

Management Discussion and Analysis

Business Review

Overview of the Aeronautical Business

In 2001, economies slowed down globally. But China's economy continued to maintain a steady growth, which not only led to a strong growth of domestic traffic volume at the Beijing Airport, but also gave potent support to keep the international traffic volume stable. The September 11th incident had affected the international volume at the Beijing Airport during the last quarter of 2001. However, in view of the whole year, the aeronautical business of the Beijing Airport achieved good operating results.

The following chart represents the details of the traffic volume at the Beijing Airport in 2001, together with comparisons with those in the previous year:

	2001	2000	Changes
Aircraft Movements	221,850	187,190	18.5%
Domestic	173,081	142,461	21.5%
International, Hong Kong & Macau	48,769	44,729	9.0%
Passenger Throughput	24,176,495	21,691,077	11.5%
Domestic	16,992,655	14,996,965	13.3%
International, Hong Kong & Macau	7,183,840	6,694,112	7.3%
Freight and Mail Throughput	591,195	557,366	6.1%
Domestic	322,398	277,987	16.0%
International, Hong Kong & Macau	268,797	279,379	(3.8)%

It should be noted that the domestic aircraft movements showed a relatively high rate of increase partly due to a lower comparative domestic aircraft movement base in 2000 resulted from the rehabilitation of the west runway at the Beijing Airport during March and April 2000.

Due to the impact of global economic slowdown, the international freight and mail throughput decreased by 3.8% in 2001 over the previous year. But as most of the freight and mail handling at the Beijing Airport is operated by Air China, and a very small percentage is operated by the Group, the unsatisfactory freight and mail throughput had minimum impact on the aeronautical revenues of the Group.

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The Impact of September 11th Incident on the Aeronautical Business of the Group

The September 11th terrorist attack in the United States last year affected the global aviation industry substantially. The traffic volume at the Beijing Airport, especially of the international passenger throughput, were affected during the last quarter of 2001.

In the month of September 2001, due to the September 11th incident, passengers to North America began to show a negative month to month growth. The month to month increase of international traffic volume slowed down.

In October 2001, the number of passengers to Japan began to decrease, and the growth of the number of passenger to Europe slowed down. The total monthly international passenger throughput was at the same level as compared with that of the previous year, and the monthly increase of international aircraft movements slowed down obviously.

In November 2001, the number of passengers to North America and Japan continued decreasing, and the number of passengers to Europe began to show negative growth. In this month, both the international passenger throughput and the international aircraft movements showed a negative growth as compared with the same month of the previous year.

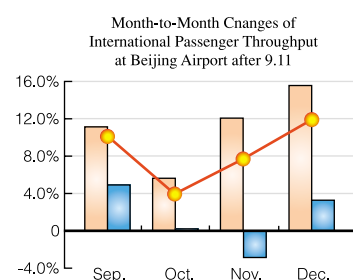
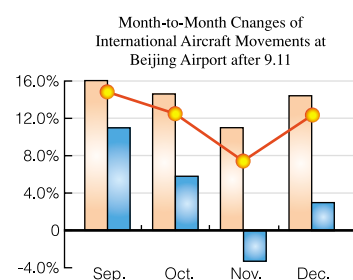
Starting from December 2001, the international traffic stopped their downward trends, and began to revive obviously.

Thanks to the strong development of China's economy, the domestic traffic at the Beijing Airport maintained a relatively steady growth, which led to a double digit growth in the traffic volume.

In the present year, the domestic traffic volume at the Beijing Airport continued its increase steadily, and the growth rate of international traffic volume also came back to the level as that before September 11th.

Overview of the Non-aeronautical Business

As compared with the aeronautical business, the slower growth of the passenger throughput and the lowering of passengers' purchasing power, caused by the economy slowdown and the September 11th incident had a more obvious impact on the non-aeronautical business of the Group. Although the Group endeavored to develop its non-aeronautical business in 2001. The increase of certain parts of the non-aeronautical revenues for the whole year did not reach the expected range.



