

Management Discussion and Analysis

AERONAUTICAL BUSINESS

In 2000, PRC economy recorded healthy growth which stimulated domestic air traffic demand; while the economic recovery of surrounding regions spurred the international air traffic. The stable economic environment laid foundation for the Company's growth. In 2000, traffic volume at Beijing Airport increased substantially, as shown in the following table:

		2000	1999	Change %
Passenger throughput		21,691,077	18,190,852	19.2
Domestic		14,996,965	12,551,050	19.5
International, Hong Kong & Macau	6,694,112	5,639,802	18.7	
Aircraft movement		187,190	164,945	13.5
Domestic		142,461	125,441	13.6
International, Hong Kong & Macau	44,729	39,504	13.2	
Freight throughput		557,366	462,338	20.6
Domestic		277,987	237,906	16.8
International, Hong Kong & Macau	279,379	224,432	24.5	

The market share of Beijing Airport among PRC's airports in terms of aircraft movements increased from 9.97% to 10.65%; passenger throughput increased from 15.16% to 16.22% and freight throughput from 18.12% to 19.39%. This change shows growth rate in Beijing's aviation activities is higher than the average level in the country.

In line with the robust traffic growth, the passenger charges, aircraft movement fees, Airport Fee, ground handling facilities charge and ground services income of BGS were Rmb457,912,000, Rmb273,522,000, Rmb287,561,000, Rmb175,944,000 and Rmb105,511,000, respectively, representing increases of 11.1%, 24.6%, 16.3%, 6.2% and 37.5%, respectively. The passenger charges and aircraft movement fees were mainly driven by aircraft movements and the size of aircrafts. Airport Fee was mainly driven by number of outbound passengers.

NON-AERONAUTICAL BUSINESS

The commencement of operation of Terminal 2 and ancillary infrastructure laid foundation for the non-aeronautical business development. The Company has regarded the non-aeronautical business development as one of the main focuses in the next few years.

Due to substantially larger property and advertising areas available for rental in Terminal 2, rental and advertising revenues reached Rmb166,622,000 and Rmb57,715,000, respectively, representing increases of 163.2% and 164.3% over 1999. But certain lessees cancelled their leases in the second half of 2000 because their operating revenues could not cover the high rent set by auction. This affected the rental and advertising income of the Company. The Company will make adjustment to the rental structure to decrease the fixed portion and increase the portion pegged to the turnover of the lessees. The Company will also rearrange

domestic retail areas to increase areas for restaurants and bars to meet the travelers' demand. The Company is currently soliciting new bids for the released areas.

The Company rearranged the duty free shops and planned to develop new duty free shops in three phases. The Company has completed the first phase, which increased duty free area by about 460 square meters in 2000. The next two phases will be completed in 2001 with total increase in space of about 300 square meters. Revenue from duty free shop and other shops reached Rmb213,378,000 in 2000, representing an increase of 38.4% over the previous year.

In 2000, revenue from car parking reached Rmb30,738,000, representing an increase of 89.8%. Due to new regulations from the Beijing municipal government, the Company lowered car park charge from Rmb10 to Rmb6 for the first hour effective from 1st May, 2000. This increased the volume for car park but reduced total car parking revenue.

In 2000, BAIK, a joint venture of the Company sought non-airline customers while expanding market share in air catering. This and higher passenger throughput all contributed to Rmb49,560,000 of air catering revenues generated by BAIK, representing an increase of 32.7% over 1999.

With the commencement of operation of Terminal 2, the Group leased out most of the commercial areas and decreased the number of restaurants operated by the Group. This resulted in a decrease in revenue of BAFS from Rmb23,051,000 in 1999 to Rmb9,984,000 in 2000.

DISCUSSION OF FINANCIAL RESULTS

In 2000, total revenue of the Group was Rmb1,828,447,000, an increase of 27.2% over the previous year, among which aeronautical revenue was Rmb1,300,450,000, and non-aeronautical revenue was Rmb527,997,000, representing increases of 16.0% and 67.2% respectively. The contribution of non-aeronautical revenue to total revenues increased from 22.0% to 28.9%.

Due to operation of Terminal 2, operating cost of the Group reached Rmb1,129,278,000, an increase of 84.9% over 1999. Depreciation and amortisation reached Rmb412,568,000, representing an increase of 144.6% over the previous year. Cost of utilities and power reached Rmb145,803,000, representing an increase of 161.4% over the previous year. Due to significant increases of these items, profit from operation of the Group decreased by 19.5%.

In 2000, the Company repaid Rmb1.64 billion of bank loans denominated in Japanese yen, which were borrowed for the Terminal 2 and ancillaries construction. The repayment reduced the volatility of future operating results due to foreign exchange fluctuations. The Group realised an exchange gain of Rmb185,000,000 from the depreciation of the Japanese yen. As a result, the net profit of the Group increased by 12.9%.

Upon the issuance of 1,346,150,000 new H shares of the Company in January 2000, the debt/asset ratio of the Group reduced from 48.5% at the end of 1999 to 24.0% at the end of 2000.

Other information in relation to those matters set out in Paragraph 32 of Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited has not changed materially from 1999.