

PROSPECTS FOR THE SECOND HALF

In the second half of this year, air traffic volumes are expected to maintain their growth. It could be seen from the operating results of Beijing Airport in July 2002 that the fear of air travel caused by the air crash accidents has been vanishing, and the volumes have recovered to a normal level. The Group will fully complete the re-engineering of the flows of transfer passengers at Terminal Two in a short period of time, which will further improve Beijing Airport's functions as a transit hub.

The three major airline groups are expected to finalise their reform and restructuring process within this year. This will provide a solid foundation for the long-term development of civil aviation industry in China, and will also benefit the long-term development of Beijing Airport.

The lease contracts between some lessees in Terminal Two and the Group will expire by the end of September this year. The Group will then make a structural adjustment to its property leasing and its retailing business. The Group will cease leasing out the commercial spaces at specific term, and will operate retailing and restaurants business by itself. This will facilitate a better implementation of an integrated commercial plan for the terminal, improve service quality, and allow the overall commercial arrangement of the terminal to better meet the needs of passengers. After such adjustment, the spaces of the duty free and other shops, and the restaurants operated by the Group will reach 66% of all the relevant spaces of the terminal. We expect that due to this new arrangement, the Group's rental revenue will decrease in the last quarter of the year, while revenue from duty free and other shops are expected to increase significantly.

The new airport expansion plan is still subject to the final approval from the government authorities. The Company has started the preliminary preparation work for the project, and has engaged domestic and international professional advisors to analyse the funding needs and funding options for the expansion plan. The Company will make a practicable funding plan taking into account of fund raising costs, gearing level of the Group and the level of funding required by the expansion plan.