Domestic International
Total

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Sales revenues from the duty free and other retail shops contribute to the largest portion of the non-aeronautical revenues of the Group. In 2001, the Company further enlarged the spaces of the duty free shops, accelerated the turnover of the products, reduced stock, and adjusted the product mix to attract more customers. In 2001, revenues from the duty free shops and other shops represented an increase of 8.1% over the previous year. But we also noticed that the growth rate of the revenues from the duty free shops and other shops was affected due to the slower growth of the international passenger flow and their lower purchasing power. In particular, Japan's economy showed a continuous slowing down, which led the number of Japanese tourists to Beijing decrease 6.7% over the previous year, and the Japanese yen averagely depreciated by 11.7% in 2001, causing an obvious drop in the purchasing power of Japanese passengers, which used to be the largest group of customers of the duty free shops of the Company.

From 1 January 2001, CAAC narrowed the floating range for rental charged to airlines for the use of counters and other spaces, and requested a discounted rent standard for the base airlines, which led the rental revenues of the Company to decrease by 6.4% over the previous year.

Some advertising customers of the Company cancelled their leases of advertising spaces in the second half of 2000 due to their own business reasons. While in 2001, all these advertising spaces were re-leased. Meanwhile, the Company re-designed the advertising space at the Beijing Airport and increased new advertising space which led the advertising business to a good development.

The car parking building and parking lot of the Company serviced 2,210,000 vehicles in 2001, representing an increase of 10.2% over the previous year. But because the Company has lowered its charge level since 1 May 2000 in accordance with the regulations of the Beijing Municipal Government, the car parking revenue in 2001 only maintained at grossly the same level as that of the previous year.

Chinese economy's steady growth led to more and more frequent business visits to and from Beijing, which also made the VIP services of the Company develop remarkably. In 2001, the Company provided services to 169,108 VIPs, representing an increase of 30.7% over the previous year.

BAIK, a joint venture of the Company, has taken initiatives to develop non-airline customers while expanding its market share in air catering, and its revenues in 2001 represented an increase of 17.2% over the previous year. At present, 20% customers of BAIK are non-airlines.

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Financial Results Review

Operating Revenues

In 2001, the Group's operating revenues totalled Rmb2,011,738,000, representing an increase of 10.0% over the previous year. Among them, the aeronautical revenues totalled Rmb1,438,668,000, representing an increase of 10.8%; and the non-aeronautical revenues totalled Rmb573,070,000, representing an increase of 8.0%. In 2001, 71.5% of the Group's revenues is contributed by its aeronautical business, and the remaining 28.5% is contributed by non-aeronautical business.

Details of the aeronautical revenues of the group in 2001 are as follows:

	Amounts (in Rmb)	Changes over the previous year	Mostly related to
Passenger charges	526,327,000	14.9%	Types and movements of aircrafts
Aircraft movement fees and related charges	306,796,000	12.2%	Types and movements of aircrafts
Airport fee	318,523,000	10.8%	Departing passenger volume
Ground handling facilities charge	185,891,000	5.7%	Types and movements of aircrafts
Ground handling services income of BGS	101,131,000	(1.9)%	Types and movements of aircrafts of those airlines served by BGS

Major items of the aeronautical revenues increased in line with the increase of the traffic volume.

But we also noticed that some domestic airlines, when keeping a fast increase of their aircraft movements, tended to use more aircrafts of smaller size to reduce their operating costs. This made the aeronautical revenues of the Company brought by each aircraft movement less than they used to be. According to our estimation, the Company's passenger charges as well as the aircraft movement fees and related charges charged on every chargeable aircraft movement were both 5.0% less in 2001 than the previous year.

China Southwest Airlines, which used to be a major customer of BGS, stopped using BGS' service because of its merger with Air China, and thus the ground handling services income from BGS also decreased over the previous year.

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Details of the non-aeronautical revenues of the Group in 2001 are as follows:

	Amounts(in Rmb)	Changes over the previous year
Duty free and other shops	230,622,000	8.1%
Rental and others	154,856,000	(6.4)%
Advertising	66,519,000	15.3%
Air catering of BAIK	58,102,000	17.2%
Car parking	30,389,000	(1.1)%
Restaurants	25,013,000	150.5%
Repairs and maintenance services	7,569,000	109.3%

The increase of the revenues from restaurants and lounges was caused by the conversion of BAFS from a joint venture of the Company into a subsidiary, after which the revenues of BAFS were entirely consolidated into the financial statements of the Group.

Operating Costs

In 2001, the operating costs of the Group totalled Rmb1,232,359,000, representing an increase of 9.1% over the previous year.

The depreciation and amortisation costs of the Group totalled Rmb420,294,000 in 2001, representing an increase of 3.4% over the previous year.

