1 GENERAL INFORMATION

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 and listed on The Stock Exchange of Hong Kong Limited on 1 February 2000. The Company is majority owned by Capital Airports Holding Company, a state-owned enterprise established in the PRC ("CAHC" or the "Parent company").

The Company and its subsidiaries (the "Group") are principally engaged in the ownership and operation of the international airport in Beijing ("Beijing Airport") and the provision of related services.

In 2005, the Group has implemented a strategy to adjust its non-aeronautical business by franchising certain of its non-aeronautical business to specialised operators instead of self-operating. In return, the Group earns concession revenue. In this connection, in 2005, certain assets and liabilities in relation to the non-aeronautical business were disposed of.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, except that available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

In 2005, the Group adopted the new / revised IFRSs below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements. The adoption of these IFRS revisions did not result in substantial changes to the Group's accounting policies. In summary:

IAS 1 and 27 (both revised in 2003) affected the presentation of minority interests. IAS 1 has also affected the presentation of share of profit of associates and requires the disclosure of critical accounting estimates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

IAS 2, 8, 10, 16, 17, 21, 32, 33 (all revised in 2003) and 39 (revised in 2004) and IFRS 2 had no material effect on the Group's accounting policies.

IAS 24 (revised in 2003) has extended the identification and disclosure of related parties to include state-owned enterprises. Related parties include CAHC and its affiliates, and other state-controlled enterprises and their subsidiaries directly or indirectly controlled by the PRC government, corporations in which the Company is able to control or exercise significant influence, key management personnel of the Company, CAHC and their close family members.

IAS 27, 28 and 31 (all revised in 2003) affected the accounting for investments in subsidiaries, associates and jointly controlled entities in the separate financial statements of the Company. These investments are accounted for by the Company at cost instead of using the equity method, which was used in the prior years.

The adoption of revised IAS 27, 28 and 31 resulted in:

	As at 1 January 2005 As previously reported *Rmb'000*	Effect of new / revised policies (decrease) / increase *Rmb'000*	As at 1 January 2005 Restated *Rmb'000*
Reserves	518,124	(48,878)	469,246
Investments in subsidiaries	46,146	(5,875)	40,271
Investments in jointly controlled entities	211,145	(45,070)	166,075
Interest in associates	30,041	2,067	32,108

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The Group adopted IFRS 5 from 1 January 2005 in accordance with the standard's provisions. The application of IFRS 5 does not impact on the prior-year financial statements.

Standards, interpretations and amendments to published standards that are not yet effective.

Certain new standards, amendments and interpretations to existing standards, which are relevant to the Group's operations, have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods, but which the Group has not early adopted, as follows:

IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements-Capital Disclosures (effective from January 1, 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7, Financial Instruments: Disclosures, and the complementary amendment to IAS 1 on the Group's operations.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from January 1, 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

IAS 19 (Amendment), Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures (effective from January 1, 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the financial statements. The Group will apply this amendment from 1 January 2006.

IAS 39 and IFRS 4 (Amendments), Financial Guarantee Contracts (effective from January 1, 2006). These amendments require that issuers of financial guarantee contracts to include the resulting liabilities in their balance sheet. Management is currently assessing the impact of these amendments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of Consolidation

(1) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(2) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of Consolidation *(Continued)*

(3) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

(4) Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for using proportionate consolidation. The Group combines its share of the jointly controlled entities, individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the Group's purchase of assets from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("Rmb"), which is the Company's functional and presentation currency.

Transactions in foreign currencies are translated at the applicable rates of exchange prevailing at the dates of the transactions as quoted by the People's Bank of China.

Monetary assets and liabilities denominated in foreign currencies are translated into Rmb at the rates prevailing at the balance sheet date as quoted by the People's Bank of China.

(e) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Major renovations are depreciated over the remaining useful life of the related asset. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

With effect from 1 January 2004, buildings and runways are stated at cost less accumulated depreciation and impairment losses. Prior to 1 January 2004, 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 was applied in 2004 retrospectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost 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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

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.

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.

(f) Land use rights

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Intangible assets

(1) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in "investments in associates". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(2) Other intangible assets

Expenditures to acquire utilisation rights of utilities facilities , software and software use rights are capitalised and amortised using the straight-line method over their estimated useful lives, but not exceeding 15 years.

(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).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(1) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date.

Loans and receivables is carried at amortised cost using the effective interest method.

(2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available for-sale financial asset is subsequently carried at fair value.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(j) Operating leases

Leases in which 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Such provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'other costs'.

(m) Cash and cash equivalents

Cash and cash equivalents includes cash in 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 shown within borrowings in current liabilities on the balance sheet.

(n) Time deposits with original maturities over three months but within one year

Time deposits with original maturities over three months but within one year 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) Assets classified as held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Borrowings

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

(r) 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. However, the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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, associates 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) 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. The Group has both defined contribution plans and defined benefit plans.

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 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 annually by independent actuaries by using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of long term government bonds.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(2) Other post-employment obligations

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. 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 over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are valued annually by independent actuaries.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Employee benefits *(Continued)*

(3) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

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.

(t) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Revenue / income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(i) Airport fee is recognised upon charges on outbound passengers when departing from the airport, the charge rate is regulated by relevant authorities.

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

(iii) Concession revenue comprises sales-related revenue from retailing, restaurants, advertising businesses, ground handling service and air catering service in Beijing Airport and is recognised in step with the revenue generated by the franchisee. Retailing, restaurant and advertising concession revenues are recognised based on a percentage of sales or specified minimum rent guarantees. Ground handling and air catering concessions is recognised based on the charge rates promulgated by General Administration of Civil Aviation of China (the " CAAC").

(iv) Ground handling facilities and services income, air catering, repairs and maintenance services income and other incomes are recognised upon delivery of goods and / or when the title is passed to customers, or upon rendering of services.

(v) Rental income is recognised on a straight-line basis over the lease period.

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

(vii) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(v) Dividends distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(x) Comparatives

The comparative figures presented in these consolidated financial statements have been reclassified or restated for the impact of the new / revised IFRSs as set out in Note 2(a) and to conform with changes in presentation in the current year.

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group conducts its operations in the PRC and accordingly is 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Foreign exchange risk

The Group's businesses are principally conducted in Renminbi ("Rmb"). The Group is exposed to foreign currency risk with respect to primarily US dollar and HK dollar. Foreign currency risk arises from transactions including revenue from aeronautical business, purchases of equipment, goods and materials, and payment of consulting fee. In addition, dividends to equity holders holding H Shares are declared in Rmb and paid in HK dollar.

As at 31 December 2005, all of the Group's assets and liabilities were denominated in Rmb except that 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) were denominated in foreign currencies, principally in US dollar and HK dollar.

Fluctuation of the exchange rates of Rmb against foreign currencies could affect the Group's results of operations. The Group did not use any forward contract or currency borrowing to hedge its exposure to foreign currency risk.

(ii) 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, other than time deposits and cash and cash equivalents. The interest rates and terms of repayment of the bank borrowings of the Group and the Company are disclosed in Note 17. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. The Gorup has policies in place to ensure that sales of services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution. The extent of the Group's credit exposure is represented by the aggregate balance of accounts receivable, notes receivable and due from related parties.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(iv) 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.

