

BUSINESS REVIEW

Details of the air traffic volumes at the Beijing Airport in 2005 are as follows:

	2005	2004	Change
Aircraft Movements	341,681	304,778	12.11%
Domestic	265,052	237,724	11.50%
International, Hong Kong & Macau	76,629	67,054	14.28%
Passenger Throughput	41,004,008	34,883,190	17.55%
Domestic	31,605,028	26,560,565	18.99%
International, Hong Kong & Macau	9,398,980	8,322,625	12.93%
Freight Throughput (tonnes)	782,066	668,690	16.95%
Domestic	528,623	448,072	17.98%
International, Hong Kong & Macau	253,443	220,618	14.88%

OVERVIEW OF THE AERONAUTICAL BUSINESS

Benefiting from the continuing growth of air traffic volumes, total aeronautical revenues of the Group were Rmb2,046,269,000 in 2005, compared with were Rmb1,781,368,000 in the previous year. The aeronautical revenues less business tax and levies of the Group were Rmb1,985,451,000 in 2005. Details are as follows:

	2005 (Rmb'000)	2004 (Rmb'000)	Change
Passenger charges	658,237	590,954	11.39%
Aircraft movement fees and related charges	804,858	708,471	13.60%
Airport fee	583,174	481,943	21.00%
Total aeronautical revenues	2,046,269	1,781,368	14.87%
Business tax and levies	(60,818)	(53,441)	13.80%
Aeronautical revenues less business tax and levies	1,985,451	1,727,927	14.90%

Major Airlines at the Beijing Airport:

	Contribution to Aircraft Movements		Contribution to Passenger Throughput		Contribution to Freight Throughput	
	2005	2004	2005	2004	2005	2004
Air China Group	37.3%	36.1%	39.1%	40.5%	59.0%	45.2%
China Southern Airlines Group	16.7%	20.4%	17.5%	21.0%	15.7%	15.1%
China Eastern Airlines Group	12.6%	12.6%	12.1%	12.5%	11.8%	11.2%
Hainan Airlines Group	11.8%	13.0%	8.7%	7.6%	10.2%	6.3%

Top 3 domestic origination / destination locations in 2005 based on traffic volumes:

	Aircraft Movements	Passenger Throughput	Freight Throughput
1	Shanghai	Shanghai	Shanghai
2	Guangzhou	Chengdu	Kunming
3	Chengdu	Kunming	Guangzhou

Top 3 international and regional origination / destination locations in 2005 based on traffic volumes:

	Aircraft Movements	Passenger Throughput	Freight Throughput
1	Hong Kong	Hong Kong	Hong Kong
2	Tokyo	Seoul	Singapore
3	Seoul	Tokyo	Tokyo

OVERVIEW OF THE NON-AERONAUTICAL BUSINESS

In 2005, the Group's total non-aeronautical revenues were Rmb1,048,063,000, compared with Rmb1,352,262,000 in the previous year. The Group's non-aeronautical revenues less business tax and levies were Rmb998,527,000 in 2005. Details are as follows:

	2005 (Rmb'000)	2004 (Rmb'000)	Change
Concessions	440,338	—	100%
Concessions from retailing	165,489	—	100%
Concessions from advertising	120,441	—	100%
Concessions from ground handling	110,107	—	100%
Concessions from restaurants	42,554	—	100%
Concessions from air catering	1,747	—	100%
Ground handling facilities and services income	282,461	278,807	1.31%
Rental	146,502	136,077	7.66%
Air catering	84,055	81,121	3.62%
Car parking	51,570	45,346	13.73%
Repairs and maintenance service	19,503	59,533	-67.24%
Retailing	—	514,103	-100.00%
Restaurants	—	111,708	-100.00%
Advertising	—	110,469	-100.00%
Others	23,634	15,098	56.54%
Total non-aeronautical revenues	1,048,063	1,352,262	-22.50%
Business tax and levies	(49,536)	(44,252)	11.94%
Non-aeronautical revenues less business tax and levies	998,527	1,308,010	-23.66%

Since the beginning of 2005, the Group implemented a series of non-aeronautical business development plans, including:

1. from January 2005 onwards, franchising the businesses of retailing, restaurants and advertising and ceasing the relevant self-operations, and
2. as approved by the General Administration of Civil Aviation (also known as "CAAC") to be a pilot airport, franchising the ground handling business and air catering business at Beijing Airport since 1 January 2005.