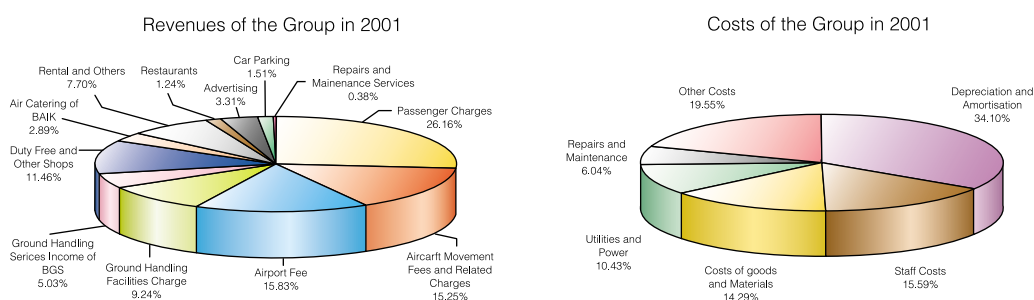
The Company adjusted the salary structure of its staff in 2001, and the number of staff also increased in line with its business development. The staff cost of the Group totalled Rmb192,157,000 in 2001, representing an increase of 22.9% over the previous year.

In line with the expansion of duty free shops, and the increase of the number of BAIK's customers, goods and materials costs of the Group reached Rmb176,067,000 in 2001, representing an increase of 20.4% over the previous year.

With the consent from Parent Company, in 2001, the air conditioning expenses of the Company were calculated and paid based on the usable space in 2001, instead of the gross space, which is normally adopted by market practice. Therefore, the costs of utilities and power represented a decrease of 9.1% over the previous year, being Rmb128,496,000.

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Because the warranty for most of the equipments in Terminal 2 expired in September 2000, the Group's costs of maintaining the terminal building and facilities increased by 46.7% in 2001 over the previous year, reaching Rmb74,402,000. But the Group's costs of repairs and maintenance only represented 6.0% of the total costs.



Financial Expenses

The Group's income from investments held for trading was Rmb6,939,000, compared with Rmb8,790,000 for the previous year.

The net exchange gain of the Group was Rmb1,483,000 in 2001, while it was Rmb185,000,000 in the previous year. The reason for such material change was that the Company repaid in 2000 its loan of Rmb1,640,000,000, which was denominated in Japanese yen, and resulted an exchange gain due to the depreciation of Japanese yen.

In 2000, the cash of the Company increased because of its new H shares issuance, which led the interest income of the Group to reach Rmb103,247,000 in that year. While in 2001, the interest income of the Group decreased to Rmb24,362,000 because of the decrease of its foreign currency deposits.

As most of the long term loans were paid back, the interest expenses of the Group were Rmb148,289,000 in 2001, representing a decrease of 22.0% over the previous year.

Taxation

Since its establishment, the Group has been paying income tax at the rate of 33% in accordance with the PRC regulations. In 2001, the Group's income tax was Rmb192,449,000, representing a decrease of 25.6%. Such decrease of taxation was caused by the decrease of the Group's taxable profit in line with the decrease of exchange gain in 2001.



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Net Profit

In 2001, the Group's net profit totalled Rmb401,170,000, representing a decrease of 17.0% over the previous year. Had the impact of exchange gain been excluded, the Group's net profit would have been Rmb400,176,000, representing an increase of 11.3% over the previous year.

Exposure to fluctuations in exchange rates

The Company repaid most of its foreign currency loans during the year of 2000, therefore the Company's net profit for 2001 was barely affected by fluctuation of exchange rates, nor according to our estimation would it be expected to be affected obviously in the coming year.

Gearing Ratio and Current Ratio

As at 31 December 2001, the gearing ratio of the Group was 28.6%, and that as of 31 December 2000 was 32.4%. Such ratios were computed by dividing the total amount of liabilities and minority interests by the total assets as at the dates respectively.

As at 31 December 2001, the current ratio of the Group was 207.5%, and that as of 31 December 2000 was 163.9%. These ratios were computed by dividing the total current assets by total current liabilities.

Employees and Employee Pension Scheme

As at 31 December 2001, the Group had 5,191 employees, of which 3,161 were contracted employees and 2,030 were temporary employees. Details of employees' pension scheme are set out in Note 22 to the consolidated financial statements.

Other information

Other information in relation to those matters set out in Paragraph 32 of Appendix 16 to the Listing Rules has not changed materially from year 2000.