Any excess cash is invested mostly in time deposits with original maturities of over three months but within one year.

(b) Fair values

The carrying amounts of the Group's financial assets, including cash and cash equivalents, time deposits, available-for-sale financial assets, trade and other receivables and financial liabilities, including trade and other payables and short-term borrowings approximate their fair values due to their short maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is made based on management's experience in operating airport and the conditions of the property, plant and equipment. It could change significantly as a result of actual use and improvements. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of receivables

The risk of non collectible of trade receivables is primarily estimated based on prior experience with, and the past due status of, doubtful debtors, while large accounts are assessed individually based on factors that include ability to pay, bankruptcy and payment history. Should the outcome differ from the assumptions and estimates, revisions to the estimated valuation allowances would be required.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(c) Employee benefit

This applies where the Group's accounting policy is to recognise any actuarial gains or losses immediately through the income statement.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the selection of discount rate, annual benefit inflation rate and employees' withdraw rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The discount rate is calculated based on long-term government bonds. The annual benefit inflation rate is the rate of increase of benefit payment which is based on the general local economic conditions. The employees' withdraw rate is based on historical trends of the Group.

Additional information is disclosed in Note 20.

5 PROPERTY, PLANT AND EQUIPMENT

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

	Buildings and improvements Rmb'000	Runways Rmb'000	Plant, furniture, fixtures and other equipment Rmb'000	Motor vehicles Rmb'000	Assets under construction Rmb'000	2005 Total Rmb'000	2004 Total Rmb'000
Cost							
Beginning of year, as previously reported	6,379,861	989,923	2,010,094	305,126	106,839	9,791,843	9,212,474
Change in accounting policy for buildings and runways	—	—	—	—	—	—	4,600
Beginning of year, as restated	6,379,861	989,923	2,010,094	305,126	106,839	9,791,843	9,217,074
Additions	1,296	—	20,561	11,325	1,873,145	1,906,327	757,855
Transfers	39,162	—	65,006	5,953	(110,121)	—	—
Disposals	(1,328)	—	(32,539)	(8,882)	—	(42,749)	(183,086)
Disposal of certain assets and liabilities (note 26)	(33,488)	—	(32,098)	(4,651)	—	(70,237)	—
Reclassification	(2,205)	—	2,205	—	—	—	—
End of year	6,383,298	989,923	2,033,229	308,871	1,869,863	11,585,184	9,791,843
Accumulated depreciation							
Beginning of year, as previously reported	963,425	581,337	980,867	236,405	—	2,762,034	2,256,196
Change in accounting policy for buildings and runways	—	—	—	—	—	—	207,016
Beginning of year, as restated	963,425	581,337	980,867	236,405	—	2,762,034	2,463,212
Charge for the year	222,856	33,527	218,460	21,450	—	496,293	458,939
Disposals	(243)	—	(21,449)	(7,410)	—	(29,102)	(160,117)
Disposal of certain assets and liabilities (note 26)	(24,175)	—	(24,057)	(2,938)	—	(51,170)	—
Reclassification	(125)	—	125	—	—	—	—
End of year	1,161,738	614,864	1,153,946	247,507	—	3,178,055	2,762,034
Net book value	5,221,560	375,059	879,283	61,364	1,869,863	8,407,129	7,029,809
Transfer to assets classified as held for sale	(52,697)	—	(26,811)	(40,041)	(9,833)	(129,382)	—
Net book value							
End of year	5,168,863	375,059	852,472	21,323	1,860,030	8,277,747	7,029,809
Beginning of year	5,416,436	408,586	1,029,227	68,721	106,839	7,029,809	6,753,862

5 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	Buildings and improvements Rmb'000	Runways Rmb'000	Plant, furniture, fixtures and other equipment Rmb'000	Motor vehicles Rmb'000	Assets under construction Rmb'000	2005 Total Rmb'000	2004 Total Rmb'000
Cost							
Beginning of year, as previously reported	6,283,290	989,923	1,952,949	186,867	99,617	9,512,646	8,965,158
Change in accounting policy for buildings and runways	—	—	—	—	—	—	4,600
Beginning of year, as restated	6,283,290	989,923	1,952,949	186,867	99,617	9,512,646	8,969,758
Additions	1,073	—	15,579	2,760	1,849,120	1,868,532	717,202
Transfers	28,069	—	60,114	524	(88,707)	—	—
Disposals	(1,328)	—	(32,037)	(7,711)	—	(41,076)	(174,314)
Disposal of certain assets and liabilities (note 26)	(8,199)	—	(15,130)	—	—	(23,329)	—
Reclassification	(2,205)	—	2,205	—	—	—	—
End of year	6,300,700	989,923	1,983,680	182,440	1,860,030	11,316,773	9,512,646
Accumulated depreciation							
Beginning of year, as previously reported	920,692	581,337	946,026	152,404	—	2,600,459	2,111,088
Change in accounting policy for buildings and runways	—	—	—	—	—	—	207,016
Beginning of year, as restated	920,692	581,337	946,026	152,404	—	2,600,459	2,318,104
Charge for the year	218,092	33,527	212,962	13,472	—	478,053	438,463
Disposals	(243)	—	(20,981)	(6,519)	—	(27,743)	(156,108)
Disposal of certain assets and liabilities (note 26)	(6,577)	—	(14,473)	—	—	(21,050)	—
Reclassification	125	—	(125)	—	—	—	—
End of year	1,132,089	614,864	1,123,409	159,357	—	3,029,719	2,600,459
Net book value	5,168,611	375,059	860,271	23,083	1,860,030	8,287,054	6,912,187
Transfer to assets classified as held for sale	—	—	(7,548)	(1,759)	—	(9,307)	—
Net book value							
End of year	5,168,611	375,059	852,723	21,324	1,860,030	8,277,747	6,912,187
Beginning of year	5,362,598	408,586	1,006,923	34,463	99,617	6,912,187	6,651,654

5 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:

	2005	2004
	Rmb'000	*Rmb'000*
Cost	**177,492**	129,417
Accumulated depreciation	**(32,684)**	(19,443)
Net book amount	**144,808**	109,974

During the year ended 31 December 2004, the Group changed its accounting policy with respect to its buildings and runways from the revaluation model to the historical cost model. Prior to 1 January 2004, 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. 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 as at 1 January 2004 of Rmb202,416,000, a reduction in revaluation surplus of the Group as at 1 January 2004 of Rmb229,862,000, an increase in retained earnings of the Group as at 1 January 2004 of Rmb38,093,000 and an increase in the profit of the Group for the years ended 31 December 2004 of Rmb7,111,000.

Interest expenses capitalised in assets under construction for the year ended 31 December 2005 amounted to Rmb17,324,000 (2004: Rmb13,232,000). The capitalisation rate used to determine the amount of borrowing cost eligible for the capitalisation was 4.671% per annum for the year ended 31 December 2005 (2004: 4.536%).