In 2005, the concession fees of the Group were Rmb440,338,000, which included Rmb165,489,000 from retailing, Rmb120,441,000 from advertising, Rmb42,554,000 from restaurants and food shops, Rmb110,107,000 from ground handling services, and Rmb1,747,000 from air catering service.

In 2005, ground handling facilities and services income was Rmb282,461,000, representing an increase of 1.31% over the previous year, which mainly resulted from the growth of air traffic volumes at the Beijing Airport and the development of China Southern Airlines Group and foreign airline clients by BGS, a jointly controlled entity of the Company.

In 2005, the rental income of the Group was Rmb146,502,000, representing an increase of 7.66% over the previous year. Main reasons for the increase in rental income are that:

1. Terminal One was re-opened in September 2004, and
2. The Company developed some new lease services in Terminal Two, such as entering into lease agreement with telecom companies for their provision of network services.

In 2005, the air catering income of the Group was Rmb84,055,000, representing an increase of 3.62% over of the previous year, which resulted from the development of business of BAIK.

In 2005, the car parking income of the Group was Rmb51,570,000, representing an increase of 13.73% over the previous year, mainly because that the parking lot in front of Terminal One was re-opened in September 2004, enlarging the area of parking lots and hence increasing the traffic volume of auto-vehicle throughput.

In October 2005, the Company disposed of its equity interests in Bowei, a subsidiary of the Company engaging in repairs and maintenance. The Company has consolidated the related income of Bowei for the 9 months ended 30 September 2005, amounting to Rmb19,503,000, representing a decrease of 67.24% from the previous year. Another reason for the decrease was the increase in temporary projects undertaken by Bowei in the second half of 2004.

In January 2005, the Company adjusted its business models of retailing, restaurants and advertising from self-operation to providing services by franchised operators, who paid concession fees to the Group. In 2005, the income of retailing, restaurants and advertising was Rmb nil, while related concession fees were recorded as the above concessions income.

In 2005, other incomes of the Group were Rmb23,634,000, representing an increase of 56.54% over the previous year.

Operating Costs

In 2005, the operating costs of the Group were Rmb1,666,154,000, compared with Rmb1,895,467,000 in the previous year. Details are as follows:

	2005 (Rmb'000)	2004 (Rmb'000)	Change	Comparable figure in 2004* (Rmb'000)	Comparable change*
Depreciation	496,293	458,939	8.14%	452,912	9.58%
Staff costs	324,576	369,342	-12.12%	304,409	6.62%
Utilities and power	229,018	166,465	37.58%	163,912	39.72%
Repairs and maintenance	184,453	124,423	48.25%	118,585	55.54%
Goods and materials	52,942	335,391	-84.21%	36,457	45.22%
Other costs	378,872	440,907	-14.07%	384,382	-1.43%
Total operating costs	1,666,154	1,895,467	-12.10%	1,460,657	14.07%

*: the comparable figures in 2004 refer to the figures after deducting the respective costs of retailing, restaurants and advertising for the year of 2004; the comparable changes refer to the increase or decrease in 2005 over the comparable figures in 2004.

In January 2005, to implement the franchise of the retailing, restaurants and advertising businesses, the Group disposed of BAFS, the assets and liabilities of advertising and retailing businesses. This resulted in the decrease of related non-aeronautical revenues and the decrease of related costs in advertising and retailing. The profit contribution from the businesses of retailing, advertising and restaurants was not impacted.

In 2005, the cost of depreciation of the Group was Rmb496,293,000, representing an increase of 9.58% over the comparable figures of the previous year, mainly because of the re-opening of Terminal One and its parking lot on 20 September 2004, which increased the amount of depreciation of the property, plant and equipment.

