



REPORT OF THE DIRECTORS

The director of the board of the Company ("the Board") is pleased to present the annual report, and the audited financial statements of the Company for the fiscal year ended 31 December 2006.

PRINCIPAL BUSINESSES

The Company is principally engaged in the operation and the management both of aeronautical and non-aeronautical businesses at the Beijing Airport. The aeronautical business of the Company consists of the provision of aircraft landings and take-offs and passenger service facilities, ground support services, and fire-fighting services for domestic and foreign airlines.

The non-aeronautical business of the Company mainly consists of franchise the business of: (1) ground handling agent services; (2) in-flight catering services; (3) operation of duty free and other retail shops in the terminals; (4) operation of restaurant and other food & beverage businesses, and (5) leasing of advertising spaces inside and outside the terminals.

The non-aeronautical business of the Company also consists of self-operation the business of: (1) leasing of properties in the terminals; (2) operation of car park, and (3) the provision of ground handling facilities for ground handling agent companies.

OPERATING RESULTS AND FINANCIAL POSITION

The Company's operating results for the year ended 31 December 2006 and the financial position of the Company as at 31 December 2006, were prepared based on International Financial Reporting Standards ("IFRS") as set out on pages 49 to 52 of the annual report.

DIVIDENDS

The Board recommended the payment of a final dividend of Rmb0.08824 per share for the year of 2006, with a total amount of dividends intended to be distributed of approximately Rmb357,032,000. Such proposal is subject to the approval of the shareholders of the Company at the annual general meeting of the Company scheduled to be held on Friday, 15 June 2007. In the event that such approval is obtained, the final dividend will be paid on or before Saturday, 30 June 2007 to the shareholders of the Company whose names appear on the register of members of the Company on Tuesday, 22 May 2007.

REPORT OF THE DIRECTORS (CONTINUED)

Pursuant to the resolution of the Board passed on 25 August 2006, the Company declared to its shareholders an interim dividend of Rmb0.03933 per share for the year 2006. The interim dividend was paid on Tuesday, 31 October 2006 to the shareholders whose names appeared on the register of the members of the Company on Tuesday, 3 October 2006.

The total dividends of the Company for the year of 2006 were approximately Rmb508,301,000, representing approximately 46.5% of the profit attributable to the equity holders of the Company for the year 2006. The total dividends of the Company for the year of 2005 were approximately Rmb434,500,000.

There was no arrangement under which any shareholder of the Company has waived or agreed to waive any dividend during the year ended 31 December 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 16 May 2007 to Friday, 15 June 2007 (both days inclusive). In order to be qualified for the final dividend, holders of H Shares whose transfers have not been registered are requested to deposit the transfer documents together with the relevant share certificates to the Company's H Share Registrar: Hong Kong Registrars Limited at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Tuesday, 15 May 2007.

RESERVES

Change in reserves of the Company for the fiscal year ended 31 December 2006 is set out on page 54 of this annual report.

COMPANY FINANCIAL SUMMARY

A summary of the results and the financial position of the Company for the past five financial years is set out on page 4 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment of the Company as at 31 December 2006 and their movements for the fiscal year ended 31 December 2006 are set out in note 6 to the Financial Statements.



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REPORT OF THE DIRECTORS (CONTINUED)

ISSUED SHARE CAPITAL

Save as disclosed herein, no share capital has been issued by the Company during the fiscal year ended 31 December 2006.

On 4 October 2006, the Company placed 200,000,000 H shares at HK\$5.10 per H share. The placing shares represent approximately 14.86% and 5.20% of the existing H Shares in issue and the entire registered capital of the Company, respectively, prior to the placing and approximately 12.94% and 4.94% of the H Shares and the entire registered capital of the Company, respectively, as enlarged by the issue of the placing shares.

