000).

In addition, during the year ended 31 December 2004, the Group provided Rmb20,278,000 (2003: Rmb20,110,000) to its employees as cash housing subsidies and the amount has been charged to the income statement. These cash housing subsidies are determined based on a number of factors, including the position, length of service and technical ability of the employees concerned, as well as the staff quarters that the employees had already obtained from the Parent Company and its related entities prior to the incorporation of the Company and currently occupy.

Moreover, the Parent Company provides housing benefits to the Company's employees who were employees of the Parent Company and its related 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 related to such housing benefits.

As at 31 December 2004 and 2003, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

30 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of cash and cash equivalents, term deposits with initial term of over three months, trade receivables, other receivables, amounts due from and to related companies, trade payables, other payables and short term bank loans are not materially different from their carrying amounts.

Investments in subsidiaries, associated companies and jointly controlled entities represent unquoted equity interests in companies established in the PRC. There is no quoted market price for such interests and accordingly a reasonable estimate of their fair values could not be made without incurring excessive costs.

The carrying amounts of the Group's and the Company's long term bank loans at 31 December 2003 approximated their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities.

Fair value estimates are made at specific point in time and are based on relevant market information. The estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in valuation methods and assumptions could significantly affect the estimates.

31 CONTINGENCIES

The directors of the Company understand that certain residents 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 year end, the outcome was 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 financial statements for any costs to resolve this issue.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

32 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 and the Company had the following outstanding capital commitments not provided for in the financial statements:

	2004	2003
Authorised and contracted for	**119,703**	192,782
Authorised but not contracted for	**718,837**	254,770
Total	**838,540**	447,552

Operating lease commitments - where the Group and the Company are the lessees

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

	Land use rights	
	2004	2003
Not later than 1 year	**7,475**	7,475
Later than 1 year and not later than 5 years	**28,579**	29,900
Later than 5 years	**246,139**	252,292
	282,193	289,667

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

32 COMMITMENTS *(Continued)*

Operating lease commitments - where the Group and the Company are the lessors

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

	The Group		The Company	
	2004	2003	**2004**	2003
Not later than 1 year	**187,329**	72,523	**164,900**	59,382
Later than 1 year and not later than 5 years	**88,544**	21,062	**37,070**	—
Later than 5 years	**5,869**	7,138	—	—
	281,742	100,723	**201,970**	59,382

33 ORDINARY SHARES

	Number of shares *(thousands)*	Ordinary shares *(Rmb'000)*
At beginning and end of year	3,846,150	3,846,150

The total authorised number of ordinary shares is 3,846,150,000 shares (2003: 3,846,150,000 shares) with a par value of Rmb1 (2003: Rmb1) per share. All issued shares were fully paid.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

34 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 profit after taxation (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 year ended 31 December 2004, the Board of Directors proposed appropriations of 10%, 10% and 20% of profit after tax (2003: 10%, 10% and 20%) respectively determined under PRC accounting standards, of Rmb69,147,000, Rmb69,146,000 and Rmb138,293,000 (2003: Rmb37,051,000, Rmb37,050,000 and Rmb74,101,000) respectively to the statutory surplus reserve fund, the statutory public welfare fund and the discretionary surplus reserve fund respectively.

The proposed profit appropriation of Rmb138,293,000 (20% of profit after tax) to the discretionary surplus reserve fund for the year ended 31 December 2004 will be recorded in the financial statements for the year ending 31 December 2005.

The appropriation to discretionary surplus reserve fund of Rmb74,101,000 (2002: Rmb99,018,000) proposed for the year ended 31 December 2003 by the Board of Directors on 31 March 2004 was recorded in the financial statements for the year ended 31 December 2004.

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 31 December 2004, the reserve available for distribution was approximately Rmb582,337,000 (2003: Rmb282,509,000).