In 2005, the staff costs of the Group were Rmb324,576,000, representing an increase of 6.62% over the comparable figures of the previous year, which resulted from the increase in the housing fund base and the increase of staff costs of the car parking business while the new parking lot was opened.

In 2005, the cost of utilities and power of the Group was Rmb229,018,000, representing an increase of 39.72% over the comparable figures of the previous year, mainly because that Terminal One was re-opened on 20 September 2004 and improvements were made to current facilities by the Group, both of which led to the increase in the cost of utilities and power.

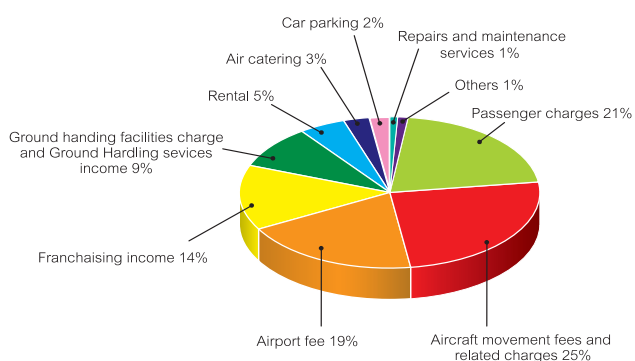
The cost of repairs and maintenance of the Group was Rmb184,453,000 in 2005, representing an increase of 55.54% over the comparable figures of the previous year, which mainly resulted from:

1. The re-opening of Terminal One and its parking lot re-opened on 20 September 2004; and
2. The existing facilities were operating at their maximum capacity and increased repair and maintenance costs were necessary to ensure continuous operation and safety.

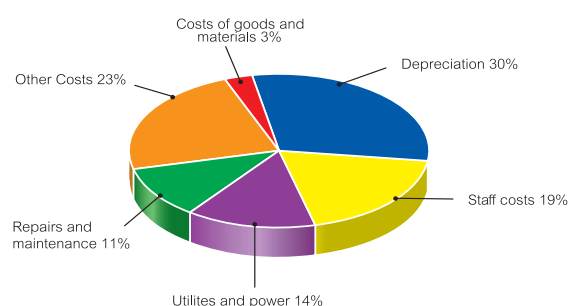
In 2005, the cost of goods and materials of the Group was Rmb52,942,000, representing an increase of 45.22% over the comparable figures of the previous year, which resulted from the increase in business volume of BGS and BAIK and therefore the increase in related consumables and goods.

In 2005, the other costs of the Group were Rmb378,872,000, representing a decrease of 1.43% from the comparable figure of the previous year.

Operating revenues of the Group in 2005



Operating costs of the Group in 2005



OTHER ITEMS IN THE INCOME STATEMENT

The net financial costs of the Group were Rmb7,886,000 in 2005, representing a decrease of 61.38% from the previous year. This was because the Company repaid all its long-term bank loans in 2004 and the amount of short-term bank loans was reduced in 2005.

Net gains on the disposal of certain assets and liabilities of the Company in 2005 were Rmb32,323,000 which was resulted from the disposal of BAFS and related assets and liabilities of the advertising and retailing businesses in January 2005, and the disposal of Bowei in October 2005.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

In 2005, the Group's profit attributable to equity holders of the Company totalled Rmb908,509,000, representing an increase of 21.24% over the previous year.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's businesses are principally conducted in Rmb, except for the purchases of certain equipment, goods and materials and payment of consulting fee are paid in US dollars and Hong Kong dollars, respectively. Dividends to shareholders holding H Shares are declared in Rmb and paid in Hong Kong dollars.

As at 31 December 2005, the Group's assets and liabilities denominated in foreign currencies, principally in US dollars and Hong Kong dollars, include cash and cash equivalents of approximately Rmb10,095,000 (2004: Rmb63,055,000), trade and other receivables of approximately Rmb44,994,000 (2004: Rmb55,464,000), trade and other payables of approximately Rmb4,236,000 (2004: Rmb39,567,000). In 2005, the Group recorded an exchange loss of Rmb1,331,000. The fluctuations in exchange rates did not have a significant impact on the results of the Group in 2005, and they are not expected to have a significant impact on the Group's results next year.