Pursuant to the relevant PRC requirements, 20,000,000 domestic shares (representing 10% of the 200,000,000 placing shares) held by the Parent Company have been transferred to the National Council for Social Security Fund of the PRC and converted into H shares at its request. The aforementioned transfer of domestic shares and conversion of the same into H shares have been approved by China Securities Regulatory Commission and accomplished already. Subsequently, the total issued capital of the Company is 4,046,150,000 shares, including 1,566,150,000 H shares and 2,480,000,000 domestic shares.

The disclosure of interests of the Company as at 31 December 2006 is set out on page 21.

TAXATION

Details of taxation the Company for the fiscal year ended 31 December 2006 are set out in note 24 to the Financial Statements.

ENTRUSTED LOANS AND OVERDUE FIXED DEPOSITS

As at 31 December 2006, the Company has no entrusted loans or any matured but not yet withdrawn fixed deposits placed in financial institutions or any other entities.

MAJOR CUSTOMERS AND SUPPLIERS

The largest customer, China National Aviation Holding Company, and the five largest customers of the Company represented 23.06% and 49.32%, respectively, of the total revenues of the Company for the year ended 31 December 2006 as compared to 25.31% and 50.85%, respectively, in 2005.

REPORT OF THE DIRECTORS (CONTINUED)

The largest supplier, Capital Airports Holding Company (the "Parent Company" or "CAHC") and the five largest suppliers of the Company represented 30.26% and 39.91%, respectively, of the total operating expenses of the Company for the year ended 31 December 2006, as compared to 15.12% and 17.33%, respectively, in 2005. The reason was that the Company out-sourced the aviation safety and security guard services and accessorial power and energy services to CAHC's wholly-owned subsidiaries. As a result, the related costs were accounted in the costs of the largest supplier.

To the knowledge of the Board, none of the Company's directors and their respective associates (as defined in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules")) or shareholders holding more than 5% of the Company's issued share capital (excluding the Parent Company) owned any interests in the Company's five largest customers or five largest suppliers at any time during the year ended 31 December 2006.

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

There is no subsidiary or jointly controlled entity of the Company as at 31 December 2006.

ACQUISITION AND DISPOSAL

Save as disclosed below, the Company has not conducted any major acquisition or disposal of its associated companies for the year ended 31 December 2006.

On 22 December 2005, the Company entered into equity transfer agreements with the Parent Company to dispose of the 60% equity interests of Beijing Aviation Ground Services Co., Ltd ("BGS") and Beijing Airport Inflight Kitchen Ltd ("BAIK") owned by the Company, respectively. Such agreements were approved on the extraordinary general meeting of the Company on 15 March 2006 for a total consideration of Rmb267,879,000. Net gains of the Company from the disposal were Rmb17,498,000.

On 26 December 2006, the extraordinary general meeting of the Company approved the acquisition of Phase III Target Assets (note) from the Parent Company by the Company for the total consideration comprising (i) Initial consideration, which is approximately Rmb12.32 billion, the Initial consideration was determined based on the valuation of the Phase III Target Assets as at 31 March 2006, conducted by an independent registered PRC valuer and verified by the Ministry of Finance, and (ii) Transitional Expenditure, which will be determined by reference to the result of the audit performed by China Audit Certified Public Accountants, an accountants firm in China, which is able to engage in independent audit business according to related regulations and laws, as agreed by the Company and the Parent Company.

Note: Phase III Target Assets refers to the assets regarding Phase III Expansion, legally owned by the Parent Company, and which form the target assets for acquisition by the Company from the Parent Company including the construction in progress of airfield, T3 and roads within airport area, the driverless electric train system and other relevant equipment, machinery and facilities, etc, in respect of phase III project, the land use rights of the land on which T3 is situated, and the rights and liabilities relating thereto.

The Company sets out the funding arrangement for the acquisition of Phase III Target Assets as follows:

i. Debt financing

- (a) the proposed loan from European Investment Bank in the aggregate amount of not more than €500 million;
- (b) the proposed issues of fixed-income securities with the aggregate amount of approximately Rmb10 billion; and
- (c) other bank borrowings as appropriate to satisfy the remaining balance of the financing.