6 LAND USE RIGHTS

Interests in land use rights of the Group and of the Company represent prepaid operating lease payments in the PRC held on leases of between 14.5 to 50 years and their net book values are analysed as follows:

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cost				
At beginning of year	**278,933**	278,933	**261,015**	261,015
Disposal	**(11,212)**	—	**—**	—-
At end of year	**267,721**	278,933	**261,015**	261,015
Accumulated amortisation				
At beginning of year	**32,897**	26,654	**27,189**	21,969
Amortisation	**6,103**	6,243	**5,220**	5,220
Disposal	**(3,270)**	—	**—**	—
At end of year	**35,730**	32,897	**32,409**	27,189
Net book amount	**231,991**	246,036	**228,606**	233,826
Transfer to assets classified as held for sale	**(3,385)**	—	**—**	—
Net book amount				
At end of year	**228,606**	246,036	**228,606**	233,826

In addition, the Company entered into an agreement with CAHC 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 CAHC 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 (2004: Rmb6,153,000).

7 GOODWILL

Goodwill arose from the acquisition of equity interest in Beijing Airport Foods Service Co., Ltd. ("BAFS"), a subsidiary which was disposed of in 2005.

	Group and Company	
	2005	2004
	Rmb'000	*Rmb'000*
Cost		
At beginning of year	**769**	769
Disposal	**(769)**	—
At end of year	**—**	769
Accumulated amortisation		
At beginning of year	**342**	236
Amortisation	**—**	106
Disposal	**(342)**	—
At end of year	**—**	342
Net book amount		
At end of year	**—**	427

8 INTANGIBLE ASSETS

Intangible assets comprised utilisation rights of utility facilities and software and software use rights which are amortised on a straight-line basis over 14.5 years and 3 years respectively, and their net book values are analysed as follows:

	Group					
	Utilisation rights of utility facilities		**Software and software use rights**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cost						
At beginning of year	**1,322**	1,322	**17,259**	14,999	**18,581**	16,321
Addition	**—**	—	**3,320**	2,260	**3,320**	2,260
Disposal	**—**	—	**(1,123)**	—	**(1,123)**	—
At end of year	**1,322**	1,322	**19,456**	17,259	**20,778**	18,581
Accumulated amortisation						
At beginning of year	**562**	471	**12,895**	9,691	**13,457**	10,162
Amortisation	**91**	91	**1,603**	3,204	**1,694**	3,295
Disposal	**—**	—	**(623)**	—	**(623)**	—
At end of year	**653**	562	**13,875**	12,895	**14,528**	13,457
Net book amount	**669**	760	**5,581**	4,364	**6,250**	5,124
Transfer to assets classified as held for sale	**(669)**	—	**(13)**	—	**(682)**	—
Net book amount						
At end of year	**—**	760	**5,568**	4,364	**5,568**	5,124

8 INTANGIBLE ASSETS *(Continued)*

	Company Software and software use rights	
	2005	2004
	Rmb'000	*Rmb'000*
Cost		
At beginning of year	**13,947**	11,711
Addition	**3,304**	2,236
At end of year	**17,251**	13,947
Accumulated amortisation		
At beginning of year	**10,247**	7,265
Amortisation	**1,436**	2,982
At end of year	**11,683**	10,247
Net book amount		
At end of year	**5,568**	3,700

9 INVESTMENTS IN SUBSIDIARIES

All subsidiaries of the Company are unlisted companies and had been disposed of at 31 December 2005.

	Company	
	2005	2004
	Rmb'000	*Rmb'000*
		(Restated)
Beginning of year, as previously reported	**46,146**	41,569
Effect of adopting revised IAS 27 (note 2(a))	**(5,875)**	1,655
Beginning of year, as restated	**40,271**	43,224
Disposals	**(40,271)**	(2,953)
At end of year, investment at cost	**—**	40,271

10 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

All jointly controlled entities of the Company are unlisted companies.

	Company	
	2005	2004
	Rmb'000	*Rmb'000*
		(Restated)
Beginning of year, as previously reported	**211,145**	189,526
Effect of adopting revised IAS 31 (note 2(a))	**(45,070)**	(23,451)
Beginning of year, as restated	**166,075**	166,075
Transfer to assets classified as held for sale	**(166,075)**	—
At end of year, investment at cost	**—**	166,075

11 INVESTMENTS IN ASSOCIATES

All associates of the Group and the Company are unlisted companies.

	Group	
	2005	2004
	Rmb'000	*Rmb'000*
At beginning of year	**30,041**	30,733
Acquisition	**12,933**	—
Share of results of associates		
- profit (loss) before taxation	**663**	(370)
- taxation	**(484)**	(322)
	179	(692)
Dividend received	**(197)**	—
Transfer to assets classified as held for sale	**(15,709)**	—
At end of year	**27,247**	30,041

11 INVESTMENTS IN ASSOCIATES *(Continued)*

	Company	
	2005	2004
	Rmb'000	*Rmb'000*
		(Restated)
Beginning of year, as previously reported	**30,041**	30,733
Effect of adopting revised IAS 28 (note 2(a))	**2,067**	1,375
Beginning of year, as restated	**32,108**	32,108
Disposal	**(1,750)**	—
At end of year	**30,358**	32,108

The principal associates are:

	Place of incorporation	Percentage of equity interest held			
		2005		2004	
		Direct	**Indirect**	Direct	Indirect
Global Airport logistics Co., Ltd.	Beijing, the PRC	**33%**	**—**	33%	—
Beijing Tian Di Xun Jie Airport Information Technology Co., Ltd. *	Beijing, the PRC	**20%**	**—**	20%	—
Beijing Airport Cargo Consolidation Service Co., Ltd.	Beijing, the PRC	**—**	**35%**	35%	—
Tianjin Aviation Cargo Service Co., Ltd.	Tianjin, the PRC	**—**	**46%**	—	—

* The English name of the above associate is a direct translation of its name in Chinese (北京天地迅捷空港信息技術有限公司).

12 INVENTORIES

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Merchandise for resale	**—**	76,936	**—**	76,936
Raw materials	**—**	36,438	**—**	—
Spare parts and consumable items	**14,579**	11,024	**14,579**	11,024
	14,579	124,398	**14,579**	87,960
Less: Provision for inventories	**—**	(5,699)	**—**	(2,295)
	14,579	118,699	**14,579**	85,665

13 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Trade receivables - cost	**1,233,664**	792,439	**1,233,664**	726,644
Less: Provision for impairment of receivables	**(26,613)**	(11,604)	**(26,613)**	(11,604)
Trade receivables, net	**1,207,051**	780,835	**1,207,051**	715,040
Notes receivable	**—**	50,000	**—**	50,000
Prepayments	**—**	8,952	**—**	6,455
Receivables from related parties (note 39(a))	**25,478**	18,244	**63,638**	25,647
Dividends receivable	**—**	—	**19,238**	—
Interest receivable	**2,881**	3,010	**2,881**	3,010
Others	**34,440**	40,448	**34,496**	22,592
	1,269,850	901,489	**1,327,304**	822,744

13 TRADE AND OTHER RECEIVABLES *(Continued)*

At 31 December 2005, the ageing analysis of the trade receivables was as follows:

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Within 1 year	**1,067,274**	722,567	**1,067,274**	657,083
Between 1 and 2 years	**166,390**	69,720	**166,390**	69,475
Between 2 and 3 years	**—**	152	**—**	86
	1,233,664	792,439	**1,233,664**	726,644

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

The accounts receivable balance as at 31 December 2005 included a receivable of Rmb756,672,000 of airport fee. Prior to 1 September 2004, pursuant to regulations promulgated by the Ministry of Finance of the PRC (the "Ministry of Finance") and the CAAC, the Company is required to collect on behalf of CAAC Civil Aviation Airport 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.