35 MINORITY INTERESTS

	2004	2003
At beginning of year	**19,911**	18,751
Acquisition	**8,371**	400
Share of net profit of subsidiaries	**11,338**	5,560
Dividend paid	**(4,000)**	(4,800)
Disposal	**(600)**	—
At end of year	**35,020**	19,911

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

36 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash generated from operations

	2004	2003 *(Restated)*
Net profit	**749,354**	400,117
Adjustments for:		
Minority interests	**11,338**	5,560
Taxation	**365,387**	222,384
Depreciation	**458,939**	446,365
Amortisation of goodwill	**106**	106
Amortisation of land use rights	**6,243**	6,243
Amortisation of intangible assets	**3,295**	4,776
Impairment charge	**6,750**	1,200
Loss on disposal of property, plant and equipment	**7,538**	6,481
Share of loss of associated companies	**692**	1,359
Interest income	**(17,547)**	(12,519)
Interest expenses	**37,470**	66,152
Exchange losses, net	**495**	2,623
Changes in working capital (excluding the effects of acquisition and disposal of subsidiaries):		
Inventories	**(30,791)**	2,331
Trade and other receivables	**(344,014)**	(63,590)
Payables	**13,069**	163,444
Defined benefit pension and post-retirement benefit obligations	**(18,504)**	1,170
Cash generated from operations	**1,249,820**	1,254,202

(b) In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2004	2003
Net book amount	**22,964**	18,501
Loss on disposal of property, plant and equipment	**(7,538)**	(6,481)
Proceeds from sale of property, plant and equipment	**15,426**	12,020

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

37 RELATED PARTY TRANSACTIONS

The Company is controlled by the Parent Company which owns 65% of the Company's shares. The remaining 35% of the shares are widely held. The Directors consider the Parent Company, which is a PRC state-owned enterprise under the supervision and control of CAAC, to be the ultimate holding company.

The following is a summary of significant transactions carried out with related parties in the ordinary course of business during the year:

	2004	2003
Transactions with Parent Company:		
Revenues:		
Leasing of premises to a subsidiary of the Parent Company	**9,647**	11,639
Provision of security services to the Parent Company and its units, subsidiaries and affiliates	**94**	144
Provision of sewage processing services to the Parent Company	—	683
Expenses:		
Provision of utilities and power supply by the Parent Company	**(166,465)**	(142,086)
Leasing of land use rights from the Parent Company	**(6,153)**	(6,153)
Provision of certain sanitary services and baggage cart management services by a subsidiary of the Parent Company	**(5,573)**	—
Leasing of office space from the Parent Company	—	(3,300)
Provision of nursery services by the Parent Company	—	(1,882)
Leasing of training centre from the Parent Company	—	(981)

As part of its expansion program, the Company has entered into an agreement (the "Project Agreement") dated 18 January 2005 with China Airport Construction Corporation ("Construction Corporation"), a wholly-owned subsidiary of the Parent Company, with respect to the renovation work of the airfield area of Beijing Airport (the "Renovation Project") for the period from 18 January 2005 to 31 December 2007.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

37 RELATED PARTY TRANSACTIONS *(Continued)*

Pursuant to the Project Agreement, service fees are payable by the Company to Construction Corporation as follows:

(a) A basic fee (the "Basic Fee") equivalent to 80% of the approved project management costs for each particular work under the Renovation Project, which are pegged to a range of 1.6% - 2.4% of the estimated investment amount for each work under the Project as defined in the Project Agreement.

(b) An incentive fee (the "Incentive fee") payable upon completion of each particular work under the Renovation Project if such work shall have been completed within the specified timeframe and delivered in accordance with the quality standard set out in the Project Agreement, and if the actual construction cost for such work is less than the budgeted construction cost.

The maximum aggregate annual fees (comprising the Basic Fee and Incentive Fee) estimated to be payable by the Company to Construction Corporation for each of the 3 financial years ended 31 December 2007 are Rmb23,870,000, Rmb21,750,000 and Rmb10,420,000 respectively.