The resolution regarding the above arrangement has been approved at the extraordinary general meeting of the Company on 20 December 2006.

ii. Equity financing

The Company proposed to offer not more than 800,000,000 A shares in the PRC.

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

The Company has not redeemed any of its listed securities during the year ended 31 December 2006. The Company has not purchased or sold any of the listed securities of the Company during the year ended 31 December 2006.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

REPORT OF THE DIRECTORS (CONTINUED)

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The following are the connected transactions or continuing connected transactions which are required to be disclosed in the annual report of the Company in accordance with Chapter 14A of the Listing Rules.

The table of the continuing connected transactions of the Company as set out in the waiver granted by the Hong Kong Stock Exchange on 28 March 2000 and in the previous announcements dated 1 September 2004, 18 January 2005, 30 September 2005, 22 December 2005, 16 January 2006, and 10 January 2007 and approved at the general meetings (if applicable), including the total amount included for each such transaction during the year ended 31 December 2006, is as follows:

	2006	2005
	Rmb'000	<i>Rmb'000</i>
Revenues:		
Concessions from the jointly controlled entities of CAHC	33,684	13,155
Rental income from the jointly controlled entities of CAHC on counters, premises and office space	59,303	19,853
Leasing of premises to a subsidiary of CAHC	19,523	12,681
Expenses:		
Utilities and power supply by a subsidiary of CAHC	193,253	229,018
Leasing of land use rights from CAHC	6,764	6,153
Certain sanitary services and baggage cart management services, greening and environmental maintenance services by an associate of CAHC	40,401	16,720
Aviation safety and security guard services, and accessorial power and energy services provided by the subsidiaries of CAHC	235,367	—
Other transactions:		
Payment for renovation projects management services fee to a subsidiary of CAHC	3,404	18,780

The aforesaid continuing connected transaction has been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transaction were entered into:

- (1) in the ordinary and usual course of business of the Company;
- (2) either on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions (the "Transactions") on a sample basis in accordance with International Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the International Federation of Accountants. The auditors have reported their factual findings as below on the selected samples based on the agreed procedures to the Board.

- (1) the Transactions had been approved by the Board of Directors;
- (2) the pricing of the Transactions, on a sample basis, were entered into in accordance with the pricing policies of the Company;
- (3) the Transactions were entered into in accordance with the relevant agreements governing the Transactions; and
- (4) the amounts of the Transactions did not exceed the relevant caps as disclosed in previous announcements of the Company.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board was elected by the shareholders of the Company, and was established on 2 June 2005 with its term of office to be expired on the date of the conclusion of the 2008 annual general meeting of the Company.

Mr. Wang Tiefeng was elected as an executive director of the Company at the annual general meeting on 8 June 2006 and his term will expire on the date of the conclusion of the 2008 annual general meeting of the Company. (i.e., the date of expiry of the Board for the third term.) The Board resolved to approve Mr. Zheng Hui's resignation as a director of the Company due to personal reasons on 8 June 2006 and Mr. Zheng Hui's resignation was effective on the same date.

On 1 February 2007, the Board considered and approved the resignation of Mr. Wang Zhanbin as the chairman of the Board with effect from the same date and his resignation as executive director with effect from the date of the extraordinary general meeting on 26 March 2007; and the resignation of Mr. Dominique Pannier as non-executive director with effect from the date of the extraordinary general meeting on 26 March 2007.

Also, the Board approved the appointment of Mr. Wang Jiadong as the chairman of the Board and his resignation as the general manager of the Company, both with effect from 1 February 2007 and the appointment of Mr. Dong Zhiyi as the general manager of the Company with effect from 1 February 2007, and proposed the appointment of Mr. Dong Zhiyi as an executive director of the Company at the extraordinary general meeting on 26 March 2007.