Post 1 September 2004, in accordance with the "Notice regarding Questions on Levy and Management Methods of Civil Aviation Airport Construction Fee (the "Airport Fee Notice")" issued jointly by the CAAC and the Ministry of Finance on 22 July 2004, with effect from 1 September 2004, the Airport Fee is to be collected together with air tickets sold by the airlines companies instead of being collected at airport directly by the Group. Based on the Airport Fee Notice, the Group should eventually receive the Airport Fee from the Ministry of Finance. Subsequent to the change in the collection procedures in September 2004, the Group has not received any settlement of the Airport Fee from the relevant PRC authorities as the authorities are still in the process of finalising the detailed procedures for the settlement of the Airport Fee with the Group. The Directors of the Company have assessed the settlement period of the receivable and believe that such receivable will be fully recoverable in the middle of 2006.

During the year ended 31 December 2005, the Group has recognised an impairment loss of Rmb19,008,000 in respect of the receivable of Airport Fee, considering the cash flows, discounted using an effective interest rate of 5.22% per annum.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

14 TIME DEPOSITS WITH ORIGINAL MATURITIES OVER THREE MONTHS BUT WITHIN ONE YEAR

As at 31 December 2005, Rmb100,000,000 (2004: Rmb55,126,000) and Rmb100,000,000 (2004: nil) of the Group's and the Company's time deposits with original maturities of over three months but within one year was denominated in Renminbi and deposited with a bank in the PRC.

The weighted average effective interest rate on the time deposits with original maturities of over three months but within one year of the Group and the Company was 2.07% (2004: 1.90%) respectively as at 31 December 2005.

15 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cash at bank and in hand	**486,751**	936,088	**486,751**	887,162
Short term bank deposits	**70,060**	338,460	**70,060**	318,060
	556,811	1,274,548	**556,811**	1,205,222

The effective interest rate on short term bank deposits was 1.62% per annum (2004: 1.62% - 1.71%) and these deposits have maturities ranging from one to three months.

16 TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Construction payable	**892,115**	214,057	**892,115**	213,576
Receipts on behalf of North China Air Traffic Control Bureau	**144,819**	209,275	**144,819**	209,275
Payroll and welfare payable	**72,475**	105,030	**72,475**	85,897
Trade payables	**1,869**	96,388	**1,869**	75,089
Dividend payable	**—**	62,475	**—**	62,475
Housing subsidy payable to employees	**24,864**	47,922	**24,864**	29,460
Adjustment fee payable	**42,631**	42,631	**42,631**	42,631
Payables to related parties (note 39(a))	**96,319**	29,871	**96,319**	48,703
Rental deposit received	**18,452**	28,603	**18,452**	28,603
Advertising customer advances	**—**	14,101	**—**	14,101
Consulting fee payable	**5,575**	9,850	**5,575**	8,742
Retention monies payable on maintenance contracts	**9,287**	6,737	**9,287**	6,009
Maintenance fee payable	**14,287**	1,279	**14,287**	1,279
Other payables	**62,145**	81,745	**62,145**	70,445
	1,384,838	949,964	**1,384,838**	896,285

As at 31 December 2004 and 2005, all trade payables were aged within one year.

Housing subsidy payable to employees includes one-off housing subsidy which was received from CAHC and is to be paid to certain employees of the Company on behalf of CAHC 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.

17 SHORT-TERM BANK BORROWINGS (UNSECURED)

As at 31 December 2005, the Group and the Company had short term bank borrowings granted by various banks amounting to approximately Rmb800,000,000 (2004: Rmb750,000,000). These borrowings bore interest at a rate of 4.698% per annum (2004: 4.536%). As at 31 December 2005, all the short term bank borrowings were unsecured.

As at 31 December 2005, the Group and the Company had unused loan facilities totalling approximately Rmb1,300,000,000 (2004: Rmb Nil).

18 DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33% (2004: 33%).

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

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
At beginning of year, as previously reported	**38,108**	28,916	**31,803**	17,654
Effect of change in accounting policy for buildings and runways	**—**	10,647	**—**	10,647
At beginning of year, as restated	**38,108**	39,563	**31,803**	28,301
(Charged) / credited to the income statement (note 31)	**(5,440)**	3,035	**(7,336)**	3,502
Disposal	**(7,770)**	(4,490)	**—**	—
Transfer to assets classifiped as held for sale	**(431)**	—	**—**	—
At end of year	**24,467**	38,108	**24,467**	31,803

18 DEFERRED INCOME TAXES *(Continued)*

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

Deferred tax assets	Group				Company			
	Defined benefit pension and post-retirement benefit obligations (1)	Other temporary differences (2)	2005 Total	2004 Total	Defined benefit pension and post-retirement benefit obligations (1)	Other temporary differences (2)	2005 Total	2004 Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Beginning of year	34,843	9,507	44,350	42,092	28,538	9,507	38,045	30,830
(Charged) / credited to the income statement	(6,832)	7,108	276	6,748	(8,297)	6,677	(1,620)	7,215
Disposal	(7,770)	—	(7,770)	(4,490)	—	—	—	—
Transfer to assets classified as held for sale	—	(431)	(431)	—	—	—	—	—
End of year	20,241	16,184	36,425	44,350	20,241	16,184	36,425	38,045

Deferred tax liabilities	Group			Company		
	Other temporary differences (2)	2005 Total	2004 Total	Other temporary differences (2)	2005 Total	2004 Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Beginning of year, as previously reported	6,242	6,242	13,176	6,242	6,242	13,176
Effect of change in accounting policy for buildings and runways	—	—	(10,647)	—	—	(10,647)
Beginning of year, as restated	6,242	6,242	2,529	6,242	6,242	2,529
Charged to the income statement	5,716	5,716	3,713	5,716	5,716	3,713
End of year	11,958	11,958	6,242	11,958	11,958	6,242

18 DEFERRED INCOME TAXES *(Continued)*

(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.

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:

	Group		**Company**	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Deferred tax assets	**24,467**	38,108	**24,467**	31,803

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

	Group		**Company**	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Deferred tax assets to be recovered after more than 12 months	**28,552**	37,644	**28,552**	31,791
Deferred tax liability to be settled more than 12 months	**11,958**	6,242	**11,958**	6,242

19 INCOME TAX AND OTHER TAXES PAYABLE

Income tax and other taxes payable comprised:

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Enterprise income tax	**245,889**	165,802	**245,889**	159,268
Business tax	**79,399**	43,155	**79,399**	38,984
Property tax	**20,127**	1,633	**20,127**	1,633
City construction tax	**—**	94	**—**	—
Value-added tax	**—**	849	**—**	1,058
	345,415	211,533	**345,415**	200,943

20 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% of the employees' salaries in 2004 and 2005 respectively.

