

# MANAGEMENT DISCUSSION & ANALYSIS

## 1. AERONAUTICAL BUSINESS

During the first six months of this year, the PRC economy maintained steady growth, which led to a strong increase in the domestic traffic volume at Beijing Airport. International passenger and cargo throughput has been affected since February by the slowing down of the regional and world economy, but still showed an increase. In the first six months of 2001, aircraft movements totaled 104,665, representing an increase of 25.4% over the same period of last year. Passenger throughput reached 11,003,682, representing an increase of 13.6% over the same period of last year. Freight throughput was 276,933 tonnes, representing an increase of 14.7% over the same period of last year. See the following chart for details. It should be noted that domestic aircraft movements showed a relatively high rate of increase partly due to the rehabilitation of the west runway at Beijing Airport, which was carried out in March and April of last year and affected aircraft movements for that period.

	Jan - Jun, 2001	Jan - Jun, 2000	Increase
Aircraft Movements	104,665	83,498	25.4%
Domestic	81,324	62,525	30.1%
International, Hong Kong & Macau	23,341	20,973	11.3%
Passenger Throughput	11,003,682	9,688,676	13.6%
Domestic	7,611,586	6,596,901	15.4%
International, Hong Kong & Macau	3,392,096	3,091,775	9.7%
Cargo Throughput (Tonnes)	276,933	241,513	14.7%
Domestic	146,192	120,520	21.3%
International, Hong Kong & Macau	130,741	120,993	8.1%

Due to the steady growth in the aeronautical business, the Group's aeronautical revenues reached RMB674,135,000 in the first half of 2001, representing an increase of 13.9% over the same period of last year. Among them, passenger charges reached RMB248,086,000, aircraft movement fees and related charges reached RMB141,555,000, and Airport Fee reached RMB144,865,000, representing increases of 19.0%, 12.9% and 11.1%, respectively, over the same period of last year.

## 2. NON-AERONAUTICAL BUSINESS

In the first half of 2001, the Group's non-aeronautical revenues reached RMB258,195,000, representing a decrease of 3.4% over the same period of last year.

Due to the slowing down of the economies in Japan and Korea, there was a large decrease in both the number and the purchasing power of Japanese and Korean passengers, who make

up a large portion in the duty free shop customers at Beijing Airport. Therefore, sale revenues did not show a substantial growth though the Company has been working hard to expand new retail spaces. Revenues from duty free and other shops reached RMB95,637,000 in the first half of 2001, representing an increase of 2.7% over the same period of last year.

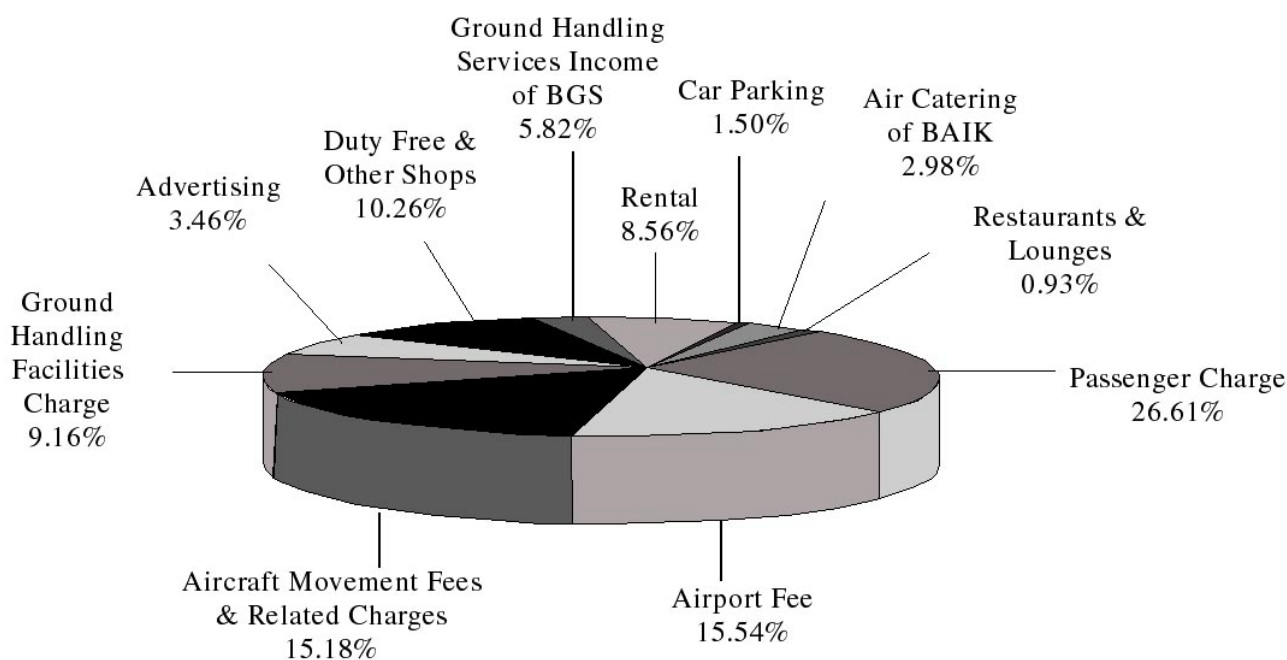
Advertising business was affected in the second half of last year due to the cancellation of agreement by certain advertising agents but the Company has already re-leased the advertising spaces successfully. In the first half of 2001, advertising revenues reached RMB32,258,000, representing an increase of 6.2%.