For the year ended 31 December 2004, the Company received approximately Rmb69,941,000 (2003: Rmb59,884,000) on behalf of the Parent Company, representing the Parent Company's share of the aircraft movement fees for emergency medical services provided.

	2004	2003
Transactions with Singapore Airlines Limited ("SAL"), parent company of 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:		
Provision of landing facilities, basic ground handling service, passenger and baggage security checks and other related services to SAL	**13,575**	10,451

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

37 RELATED PARTY TRANSACTIONS *(Continued)*

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):

	2004	2003
Share of ground handling services income from BGS	**14,894**	10,683
Rental income from BGS for leasing of counters, premises and office space	**19,496**	19,597

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.

	2004	2003
Revenues / (expenses)		
Transactions between BGS and SAL:		
Income from ground handling services provided to SAL	**16,422**	12,850
Charges by SAL for the use of Cargo Departure Documentation System and Departure Control System	**(518)**	(155)
Transactions between BAIK and SAL:		
Income from air catering services to SAL	**9,835**	6,949
Charges by SAL for use of Kriscom System	**(83)**	(83)
Transactions between BAIK and SATS:		
Purchase of materials from SATS	**(22)**	(51)

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.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

37 RELATED PARTY TRANSACTIONS *(Continued)*

Year-end balances with related parties

As at 31 December 2004, balances with related parties comprised:

	The Group		The Company	
	2004	2003	**2004**	2003
Receivables from related parties:				
SAL	**10,279**	6,448	—	—
SATS	**839**	1,302	—	—
Foreign joint venture partner in BAIK	**320**	320	—	—
Foreign joint venture partner in BGS	**6,806**	6,728	—	—
BGS	—	—	**21,690**	18,692
BAFS	—	—	**3,957**	2,809
Total	**18,244**	14,798	**25,647**	21,501

	The Group		The Company	
	2004	2003	**2004**	2003
Payable to related parties:				
BAIK	—	—	**800**	800
Beijing Bowei Airport Support Limited, a subsidiary	—	—	**19,396**	7,601
Huaxia	—	—	—	2,890
Parent Company	**29,871**	63,552	**28,507**	62,988
Total	**29,871**	63,552	**48,703**	74,279

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

38 INTERESTS IN SUBSIDIARIES

As at 31 December 2004, the Company had equity interests in the following subsidiaries, all of which operate in the PRC:

Name	Place /date of establishment/ legal status	Percentage of equity interest held		Issued and fully paid capital ('000)	Principal activities
		Directly held	Indirectly held		
Beijing Airport Foods Service Co., Ltd.	Beijing, the PRC 31 December 1986 Sino-foreign equity joint venture	75%	—	Rmb27,000	Operation of restaurants and shops
Beijing Bowei Airport Support Limited	Beijing, the PRC 26 August 1999 Sino-foreign equity joint venture	60%	—	US$4,200	Provision of repair and maintenance services for airport related facilities
China Civil Airport Equipment Co., Ltd.	Beijing, the PRC 17 June 1996 Limited liability company	—	51%	Rmb10,000	Production of airport equipment and materials

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

39 INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 31 December 2004, the Company had equity interests in the following jointly controlled entities, all of which operate in the PRC:

Name	Place/date of establishment/ legal status	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 Sino-foreign equity joint venture	60%	US$9,900	Airport ground handling services
Beijing Airport Inflight Kitchen Ltd.	Beijing, the PRC 27 April 1993 Sino-foreign equity joint venture	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.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

39 INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

The following aggregate amounts represent the Group's 60% share of the assets and liabilities and revenues and results of the two jointly controlled entities and are included in the consolidated balance sheet and income statement:

	2004	2003
Revenues	**256,955**	183,356
Profit before taxation	**43,956**	13,017
Taxation	**(11,249)**	(3,237)
Minority interests	**103**	—
Profit after taxation	**32,810**	9,780
Property, plant and equipment	**101,298**	83,079
Land use rights	**4,607**	5,161
Current assets	**152,363**	137,560
	258,268	225,800
Current liabilities	**(43,974)**	(36,239)
Minority interests	**(3,149)**	—
Net assets	**211,145**	189,561

There are no contingent liabilities related to the Group's interests in the jointly controlled entities.