Obligations in respect of the state-sponsored pension scheme and the supplementary defined contribution pension plan of Rmb4,773,000 (2004: Rmb4,592,000) and Rmb469,000 (2004: Rmb469,000) respectively are included in 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 2005, provisions of Rmb61,335,000 and Rmb61,335,000 (2004: Rmb105,586,000 and Rmb86,478,000) 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.

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

The costs of pension and other post-retirement benefits were recognised under staff costs in the consolidated income statement for the year as follows:

	Group	
	2005	2004
	Rmb'000	*Rmb'000*
Statutory pension (note 29)	**21,384**	23,015
Pension subsidies (note 29)	**(3,522)**	5,419
Medical benefits (note 29)	**3,489**	(7,708)
	21,351	20,726

At 31 December 2005, the retirement benefit obligations recognised in the balance sheets of the Group and the Company were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Statutory pension	**4,773**	4,592	**4,773**	4,592
Supplementary pension	**469**	469	**469**	469
Pension subsidies	**49,106**	91,815	**49,106**	74,683
Medical benefits	**12,229**	13,771	**12,229**	11,795
	66,577	110,647	**66,577**	91,539
Less: Amounts due within one year included in current liabilities	**(5,891)**	(6,431)	**(5,891)**	(6,016)
	60,686	104,216	**60,686**	85,523

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

Post-retirement pension subsidies

The amounts recognised in the consolidated income statement were as follows:

	Group	
	2005	2004
	Rmb'000	*Rmb'000*
Current service cost	**6,162**	5,754
Interest cost	**3,140**	5,332
Past service cost	**3,068**	—
Net actuarial gains recognised	**(15,892)**	(5,667)
Total, included in staff costs (note 29)	**(3,522)**	5,419

Movements in the liability recognised in the balance sheets were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
At beginning of year	**91,815**	98,944	**74,683**	70,898
Liabilities disposed of	**(38,438)**	(11,253)	**(17,303)**	—
Total (gain) / cost	**(3,522)**	5,419	**(7,698)**	4,678
Payment made in the year	**(749)**	(1,295)	**(576)**	(893)
At end of year	**49,106**	91,815	**49,106**	74,683

The principal actuarial assumptions at the balance sheet date were as follows:

	2005	2004
Discount rate	**3.5%**	5%
Pension cost inflation rate	**4.2%**	3.5%
Employee withdraw rate	**2.6%**	1%

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

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 (2004: 5%), including a 4% (2004: 4%) per annual age increase.

The amounts recognised in the consolidated income statement were as follows:

	Group	
	2005	2004
	Rmb'000	*Rmb'000*
Current service cost	**534**	699
Interest cost	**455**	883
Net actuarial losses / (gains) recognised	**2,500**	(9,290)
Total, included in staff costs (note 29)	**3,489**	(7,708)

Movements in the liability recognised in the balance sheets were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
At beginning of year	**13,771**	23,908	**11,795**	17,828
Liabilities disposed of	**(4,942)**	(2,354)	**(2,530)**	—
Total cost / (gain)	**3,489**	(7,708)	**3,037**	(5,971)
Payment made in the year	**(89)**	(75)	**(73)**	(62)
At end of year	**12,229**	13,771	**12,229**	11,795

21 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 salaries. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances. For the year ended 31 December 2005, the Group's contribution to the housing fund was approximately Rmb14,395,000 (2004: Rmb13,095,000).

In addition, during the year ended 31 December 2005, the Group provided Rmb13,646,000 (2004: Rmb20,278,000) to its employees as cash housing subsidies and the amount has been charged to the consolidated 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 CAHC and its related entities prior to the incorporation of the Company and currently occupy.

Moreover, CAHC provides housing benefits to the Company's employees who were employees of CAHC and its related entities prior to the incorporation of the Company. The Company has no obligation to reimburse CAHC for any costs or losses incurred by CAHC in relation to such housing benefits.

As at 31 December 2004 and 2005, the Group did not own any staff quarters and the Group had not sold any staff quarters to its employees.

22 DEFERRED INCOME

Pursuant to an approval document issued by Beijing State Tax Bureau on 27 April 2005, the Company has been granted an enterprise income tax credit on certain qualified purchases of domestically manufactured equipment. Such tax credit is deferred and recognised in the consolidated income statement over the estimated useful lives of the related equipment.

23 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 aircraft, 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.

24 REVENUE AND SEGMENT INFORMATION

The Group conducts its business within one business segment - the business of operating and managing 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 and management of an airport and subject to similar business risks, no segment information has been prepared by the Group during the year ended 31 December 2005. 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	**2005**	2004
	Rmb'000	*Rmb'000*
Aeronautical		
Passenger charges	**658,237**	590,954
Aircraft movement fees and related charges	**804,858**	708,471
Airport fee	**583,174**	481,943
Total aeronautical revenues	**2,046,269**	1,781,368
Non-aeronautical:		
Concessions	**440,338**	—
Ground handling facilities and services income	**282,461**	278,807
Rentals	**146,502**	136,077
Air catering	**84,055**	81,121
Car parking	**51,570**	45,346
Repairs and maintenance service	**19,503**	59,533
Retailing	**—**	514,103
Restaurants	**—**	111,708
Advertising	**—**	110,469
Others	**23,634**	15,098
Total non-aeronautical revenues	**1,048,063**	1,352,262
Total revenues	**3,094,332**	3,133,630

Concession revenue is recognised in respect of the following business:

	Rmb'000
Retailing	165,489
Advertising	120,441
Restaurants	42,554
Ground handling service	110,107
Air catering	1,747
Total concessions	440,338

25 OPERATING PROFIT

The following items have been included in arriving at the operating profit:

	2005	2004
	Rmb'000	*Rmb'000*
Depreciation on property, plant and equipment		
— owned assets	**489,742**	455,025
— owned assets leased out under operating leases	**6,551**	3,914
Loss on disposal of property, plant and equipment	**8,117**	7,538
Repairs and maintenance expenditure on property, plant and equipment	**184,453**	124,423
Amortisation of intangible assets (included in other costs)	**1,694**	3,295
Amortisation of goodwill (included in other costs)	**—**	106
Operating lease rentals		
— buildings	**7,786**	9,191
— land use rights	**12,257**	12,396
Inventory		
— write off of inventory	**448**	6,265
— inventory provision	**—**	1,059
Trade receivables		
— impairment charge	**16,830**	5,691
Staff costs (note 29)	**324,576**	369,342
Auditors' remuneration	**2,839**	2,898

26 NET GAINS ON DISPOSAL OF CERTAIN ASSETS AND LIABILITIES

The details of net gains on disposal of certain assets and liabilities are as follows:

	2005	2004
	Rmb'000	*Rmb'000*
BAFS	**(414)**	—
Retailing	**21,292**	—
Advertising	**1,232**	—
Beijing Bowei Airport Support Limited ("Bowei")	**10,213**	—
Beijing Airport Huaxia Air Services Development Co., Ltd. ("Huaxia")	**—**	6,719
	32,323	6,719

On 1 January 2005, the Group disposed of its entire 75% equity interest in BAFS, a subsidiary principally engaged in the operation of restaurants and food shops. The Group also entered into an agreement with BAFS, in which the Group transferred the operating rights of the restaurant and food shop business for a period of ten years starting 1 January 2005. In return, the Group received concession income calculated primarily based on a percentage of the revenue of BAFS with minimum guaranteed amounts.