CONTINGENT LIABILITY

As at 31 December 2005, the Group did not have any significant contingent liability.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group had total cash and cash equivalents and time deposits with original maturities over three months but less than one year amounting to Rmb656,811,000, and those as at 31 December 2004 were Rmb1,329,674,000.

As at 31 December 2005, the current ratio of the Group was 0.89, and that as at 31 December 2004 was 1.23. Such ratios were computed by dividing the total current assets by total current liabilities as at those respective dates. The decrease mainly results from as of 31 December 2005, the trade and other receivable accounts of the Group amounted to RMB1,269,850,000, including RMB756,672,000 of receivable Airport Fee. The Airport Fee used to be charged directly from departure passengers by the Company, but was integrated in the price of air ticket from 1 September 2004 onward which will be contributed to the finance of the central government upon its collection by the airlines. Upon the change of collection in September 2004, the Group has not yet received the proceeds. The directors of the Company expects that the proceeds will be recovered in the middle of 2006. The Company will disclose the progress in a timely manner for any updates.

As at 31 December 2005, capital and reserves attributable to the equity holders of the company was Rmb8,188,110,000, and that as at 31 December 2004 was Rmb7,644,139,000.

As at 31 December 2005, the liability to asset ratio of the Group was 24.59%, and that as at 31 December 2004 was 20.84%. Such ratios were computed by dividing the total amount of liabilities by the total assets as at those respective dates.

BANK LOANS

As at 31 December 2005, the Group's short-term bank loans amounted to Rmb800,000,000, which would be repaid within one year, with an annual interest rate of 4.698%.

Details of the bank loans of the Group and the Company are set out in note 17 to the financial statements.

EMPLOYEES AND EMPLOYEE WELFARE

- The numbers of employees of the Group are set out as follows, together with a comparison with those in the previous year:**

	As at 31 December 2005	As at 31 December 2004
Total employees	7,984	8,872
Contracted employees	3,084	3,471
Temporary employees	4,900	5,401

The change in number of employees was mainly due to joint impacts caused by franchising out the businesses of retailing, restaurants and advertising which ceased the direct operating of the businesses, reduction of number of staff due to transfer of the equity held in Bowei, and increased the number of staff due to business growth.

On 15 March 2006, the Company obtained approval on the extraordinary general meeting in relation to the connected transactions, namely, equity interest transfer of BGS, equity interest transfer of BAIK, aviation safety and security assets transfer agreement and energy, power, garbage and sewage disposal assets transfer agreement. Pursuant to which, BGS and BAIK's employees who engaged in related services were no longer within the Group. On the other hand, employees who engaged in the businesses of aviation safety and security and accessorial power and energy have terminated the labour contracts with the Company. As of that date, the total number of employees of the Group was 1,271 with contractual employees and part-time staff amounting to 760 and 511, respectively.

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.

2. Employees' pension scheme

Details of the employees' pension scheme are set out in note 20 to the financial statements.

3. Employees' housing benefits

Details of the employees' housing benefits are set out in note 21 to the financial statements.

4. 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.

CHARGE ON ASSETS

There were no assets charged or pledged for the year ended 31 December 2005.

MATERIAL INVESTMENT AND MATERIAL INVESTMENT PLAN

The Group did not have any material investment for the year ended 31 December 2005.

As of the date of the annual report, the directors of the Company are not aware of any material investment or financing plan that was required to be disclosed.

SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted “the Model Code for Securities Transaction by Directors and Staff” (“Model Code”) to regulate the securities transaction by directors and staff, for securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of listed issuers as set out in Appendix 10 to the Listing Rules.

Following specific enquiry made with the directors of the Company, the Company has confirmed that each of its directors has complied with the Model Code and the required standard set out in “the Model Code for Securities Transaction by Directors and Staff” drafted by the Company.