Mr. Dong Zhiyi was elected as an executive director of the Company at the extraordinary general meeting on 26 March 2007 and his term will expire on the date of the 2008 annual general meeting of the Company (i.e. the expiry date of the third term of Board).

Currently, the Board is comprised eight directors, including three executive directors, two non-executive directors and three independent non-executive directors.

According to Rule 3.13 of the Listing Rules, the Company received the confirmation of independence from each of the independent non-executive directors and confirmed that each independent non-executive director has complied with the relevant requirements of independence. The members of the Board acknowledged their responsibilities and duties. Seven board meetings were held in the year of 2006, and there were appropriate arrangements to ensure the attendance of independent non-executive directors and to ensure the review of the accounting records, accounting procedures and internal control system of the Company.

The third term of supervisory committee was elected by the shareholders of the Company on the date of the annual general meeting of the Company on 2 June 2005. Currently, the supervisory committee was comprised of four supervisors, including two external supervisors, a supervisor representing staff and a supervisor representing shareholders.

All executive directors of the Company have entered into directors' service contract with the Company with a term expiring at the date of the 2008 annual general meeting of the Company. All non-executive directors and supervisors of the Company have entered into letters of undertaking to perform the obligations of non-executive directors and supervisors, respectively, in accordance with the articles of association of the Company. Save as mentioned above, the Company has not entered into any service contract with any director or supervisor of the Company. None of the directors or supervisors of the Company has a service contract with the Company which is terminated within one year without payment of compensation to the Company (other than statutory compensation).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Executive Directors

Mr. Wang Jiadong, 55, was re-elected as an executive director in June 2005 and was appointed as the Chairman of the Board on 1 February 2007. He graduated from China Europe International Business School with a master degree in business administration. He has over 20 years of experience in civil aviation communications and airport management. From 1988 to 1993, Mr. Wang was the deputy head of Beijing Capital International Airport's (the former entity of CAHC) human resources division. From 1994 to 2000, he acted as the deputy general manager, and subsequently the general manager of BGS. From October 2000 to January 2003, he was the deputy general manager of the Company, and was appointed as the general manager of the Company in January 2003 and was reappointed the general manager of the Company in June 2005. Mr. Wang Jiadong was appointed as the chairman of the Board on 1 February 2007, and quit the position of the general manager of the Company on the same day.

Mr. Dong Zhiyi, 45, was elected as an executive director in 26 March 2007. He is a senior economist and has a bachelor degree in enterprise management. Mr. Dong Zhiyi has over 20 years of experience in airport and civil aviation management. From June 1996 to January 2001, he was deputy chief officer of Inner Mongolia Municipality Bureau of the General Administration of Civil Aviation of China ("CAAC"). From January 2001 to December 2003, he was deputy party secretary and chief officer of Inner Mongolia Municipality Bureau of CAAC. From December 2003 to February 2006, he was the party secretary and general manager of Inner Mongolia Airport Group Company Limited. Mr. Dong Zhiyi was the deputy general manager of the Parent Company since July 2005 and he was the chairman of the board of directors of Inner Mongolia Airport Group Company Limited since February 2006. He was appointed as the the General Manager of the Company on 1 February 2007.

Mr. Wang Tiefeng, 41, was appointed as the chief financial controller of the Company in February 2006 and was elected as an executive director on 8 June 2006. After obtaining the doctor degree in quantitative Economics from Jilin University, he became a Doctor of Finance of Management College of University Maastricht in Holland. Mr. Wang has acted as Financial Advisor, Assistant General Manager, Director of Capital Operation Administration Office of the Parent Company), Executive President of Goldstate Securities Co., Ltd., Administrative Vice President of China Nationality Securities Co., Ltd consecutively from January of 2004 to February 2006. From the end of 1998 to February 2004, Mr. Wang consecutively took up the posts of the leader of the "Bao Steel Security Listing Team" of Bao Steel Group, Vice President of United Securities Co., Ltd, Vice President of Huabao Trust Investment Co., Ltd, Professor and Director of Financial Research Center of Shanghai National Accounting Institute.