As at 31 December 2004, the two jointly controlled entities had 1,130 (2003: 1,076) employees.

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

40 SIGNIFICANT POST BALANCE SHEET EVENTS

On 13 December 2004, the Board of Directors approved the disposal of the relative assets and liabilities used to operate the Company's retailing and advertising businesses. On 1 January 2005, the Company entered into an agreement with a party in which the Parent Company holds a 25% equity interest with respect to such sale. The financial summary of the retailing business for the years ended 31 December 2004 and 2003 was as follows:

Retailing	**For the year ended 31 December**	
	2004	2003
Revenues	**514,103**	305,205
Costs	**(406,698)**	(266,584)
Profit from operations	**107,405**	38,621
Finance cost, net	**(3,306)**	(1,104)
Profit before tax	**104,099**	37,517
Tax	**(34,151)**	(19,712)
Profit after tax	**69,948**	17,805
Operating cash flows	**36,215**	(37,316)
Investing cash flows	—	—
Financing cash flows	—	—
Total cash flows	**36,215**	(37,316)

	At 31 December 2004	At 31 December 2003
Non-current assets	**1,621**	3,519
Current assets	**189,210**	140,748
Total assets	**190,831**	144,267
Total liabilities	**(116,867)**	(112,356)
Net assets	**73,964**	31,911

The gain on disposal was determined as follows:

Proceeds from sale	**76,006**
Net assets sold	**(73,964)**
Gain on disposal	**2,042**

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

40 SIGNIFICANT POST BALANCE SHEET EVENTS *(Continued)*

The financial summary of the advertising business for the years ended 31 December 2004 and 2003 was as follows:

Advertising	**For the year ended 31 December**	
	2004	2003
Revenues	**110,469**	89,598
Costs	**(12,117)**	(14,149)
Profit from operations	**98,352**	75,449
Finance income, net	**285**	321
Profit before tax	**98,637**	75,770
Tax	**(32,082)**	(25,306)
Profit after tax	**66,555**	50,464
Operating cash flows	**31,939**	(31,250)
Investing cash flows	**(677)**	—
Financing cash flows	**—**	—
Total cash flows	**31,262**	(31,250)

	At 31 December 2004	At 31 December 2003
Non-current assets	**760**	616
Current assets	**49,749**	28,872
Total assets	**50,509**	29,488
Total liabilities	**(31,595)**	(27,129)
Net assets	**18,914**	2,359

The gain on disposal was determined as follows:

Proceeds from sale	**19,563**
Net assets sold	**(18,914)**
Gain on disposal	**649**

(In the notes all amounts are shown in thousands of Rmb unless otherwise stated)

40 SIGNIFICANT POST BALANCE SHEET EVENTS *(Continued)*

On 13 December 2004 the Board approved the disposal of BAFS, a subsidiary. The financial summary of BAFS for the years ended 31 December 2004 and 2003 was as follows:

	For the year ended 31 December	
	2004	2003
Revenues	**111,708**	75,513
Costs	**(112,940)**	(73,134)
(Loss) profit from operations	**(1,232)**	2,379
Finance income, net	**122**	352
(Loss) profit before tax	**(1,110)**	2,731
Tax	**—**	—
Net (loss) profit	**(1,110)**	2,731
Operating cash flows	**(3,957)**	10,907
Investing cash flows	**(5,742)**	(1,738)
Financing cash flows	**—**	—
Total cash flows	**(9,699)**	9,169

	At 31 December 2004	At 31 December 2003
Non-current assets	**7,612**	5,476
Current assets	**31,838**	35,758
Total assets	**39,450**	41,234
Total liabilities	**(13,354)**	(14,028)
Net assets	**26,096**	27,206

41 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 22 March 2005.