

# Beijing Capital International Airport Company Limited

## MANAGEMENT DISCUSSION AND ANALYSIS

### 1. Normal Operations in the First Quarter

From January to March in 2003, the number of aircraft movements at Beijing Airport was 59,812, representing an increase of 6.36% over the same period of last year; passenger throughput was 6,426,194, representing an increase of 9.35% over the same period of last year; freight throughput was 137,854 tons, representing a slight decrease of 1.70% over the same period of last year. Generally speaking, the Group's operations were normal in the first quarter of the year.

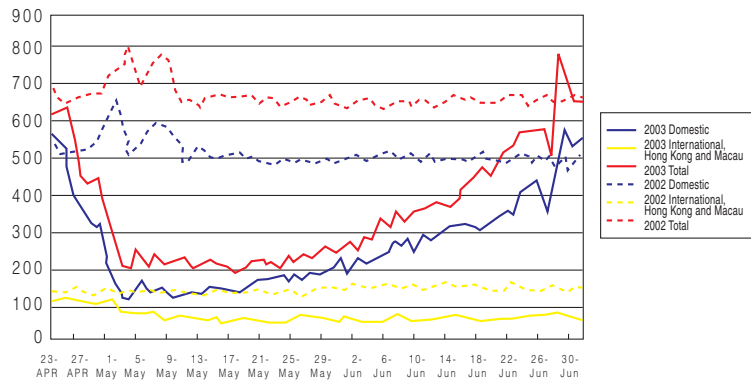
### 2. Serious influence caused by the spread of SARS

From February to June in 2003, the worldwide spread of the Severe Acute Respiratory Syndrome (Atypical Pneumonia) ("SARS") significantly affected the global aviation industry as well as the catering and tourism industries in the related regions. When the Province of Taiwan of China was removed from the list of the area with recent local transmission of SARS of World Health Organization ("WHO") on 5 July, 2003, the situation of SARS had been finally under control. Because of the rapid spread of SARS, WHO had recommended people to consider postponing all but essential travel to Beijing from 23 April 2003 till 24 June 2003 and Beijing was once one of the areas most seriously affected by SARS. There was an unprecedented impact on the air traffic volumes at Beijing Airport during this period.

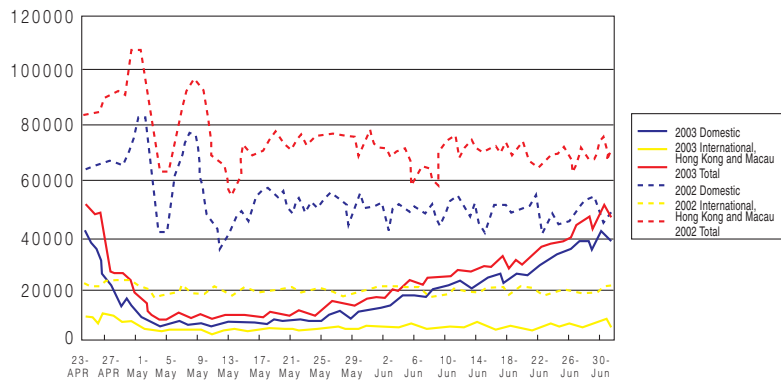
	2003	April 23 to June 30 2002	Change
<b>Aircraft movements</b>	<b>23,373</b>	45,667	-48.82%
Domestic	<b>18,430</b>	35,034	-47.39%
International, Hong Kong and Macau	<b>4,943</b>	10,633	-53.51%
<b>Passenger movements</b>	<b>1,639,729</b>	4,985,786	-67.11%
Domestic	<b>1,343,222</b>	3,420,057	-60.73%
International, Hong Kong and Macau	<b>296,507</b>	1,565,729	-81.06%

## 2. Serious influence caused by the spread of SARS (Continued)

The charts showing daily aviation volumes of Beijing Airport during the period from 23 April to 30 June in 2003 and the same period of 2002 are as follows:



Aircraft Movements



Passenger Throughput

The Company has taken a series of measures to deal with this situation proactively.