Non-executive Directors

Mr. Chen Guoxing, 53, was elected as a non-executive director in June 2005. He is a graduate of Tongji University and a senior engineer. He has extensive experience in infrastructure constructions, especially in airport constructions. From 1992 to 2002, Mr. Chen was the vice director of the Planning Committee of Jiangxi Province, the director of the Engineering Administration Section of Communications Bureau, Jiangxi Province, the General Commander of the Command Office for Construction of Changbei Airport (which is located in Nanchang, Jiangxi Province, PRC), and subsequently the deputy mayor of Nanchang city. From March 2002, he has been the Vice General Manager of the Parent Company.

Mr. Gao Shiqing, 46, was elected as a non-executive director in June 2006. Mr. Gao graduated from Beijing University of Aeronautics & Astronautics with a master degree in aviation engineering. From August 1983 to July 2004, Mr. Gao served as a planning engineer in planning & science department, planning, and as deputy chief in development & finance department in CAAC. From July 2004, he had been the assistant of general manager of the Parent Company, and has been the vice general manager of the Parent Company from July 2005.

Independent Non-executive Directors

Mr. Long Tao, 55, was re-elected as an independent non-executive director in June 2006. He holds a bachelor degree and a master degree in economics. He has over 15 years of experience in accounting, finance, securities and investment, including the work experience in the New York office of Peat Marwick, Certified Public Accountants. Apart from being the chairman of Beijing Investment Consultants, Inc. and a vice professor in the School of Accounting Central Financial and Economics University, he is also an independent non-executive director of various companies listed on the Hong Kong Stock Exchange. Mr. Long has been elected an independent non-executive director of the Company since October 1999.



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REPORT OF THE DIRECTORS (CONTINUED)

Mr. Moses Cheng Mo Chi, 57, was re-elected as an independent non-executive director in June 2005. He graduated from the University of Hong Kong with a bachelor degree in law. He was qualified as a solicitor of the Supreme Court of Hong Kong in 1975 and has since been qualified as a solicitor of the Supreme Court of England & Wales, a solicitor and a barrister of the Supreme Court of Victoria in Australia, a solicitor and an advocate of the Singapore Supreme Court, a notary public and an authorised attesting officer of the PRC. He was appointed and served as a member of the Legislative Council of Hong Kong from 1991 to 1995, the chairman of the Committee for Protection of Wages on Insolvency in 1992, the chairman of the Hong Kong Institute of Directors in 1995 and a Justice of the Peace in 1996. He currently holds more than ten positions in social services. At present, apart from being a primate partner and practicing solicitor of P.C. WOO & CO., Mr. Cheng is also serving as an independent non-executive director of various companies listed on the Hong Kong Stock Exchange. Mr. Cheng has been elected as an independent non-executive director of the Company since October 1999.

Mr. Kwong Che Keung, Gordon, 57, was re-elected as an independent non-executive director of the Company in June 2005. Mr. Kwong graduated from the University of Hong Kong in 1972, qualified as a chartered accountant in England in 1977. He was a partner of Pricewaterhouse from 1984 to 1998. He is currently an independent non-executive director of various companies listed on the Hong Kong Exchange. In the public sector services, he was a panel member of the Hong Kong Government's Central Policy Unit from 1993 to 1995 and was an independent member of the Council of the Hong Kong Stock Exchange from 1992 to 1997. He was a member of the Panel of Inquiry appointed by the Financial Secretary on the Penny Stocks Incident in 2002. Mr. Kwong has been elected as an independent non-executive director of the Company since October 1999.