On 26 January 2005, the Group disposed of the related assets and liabilities used to operate the Group's retailing and advertising businesses to two related parties. The Group also entered into certain agreements with the respective related parties, in which the Group transferred the operating rights of the retailing and advertising businesses for a period of ten years starting 1 January 2005. In return, the Group received concession income calculated primarily based on a percentage of revenue of each of these businesses with minimum guaranteed amounts.

On 30 September 2005, the Group disposed of its entire 60% equity interest in Bowei, a subsidiary principally engaged in the provision of repairs and maintenance services for airport related facilities, to a third party.

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.

27 ASSETS CLASSIFIED AS HELD FOR SALE

On 22 December 2005, the Group entered into conditional agreements with CAHC for the proposed transfer of the respective 60% equity interests of Beijing Aviation Ground Service Co., Ltd ("BGS") and Beijing Airport Inflight Kitchen Ltd. ("BAIK") for a cash consideration totalled Rmb267,879,000. BGS and BAIK are principally engaged in the provision of airport ground handling services and air catering services respectively.

On the same date, the Group also entered into conditional assets transfer agreements with CAHC for the proposed disposal of the assets in relation to certain other businesses of aviation and security guard services, greening and environmental maintenance services and accessorial power and energy services ("other businesses"), for a cash consideration totalled Rmb9,409,000.

The proposed disposals of the above were approved by the independent shareholders of the Company in an extraordinary general meeting held on 15 March 2006.

The assets and liabilities in relation to the above are classified as assets held for sale as at 31 December 2005.

The major classes of assets and liabilities comprising the operations classified as held for sale are presented as follows:

Assets classified as held for sale	**At 31 December 2005** *Rmb'000*
Property, plant and equipment, net	129,382
Land use rights	3,385
Intangible assets	682
Investment in associates	15,709
Inventories	5,424
Receivables and prepayments	106,167
Other assets	96,236
	356,985

Liabilities directly associated with assets classified as held for sale	**At 31 December 2005** *Rmb'000*
Trade and other payables	(52,497)
Other liabilities	(3,429)
	(55,926)

All inter-company balances as at 31 December 2005 between BGS, BAIK, and the Group have been eliminated.

There were no employee termination costs relating to the proposed disposals of BGS, BAIK and the other businesses.

28 FINANCE COSTS, NET

	2005 Rmb'000	2004 Rmb'000
Interest expenses		
— bank borrowings repayable within five years	**22,177**	37,470
Interest income	**(15,622)**	(17,547)
Net foreign exchange losses	**1,331**	495
	7,886	20,418

29 STAFF COSTS

	2005 Rmb'000	2004 Rmb'000
Wages and salaries	**208,628**	239,484
Staff welfare	**17,645**	22,065
Housing fund (note 21)	**14,395**	13,095
Housing subsidies (note 21)	**13,646**	20,278
Pension costs - statutory pension (note 20)	**21,384**	23,015
Cost of post-retirement pension subsidies (note 20)	**(3,522)**	5,419
Cost of post-retirement medical benefits (note 20)	**3,489**	(7,708)
Other allowances and benefits	**48,911**	53,694
	324,576	369,342

As at 31 December 2005, the Group and the Company had 3,084 and 1,489 (2004: 3,471 and 1,757) employees respectively.

Staff costs include emoluments payable to Directors, Supervisors and senior management as set out in Note 30.

30 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors' and Supervisors' emoluments

The aggregated amounts of emoluments payable to Directors and Supervisors of the Company during the year were as follows:

	For the year ended 31 December	
	2005	2004
	Rmb'000	*Rmb'000*
Fees	**1,000**	300
Salaries, housing and other allowances, and benefits in kind	**852**	404
Discretionary bonuses	**1,340**	404
Contributions to the retirement scheme	**48**	42
	3,240	1,150

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

30 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors' and Supervisors' emoluments *(Continued)*

Pursuant to the requirements under Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which was effective on 1 January 2005, the emoluments of each of the Director and Supervisor for the year ended 31 December 2005 is set out below:

	Fees	Salaries, housing and other allowances, and benefits in kind	Contributions to the retirement scheme	Discretionary bonuses	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Name of Director					
Wang Zhanbin	—	300	16	484	800
Wang Jiadong	—	300	16	484	800
Chen Guoxing	100	—	—	—	100
Zheng Hui	100	—	—	—	100
Gao Shiqing	100	—	—	—	100
Dominique Pannier	100	—	—	—	100
Long Tao	150	—	—	—	150
Kwong Che Keung	150	—	—	—	150
Cheng Mo Chi	150	—	—	—	150
Name of Supervisor					
Wang Zuoyi	50	—	—	—	50
Li Xiaomei	—	252	16	372	640
Han Xiaojing	50	—	—	—	50
Xia Zhidong	50	—	—	—	50
	1,000	852	48	1,340	3,240

30 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(a) Directors' and Supervisors' emoluments *(Continued)*

The remuneration of each of the Director and Supervisor for the year ended 31 December 2004 is set out below:

	Fees	Salaries, housing and other allowances, and benefits in kind	Contributions to the retirement scheme	Discretionary bonuses	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
Name of Director					
Wang Zhanbin	—	224	14	62	300
Wang Jiadong	—	95	14	191	300
Wang Zengyi	—	—	—	—	—
Chen Guoxing	—	—	—	—	—
Zheng Hui	—	—	—	—	—
Dominique Pannier	—	—	—	—	—
Long Tao	100	—	—	—	100
Kwong Che Keung	100	—	—	—	100
Cheng Mo Chi	100	—	—	—	100
Name of Supervisor					
Wang Zuoyi	—	—	—	—	—
Li Xiaomei	—	85	14	151	250
Han Xiaojing	—	—	—	—	—
Xia Zhidong	—	—	—	—	—
	300	404	42	404	1,150

For the years ended 31 December 2004 and 2005, the annual emoluments paid to each of the Directors and Supervisors fell within the band from Rmb nil to Rmb1 million.

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

30 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two Directors, one Supervisor and two senior executives (2004: two Directors, one Supervisor and two senior executives). The details of the emoluments of the Directors and Supervisors are set out above. The emoluments payables to the remaining two individuals are as follows:

	For the year ended 31 December	
	2005	2004
	Rmb'000	*Rmb'000*
Salaries, housing and other allowances, and benefits in kind	**502**	175
Discretionary bonuses	**745**	297
Contributions to the retirement scheme	**33**	28
	1,280	500

During the year ended 31 December 2005, no emoluments were paid by the Group to the Directors, Supervisors and the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office (2004: nil).

31 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% (2004: 33%) on the taxable income as reported in their respective 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. a reduction of 12%) in enterprise income tax from 2004 to 2006 and full exemption from local income tax from 2002 to 2006 and a 50% reduction (i.e. a reduction of 1.5%) from 2007 to 2011.

31 TAXATION *(Continued)*

Enterprise income tax *(Continued)*

Pursuant to the approval documents issued by the 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 2005, and has been granted a 50% reduction (i.e. a reduction of 1.5%) in local income tax from 2003 to 2007.