In rental business, certain lessees cancelled their leases in the second half of 2000 because they could not afford the high rent set by auction, and this affected the rental revenues of the Company. In addition, CAAC narrowed the floating range for rent charged to airlines for the use of counters and other spaces with effect from 1st January, 2001, which also affected rental revenues of the Company. In the first half of 2001, rental revenues reached RMB79,798,000, a decrease of 18.0% over the same period of last year.

Pursuant to new regulations from the Beijing Municipal Government, the Company reduced car parking charge from RMB10 to RMB6 for the first hour with effect from 1st May, 2000, which affected the car parking revenues of the Company. In the first half of 2001, car parking revenues of the Company reached RMB14,027,000, representing a decrease of 11.0%.

BAIK, which is a joint venture of the Company, has taken initiatives to develop non-airline clients while expanding its market share in air catering. This contributed to its revenue of RMB27,770,000 in the first half year, which represented an increase of 23.0% over the same period of last year.

For the six months ended 30th June, 2001, 27.7% of the Group's total revenue was contributed by non-aeronautical businesses.



### 3. COSTS

In the first half of 2001, operating costs of the Group totaled RMB565,786,000, representing an increase of 13.5% over the same period of last year.

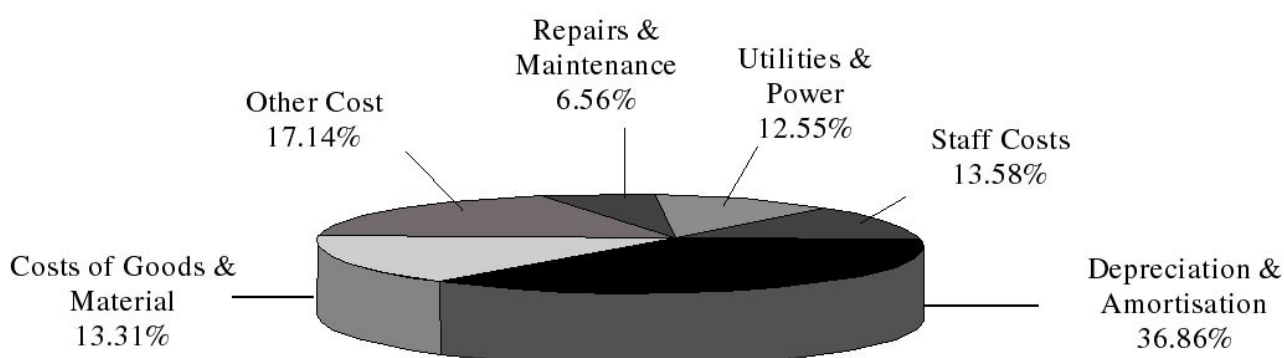
Because the renovation of west runway and the construction of cross-field taxiway at Beijing Airport was completed in June and December 2000, respectively, depreciation and amortisation charges of the Group in the first half of this year reached RMB208,564,000, representing an increase of 5.2% over the same period of last year.

Because the warranty for most of the equipment in Terminal 2 has expired, the Group's costs of maintaining the terminal building and system facilities reached RMB37,111,000 in the first half of this year, representing a substantial increase of 90.2% over the same period of last year.

The Company gave its staff a pay increase in the second half of 2000, which was the first time in the past three years. This resulted in a total staff cost of the Group of RMB76,836,000 in the first half of this year, representing an increase of 31.5% over the same period of last year.

With the increase in passenger throughput at Beijing Airport, the expansion of duty free shops, and the increase of the number of BAIK's clients, goods and materials costs of the Group reached RMB75,302,000 in the first half of this year, representing an increase of 18.6% over the same period of last year.

Costs of utilities and power of the Group reached RMB71,017,000 in the first half of this year, maintaining the same level of the same period of last year.



For the six months ended 30th June, 2001, the Group recorded a total revenue of RMB932,330,000, representing an increase of 8.5% over the same period of last year; a net profit of RMB194,681,000, representing a decrease of 11.5% over the same period of last year; and the earnings of RMB0.05 per share. It should be noted that the Group recorded an exchange gain of RMB42,288,000 for the first half of last year, but only RMB1,175,000 for the first half of 2001. Excluding these gains, the net profit of the Group would have been RMB193,894,000, an increase of 1.2% over the same period of last year.

As at 30th June, 2001, the ratio of liabilities and owner's equity of the Group was 46.2%,

and that as of 31st December 2000 was 47.8%.

As at 30th June, 2001, the current ratio of the Group was 184.3%, and the quick ratio of the Group was 178.7%. These ratios as at 31st December, 2000 were 163.9% and 159.4% respectively.