Members of the Supervisory Committee

Mr. Wang Zuoyi, aged 45, was re-elected as a supervisor of the Company and the chairman of the supervisory committee in June 2005. Mr. Wang graduated from Buffalo School, New York State University of USA in 1999 with a master degree in business administration. From 1991 to 1993, Mr. Wang was engaged in the Finance Bureau of Hainan Province. From 1993 to 1996, he was the director and chief deputy general manager of Hainan Wuzhou Tourism Joint-stock Company Limited. From January 1997 to August 2001, Mr. Wang was the deputy general manager of Hainan International Trust and Investment Company. From 1998 to 2000, Mr. Wang was the director of Haikou Meilan Airport Company Limited. From August 2001 to January 2003, Mr. Wang was the Chief Accountant of the Company. Mr. Wang had been the chief Accountant of the Parent Company since January 2003 and then has been the investigator of the Parent Company on January 2007.

Ms. Li Xiaomei, aged 48, was re-elected as a supervisor in June 2005. Ms. Li is an economist, and graduated from Changjiang Business School with a Master degree of Executive Business Administration (EMBA). She has over 20-year of experience in labor economics and human resources. From 1994 to 1999, she was the deputy director of the Beijing Capital International Airport's human resources division. From October 1999 to January 2003, she was the human resources manager of the Company. From January 2003 to March 2006, she was the chairman of Beijing Airport Inflight Kitchen Ltd. She has been the chairman of labor union of the Company and the general secretary of the disciplinary committee of the Company since January 2003.

REPORT OF THE DIRECTORS (CONTINUED)

Mr. Han Xiaojing, 52, was re-elected as an independent supervisor in June 2006. He graduated from the School of Law of Zhong Nan Politics and Legal Studies University with a bachelor degree in law. Thereafter, he studied at Politics and Legal Studies University of China and obtained a master degree in law in 1985. From 1985 to 1992, Mr. Han worked as a full-time lawyer in China Legal Affairs Center. In 1992, he established the Commerce & Finance Law Office in Beijing and has been the principal lawyer since then. Mr. Han has been a supervisor of the Company since October 1999.

Mr. Xia Zhidong, 53, was re-elected as an independent supervisor in June 2002. He graduated from Tianjin Finance College with a bachelor degree in accounting and from the Research Institute of the Ministry of Finance with a master degree in economics in February 1985. From 1986 to 1988, Mr. Xia was the deputy head of the Accounting Research Division of the Research Institute of the Ministry of Finance. In 1988, he became the assistant director of the capital finance section of the international business department of the head office of the China Construction Bank. In 1989, Mr. Xia attended an Advanced Management Program at the Harvard Business School of USA. He was the deputy general manager of Ernst & Young Hua Ming, Certified Public Accountants from 1992 to 1996 and is currently the senior partner of Tin Wha CPAs. Mr. Xia has been a supervisor of the Company since December 1999.

Save and except for the directorships in the Company, and save and except for the non-executive directorship of Mr. Gao Shiqing in a listed company and the independent non-executive directorship of each of Mr. Long Tao, Mr. Moses Cheng Mo Chi and Mr. Kwong Che Keung, Gordon, in several other listed companies, none of the directors or the supervisors of the Company held directorship in any other listed public companies over last three years.

Save and except for the relationships as stated above, none of the directors or the supervisors of the Company has any relationship with other directors, senior management, substantial shareholder or controlling shareholder of the Company, or has any interest in the shares of the Company within the meaning of Part XV of the SFO.

For this term of the supervisory committee of the Company, the annual emolument of each independent supervisor: Mr. Han Xiaojing and Mr. Xia Zhidong was Rmb50,000. Other supervisors were not remunerated from the Company for their positions of the supervisors.