	2005	2004
	Rmb'000	*Rmb'000*
Current tax	**421,499**	368,422
Deferred tax (note 18)	**5,440**	(3,035)
	426,939	365,387

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

	2005	2004
	Rmb'000	*Rmb'000*
Profit before income tax	**1,342,440**	1,126,079
Tax calculated at a tax rate of 33% (2004: 33%)	**443,005**	371,606
Effect of preferential tax rate	**(9,847)**	(9,415)
Deferred tax benefit arising from tax losses not recognised	**—**	366
(Income not subject to tax) / expenses not deductible for tax purposes	**(3,261)**	2,830
Tax credit on qualified purchases of domestically manufactured equipment	**(2,958)**	—
Tax charge	**426,939**	365,387

31 TAXATION *(Continued)*

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 concessions, ground handling facilities and services income, rental 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 at a rate ranging from 4% to 17% can be used to offset the output VAT to determine the net VAT payable.

32 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders is dealt with in the accounts of the Company to the extent of Rmb895,431,000 (2004 as restated: Rmb720,897,000).

33 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to equity holders of the Company (Rmb'000)	**908,509**	749,354
Weighted average number of ordinary shares in issue (thousands)	**3,846,150**	3,846,150
Basic earnings per share (Rmb per share)	**0.24**	0.19

Diluted earnings per share is equal to basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2004 and 2005.

34 DIVIDENDS

	For the year ended 31 December	
	2005	2004
Dividend declared		
Interim dividend (Rmb'000)	**114,923**	96,115
Interim dividend per share (Rmb)	**0.02988**	0.02499
Dividend proposed		
Final dividend (Rmb'000)	**319,577**	249,615
Final dividend per share (Rmb)	**0.08309**	0.06490

The final dividend for the year ended 31 December 2005 was proposed at the Board of Directors meeting held on 12 April 2006. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

35 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 as at 31 December:

	2005	2004
	Rmb'000	*Rmb'000*
Authorised and contracted for	**214,045**	119,703
Authorised but not contracted for	**132,888**	718,837
Total	**346,933**	838,540

35 COMMITMENTS *(Continued)*

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

As at 31 December, the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land use rights	
	2005	2004
	Rmb'000	*Rmb'000*
Not later than 1 year	**7,475**	7,475
Later than 1 year and not later than 5 years	**26,706**	28,579
Later than 5 years	**237,911**	246,139
	272,092	282,193

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

As at 31 December, the future minimum lease payment receivables under non-cancellable operating leases for buildings are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Not later than 1 year	**44,496**	187,329	**29,064**	164,900
Later than 1 year and not later than 5 years	**33,855**	88,544	**26,989**	37,070
Later than 5 years	**4,607**	5,869	**—**	—
	82,958	281,742	**56,053**	201,970

35 COMMITMENTS *(Continued)*

Concession income arrangements

As at 31 December, the future minimum concession income receivable under non-cancellable agreements for the operating rights of retailing, advertising, restaurant and food shop businesses are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Not later than 1 year	**294,395**	—	**294,395**	—
Later than 1 year and not later than 5 years	**1,177,578**	—	**1,177,578**	—
Later than 5 years	**1,177,578**	—	**1,177,578**	—
	2,649,551	—	**2,649,551**	—

36 SHARE CAPITAL

	Number of ordinary 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 (2004: 3,846,150,000 shares) with par value of Rmb 1 (2004: Rmb1) per share. All issued shares were fully paid.

37 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 is required to transfer 10% of its profit after taxation (prepared in accordance with the PRC accounting standards) to the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's registered capital), and 5% to 10% to 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 2005, the Board of Directors proposed appropriations of 10%, 10% and 20% of profit after tax (2004: 10%, 10% and 20%) respectively, as determined under the PRC accounting standards, of Rmb86,900,000, Rmb86,900,000 and Rmb173,800,000 (2004: Rmb69,147,000, Rmb69,146,000 and Rmb138,293,000) respectively to the statutory surplus reserve fund, the statutory public welfare fund and the discretionary surplus reserve fund respectively.

The proposed profit appropriation of Rmb173,800,000(20% of profit after tax) to the discretionary surplus reserve fund for the year ended 31 December 2005 will be recorded in the financial statements for the year ending 31 December 2006.

The appropriation to discretionary surplus reserve fund of Rmb138,293,000 (2003: Rmb74,101,000) proposed for the year ended 31 December 2004 by the Board of Directors on 22 March 2005 was recorded in the financial statements for the year ended 31 December 2005.

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 IFRSs. As at 31 December 2005, the reserve available for distribution was approximately Rmb772,724,000 (2004: Rmb582,337,000).

38 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit for the year to cash generated from operations

	2005 *Rmb'000*	2004 *Rmb'000*
Profit for the year	**915,501**	760,692
Adjustments for:		
Taxation	**426,939**	365,387
Depreciation	**496,293**	458,939
Amortisation of goodwill	**—**	106
Disposal of goodwill	**427**	—
Amortisation of land use rights	**6,103**	6,243
Amortisation of intangible assets	**1,694**	3,295
Impairment charge	**16,830**	6,750
Loss on disposal of property, plant and equipment	**8,117**	7,538
Share of (profit) / loss of associates	**(179)**	692
Interest income	**(15,622)**	(17,547)
Interest expenses	**22,177**	37,470
Foreign exchange losses, net	**1,331**	495
Net gains on disposal of certain assets and liabilities	**(32,323)**	—
Changes in working capital (excluding the disposal of certain assets and liabilities):		
Inventories	**(9,009)**	(30,791)
Trade and other receivables	**(559,829)**	(344,014)
Trade and other payables	**726,362**	13,069
Defined benefit pension and post-retirement benefit obligations	**1,374**	(18,504)
Deferred income	**17,839**	—
Assets classified as held for sale	**(58,321)**	—
Cash generated from operations	**1,965,704**	1,249,820

38 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

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

	2005	2004
	Rmb'000	*Rmb'000*
Net book amount	**13,647**	22,964
Loss on disposal of property, plant and equipment	**(8,117)**	(7,538)
Proceeds from sale of property, plant and equipment	**5,530**	15,426

(c) In the consolidated cash flow statement, net cash (outflow) / inflow on disposal of certain assets and liabilities comprise:

	2005	2004
	Rmb'000	*Rmb'000*
Proceeds from disposal, received	**144,317**	9,121
Less: Cash and cash equivalents in assets and liabilities disposed of	**(169,612)**	(8,993)
Net cash (outflow) / inflow on disposal of certain assets and liabilities	**(25,295)**	128

39 RELATED PARTY TRANSACTIONS

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

The Group is part of a larger group of companies under CAHC and has extensive transactions and relationships with members of the CAHC group. Because of these relationships, it is possible that the terms of the transactions between the Group and members of the CAHC group are not the same as those that would result from transactions with or among other related parties or wholly unrelated parties.

CAHC itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24 (revised 2003), "Related Party Disclosure", state-owned enterprises and their subsidiaries, other than the CAHC group companies, directly or indirectly controlled by the PRC government are also defined as related parties of the Group.

A significant portion of the Group's business activities are conducted with state-owned enterprises. Sale of certain services to these state-owned enterprises are at state-prescribed prices which are similar to prices to other customers. The Group considers that these sales are activities in the ordinary course of business.