Other Senior Management

Mr. Huang Gang, 44, was re-appointed as a deputy general manager of the Company in June 2005. He is a graduate of National Defense Technology University in electricity technology, and he obtained the Executive Master of Business Administration degree (EMBA) from Faculty of Business of the City University of Hong Kong. He served in the National Defense Technology Industry Committee from 1983 to 1988 and then the National Transportation Investment Corporation from 1988 to 1993. He was the senior engineer and deputy director general of the National Development Bank from 1993 to January 2000. He participated in the management in relation to the Phase II expansion project of Beijing Airport from June 1996 to January 2000 acting as the assistant to the chief commander of the command office for the terminal area expansion project of Beijing Airport. He was the manager of operation department and the assistant to the general manager of the Company from January 2000 to January 2003. Since January 2003 he was a deputy general manager of the Company.

Mr. Liu Fuquan, 58, was re-appointed as deputy general manager of the Company in June 2005. He graduated from the Central Party College in economics and management. Mr. Liu was the deputy director and then director of the Beijing Capital International Airport's human resources division from 1988 to 1998. From 1998 to October 1999, he has served as the secretary of the disciplinary committee of the Beijing Capital International Airport. From October 1999 to January 2003, he was the chairman of the Supervisory Committee and the general secretary of the disciplinary committee of the Company. Since January 2003, he has been the deputy general manager of the Company.

Ms. Gao Lijia, 42, was re-appointed as the deputy general manager of the Company in June 2005. Ms. Gao is a senior engineer. She graduated from the Computer Science Department, Beijing University of Aeronautics and Astronautics (BUAA) with a master degree of engineering. The master degree of Business Administration from China Europe International Business School as well. From January 1989 to May 1995, Ms. Gao served at BUAA as deputy director and deputy professor of the Electronic Engineering Department. From May 1995 to June 1997 to October 1999, she worked in the electronic communication technology industry. From June 1997, Ms. Gao has been working as manager of Computer Division of Technological Equipment Department and then deputy director of Computer Centre of the Beijing Capital International Airport. From October 1999 to October 2001, Ms. Gao was manager of the IT department of the Company. From October 2001 onwards, she became the manager of the planning and development department of the Company. Since February 2004, she has been the a deputy general manager of the Company.

Mr. Zhang Bing, 54, was appointed as the deputy general manager of the Company in August 2006. Mr. Zhang has acted as the director of convoy center of the Beijing Capital International Airport, the director of aviation safety and security division of the Company, the assistant to the general manager of the Company and the general security supervisor of the Company consecutively. He has over 20 years of experience in safety and security of airport operation of the Company.

REPORT OF THE DIRECTORS (CONTINUED)

Mr. Shu Yong, 34, was re-appointed the secretary of the Board of the Company in June 2005. He graduated from the Law Department of Peking University with a bachelor degree in laws with double majors in economic laws and international economic laws. He also obtained the Executive Master of Business Administration degree (EMBA) from Faculty of Business of the City University of Hong Kong. He worked in the planning and operating division and then the corporate office of the Beijing Capital International Airport from August 1996 to October 1999. From October 1999 to January 2003, he was the legal affairs manager of the securities department and subsequently the manager of the Secretariat to the Board. From May 2003 to May 2004, Mr. Shu was the deputy manager and acted as the manager of Planning and Development Department of the Company from May 2004 to April 2006. He has been the secretary of the Board since January 2003.

DISCLOSURE OF INTERESTS

Substantial Shareholders

As at 31 December 2006, the interests and short positions of the shareholders (other than directors or supervisors of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") were as follows:

Name of substantial shareholder	Class of shares	Number of shares interested	Capacity	Approximate percentage of shareholding in the relevant class of share capital	Approximate percentage of shareholding in the total issued share capital
Capital Airports Holding Company	Domestic	2,480,000,000 (L)	Beneficial Owner	100% (L)	61.29% (L)
Aeroports de Paris	H Shares	253,591,346 (L) (Note 1) (Note 2)	Interest of a controlled corporation	16.19% (L)	6.27% (L)
ADP Management	H Shares	253,591,346 (L) (Note 1) (Note 2)	Beneficial Owner	16.19% (L)	6.27% (L)
Julius Baer Investment Management LLC	H Shares	186,863,831 (L)	Beneficial owner	11.93% (L)	4.62% (L)