The Group is ultimately controlled by the PRC government, which also controls a substantial number of entities in the PRC. For the purpose of related party transactions disclosure, the Group has in place procedures to identify the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. However, the Group receives Airport Fee as part of its transactions and thus, is likely to have extensive transactions with the employees of stated-owned enterprises while such employees are on corporate business as well as key management personnel and their close family members. These transactions are carried out on the same terms that are consistently applied to all customers. Due to the vast volume and the pervasiveness of these transactions, management is unable to determine the aggregate amount of the transactions for disclosure. Therefore, the transactions disclosed below do not include such transactions with these related parties. The management of the Company is of the view that it has provided meaningful disclosures of related party transactions.

39 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Balances with related parties

As at 31 December 2005, balances with related parties comprised:

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Receivables from related parties:				
Singapore Airlines Limited ("SAL")*	**—**	10,279	**—**	—
Singapore Airport Terminal Services Limited ("SATS")**	**—**	839	**—**	—
Foreign joint venture partner in BAIK	**1,428**	320	**—**	—
Foreign joint venture partner in BGS	**24,050**	6,806	**—**	—
BGS	**—**	—	**60,068**	21,690
BAIK	**—**	—	**3,570**	—
BAFS	**—**	—	**—**	3,957
Total	**25,478**	18,244	**63,638**	25,647

* SAL is the Parent company of SATS.

** SATS is the foreign joint venture partner of BAIK and BGS, the jointly controlled entities of the Company.

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Payable to related parties:				
BAIK	**—**	—	**—**	800
Bowei	**—**	—	**—**	19,396
CAHC	**96,319**	29,871	**96,319**	28,507
Total	**96,319**	29,871	**96,319**	48,703

39 RELATED PARTY TRANSACTIONS *(Continued)*

(a) Balances with related parties *(Continued)*

	Group		Company	
	2005	2004	**2005**	2004
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Balance with other state-owned enterprises:				
Trade and other receivables	**439,565**	597,717	**439,565**	564,515
Trade and other payables	**815,259**	177,336	**815,259**	177,336
Bank deposits	**351,341**	979,736	**351,341**	955,903
Time deposits with original maturities over three months but within one year	**100,000**	90,766	**100,000**	46,883
Loans from state-owned banks	**600,000**	750,000	**600,000**	750,000

Balances with other state-owned enterprises included in assets classified as held for sale amounts to approximately Rmb141,323,000.

All above balances with related parties have no fixed terms of repayment and are interest free except for loans from state-owned banks (note 17).

39 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

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

	2005	2004
	Rmb'000	*Rmb'000*
Transactions with CAHC:		
Revenues		
Leasing of premises to a subsidiary of CAHC	**12,681**	9,647
Provision of security services to CAHC and its units, subsidiaries and affiliates	**276**	94
Expenses		
Provision of utilities and power supply by CAHC	**229,018**	166,465
Leasing of land use rights from CAHC	**6,153**	6,153
Provision of certain sanitary services and baggage cart management services by a subsidiary of CAHC	**16,720**	5,573
Other transactions		
Provision of renovation management services by a subsidiary of CAHC	**18,780**	—
Provision of designing services by a subsidiary of CAHC	**20,811**	—

For the year ended 31 December 2005, the Company received approximately Rmb77,240,000 (2004: Rmb69,941,000) on behalf of CAHC, representing CAHC's share of the aircraft movement fees for emergency medical services provided.

39 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

	2005	2004
	Rmb'000	*Rmb'000*
Transactions with SAL:		
Provision of landing facilities, basic ground handling service, passenger and baggage security checks and other related services to SAL	**18,157**	13,575

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):

	2005	2004
	Rmb'000	*Rmb'000*
Share of ground handling services income from BGS	**—**	14,894
Concession income from BGS	**11,407**	—
Concession income from BAIK	**1,748**	—
Rental income from BGS for leasing of counters, premises and office space	**19,853**	19,496

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 these jointly controlled entities.

	2005	2004
	Rmb'000	*Rmb'000*
Revenues / (expenses)		
Transactions between BGS and SAL:		
Income from ground handling services provided to SAL	**21,909**	16,422
Charges by SAL for the use of cargo departure documentation system and departure control system	**(793)**	(518)
Transactions between BAIK and SAL:		
Income from air catering services to SAL	**11,937**	9,835
Charges by SAL for use of Kriscom System	**(84)**	(83)
Transactions between BAIK and SATS:		
Purchase of materials from SATS	**(29)**	(22)

39 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties *(Continued)*

The following transactions were carried out with other state-owned enterprises:

	2005	2004
	Rmb'000	*Rmb'000*
Transactions with other state-owned enterprises		
Revenues		
Passenger charges, aircraft movement fees and related charges	**1,158,486**	1,040,394
Concession income	**427,184**	—
Ground handling facilities and services income	**145,793**	153,340
Rentals	**52,952**	47,038
Air catering	**36,395**	46,519
Interest income received	**13,929**	15,082
Expenses		
Interest expenses paid	**(22,073)**	(37,277)
Subcontracting labour fee for maintenance	**(12,964)**	(11,619)
Insurance paid	**(8,056)**	(14,028)
Other transactions		
Acquisition of property, plant and equipment	**915,406**	458,642
Purchases of goods and materials	**19,377**	9,477
Bank loans borrowed	**1,750,000**	2,486,417
Short-term bank loans repaid	**(1,900,000)**	(1,736,417)
Long-term bank loans repaid	**—**	(1,008,000)

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

40 INTERESTS IN SUBSIDIARIES

As at 31 December 2004 and 2005, 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 2005 Directly and indirectly held	2004 Directly held	2004 Indirectly held	Issued and fully paid capital ('000)	Principal activities
Beijing Airport Foods . Service Co., Ltd.	Beijing, PRC 31 December 1986 Sino-foreign equity joint venture	—	75%	—	Rmb27,000	Operation of restaurants and shops
Beijing Bowei Airport Support Limited	Beijing, PRC 26 August 1999 Sino-foreign equity joint venture	—	60%	—	US$4,200	Provision of repairs and maintenance services for airport related facilities
China Civil Airport Equipment Co., Ltd.	Beijing, PRC 17 June 1996 Limited liability company	—	—	51%	Rmb10,000	Production of airport equipment and materials

41 INTERESTS IN JOINTLY CONTROLLED ENTITIES

As at 31 December 2005, 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 full ypaid capital *('000)***	**Principal activities**
Beijing Aviation Ground Services Co., Ltd.	Beijing, PRC 18 August 1994 Sino-foreign equity joint venture	60%	US$9,900	Airport ground handling services
Beijing Airport Inflight Kitchen Ltd.	Beijing, 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.

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

	2005 ***Rmb'000***	2004 *Rmb'000*
Income	**333,608**	256,955
Expenses	**(293,600)**	(212,999)
Profit after income tax	**40,008**	43,956
Minority interests	**(6)**	103

The assets and liabilities of the jointly controlled entities are transferred to assets classified as held for sale and liabilities directly associated with assets classified as held for sale.

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

As at 31 December 2005, the two jointly controlled entities had a total of 1,595 (2004: 1,130) employees.

42 APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by Board of Directors on 12 April 2006.