(L) - Long position in shares

Note 1: According to the Corporate Substantial Shareholder Notices filed by Aeroports de Paris on 30 December 2004, Aeroports de Paris indirectly held 253,591,346 H Shares. The following is a breakdown of the interests in shares of the Company held by Aeroports de Paris:

Name of controlled corporation	Name of controlling shareholder	Percentage of control	Total interest in shares		Approximate percentage of shareholding in the relevant class of share capital
			Direct interest	Deemed interest	
ADP Management	Aeroports de Paris	99.76%	253,591,346	—	16.19%

Note 2: On 26 February 2007, the Company has been informed that ADP Management disposed of its entire shareholding in the Company by way of market placement at a price of HK\$7.77 per share (exclusive of stamp duty, trading fees, transaction levies and brokerage). The Company has published an announcement dated 26 February 2007.

Save as disclosed above, the register required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2006.

INTERESTS OF DIRECTORS, SUPERVISORS AND THE GENERAL MANAGER IN THE SHARES OF THE COMPANY

As at 31 December 2006, none of the directors, supervisors or the general manager of the Company had any interests or short positions in any shares, any underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) recorded in the register of the Company required to be kept by the Company under section 352 of the SFO; or (b) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

During the year ended 31 December 2006, none of the directors, supervisors, or the general manager of the Company or their associates had been granted the right to subscribe for any equity or debentures of the Company, nor had any of them exercised such rights during the same period.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2006, none of the directors or supervisors of the Company had directly or indirectly any material interests in any contracts or arrangements (defined as the Listing Rules) (other than service contracts / appointment letters) to which the Company was a party.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2006, none of the directors or supervisors of the Company had any interest in any competing business with the Company.

CONTRACTS OF SIGNIFICANCE

Save for those transactions described in the note headed "Related Party Transactions" in the note 31 to the Financial Statements and the section headed "Connected Transactions and Continuing Connected Transactions" in the Report of the Directors above, there was no contract of significance in 2006:

- (a) between the Company and its controlling shareholder (or any of its subsidiaries); or
- (b) for the provision of services to the Company by its controlling shareholder (or any of its subsidiaries).

MANAGEMENT CONTRACTS

For the year ended 31 December 2006, no contract concerning the management and administration of the whole or any substantial part of the business of the Company (other than service contracts with any directors) was entered into or subsisted.

EMOLUMENTS OF DIRECTORS AND SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of emoluments of directors, supervisors and the five highest paid individuals during the financial year are set out in note 23 to the financial statements.



REPORT OF THE DIRECTORS (CONTINUED)

MATERIAL LITIGATION OR ARBITRATION

The Company was not involved in any material litigation or arbitration during the year ended on 31 December 2006.

SIGNIFICANT POST BALANCE SHEET EVENT

As at 25 April 2007, the significant post balance sheet event are set out in note 32 to the Financial Statements.

PUBLIC FLOAT

As at 25 April 2007, the Board acknowledges that 1,566,150,000 H shares, representing 38.71% of the entire issued share capital of the Company are held by the public, which is in compliance with the minimum requirement of public float under Rule 8.08 of the Listing Rules.

AUDITORS

For the three years ended 31 December 2006, PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers were the Company's PRC and international auditors, respectively.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers were approved by a resolution passed at the annual general meeting of the Company held on 8 June 2006, as the Company's PRC and international auditors, respectively, for the year 2006.

The Board of the Company will present the resolution for the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as the Company's PRC and international auditors respectively for the year 2007 at the forthcoming annual general meeting.

By order of the Board
Wang Jiadong
Chairman

25 April 2007
Beijing PRC