To ensure and protect the safety and health of all passengers to and from Beijing Airport, we have strictly followed the government's requirements and have taken a series of measures, including equipping with clinical thermometers; requiring the passengers to fill in health declaration forms; improving the ventilation systems of Beijing Airport; increasing the frequency of the cleaning and sterilization of the facilities in the passenger terminal; founding a special team of medical staff and arranging isolated rooms to handle suspected SARS infected individuals; providing the protective devices and medications to all staffs and reinforcing the protection of the frontline staffs. Up to 9 July 2003, approximately 2,870,000 passengers had been inspected at Beijing Airport, among which 2,026 were found fevered, and 100 were sent to medical authorities for further inspections. These strict inspections effectively barred the spread of the disease via air transportation at Beijing Airport. From 11 July to 13 July of 2003, the International Civil Aviation Organization ("ICAO") did an evaluation of the SARS preventive measures of Beijing Airport and confirmed that Beijing Airport had completely followed ICAO's advice on SARS preventive measures.

## Beijing Capital International Airport Company Limited

### 2. Serious influence caused by the spread of SARS (Continued)

During the SARS period, all employees gave full support to the Company in the face of decline in operating results directly caused by the drop in air traffic volumes. From May 2003, we have taken various cost control measures, such as reducing energy consumption, lowering employees' salaries and benefits, and deploying the employees according to the business demand to effectively lower the Company's losses.

While preventing SARS and controlling the costs, the Company also stepped up the integration of resources at Terminal 2. The projects that have been or are planned to be performed include the reformation of the duty-free shopping street, the upgrade of the commercial system network and the security check information system. As at 30 June 2003, the Company had completed the renovations of the waiting area for domestic remote stand to increase the passenger handling capacity; and the area for security check and immigration have also been renovated, which led to an increase of the number of security check gates by 7 to 19 and an increase of immigration counters by 20 to 44, which addressed the pressure from the peak hours at Beijing Airport.

On 23 April 2003 and 19 May 2003, the Company made announcements to disclose the impact of SARS on the Company's businesses, the details of in-phase adjustments of certain aeronautical charges received by the Company and measures taken by the Company to prevent SARS, respectively. This has maintained the transparency of the Company's information disclosures in such special period.

### 3. Revenues from Aeronautical Businesses

With the impact of SARS, the air traffic volumes at Beijing Airport decreased on the whole from January to June 2003, as compared with the same period of last year. Details are as follows:

	For the six months ended 30 June		
	2003	2002	Change
<b>Aircraft movements</b>	<b>98,168</b>	116,543	-15.77%
Domestic	<b>76,615</b>	91,107	-15.91%
International, Hong Kong and Macau	<b>21,553</b>	25,436	-15.27%
<b>Passenger Throughput</b>	<b>9,253,840</b>	12,540,175	-26.21%
Domestic	<b>7,062,751</b>	8,842,537	-20.13%
International, Hong Kong and Macau	<b>2,191,089</b>	3,697,638	-40.74%
<b>Freight Throughput (Tons)</b>	<b>257,404</b>	308,837	-16.65%
Domestic	<b>154,329</b>	174,040	-11.33%
International, Hong Kong and Macau	<b>103,075</b>	134,797	-23.53%



### 3. Revenues from Aeronautical Businesses (Continued)

The Group's total gross revenues from aeronautical businesses for the first half of 2003 were Rmb 633,286,000, representing a decrease of 15.35% over the same period of last year. Details are as follows:

	For the six months ended 30 June		
	2003	2002	Change
	Rmb'000	Rmb'000	
<b>Total aeronautical revenues, including</b>	<b>633,286</b>	748,137	-15.35%
Passenger charges	<b>176,896</b>	276,794	-36.09%
Aircraft movement fees and related charges	<b>218,621</b>	164,406	32.98%
Airport Fee	<b>126,304</b>	165,248	-23.57%
Ground handling facilities charges	<b>54,067</b>	94,107	-42.55%
Ground handling services income	<b>57,398</b>	47,582	20.63%

With the SARS impact, the passenger throughput at Beijing Airport for the first half of this year decreased by 26.21% over the same period of last year. In September 2002, the General Administration of Civil Aviation of China ("CAAC") issued new fee standards for aeronautical businesses ("New Fee Standards"), which resulted in the level of passenger charges of the Company being reduced by 18.75%. In May 2003, CAAC issued the notice on in-phase adjustments of certain aeronautical revenues ("In-phase Fee Standards") (Details are contained in the announcement of the Company which has been released on the website of Hong Kong Stock Exchange on 19 May, 2003). According to the In-phase Fee Standards, the level of passenger charges received by the Company from domestic airlines further decreased, as compared to the present level, by 38.46% during May and June of 2003. As a result of the above impacts, the Group's passenger charges for six months ended 30 June 2003 were Rmb176,896,000, representing a decrease of 36.09% over the same period of last year.

Thanks to the New Fee Standards which substantially increased the aircraft movement fees charged to domestic airlines, the aircraft movement fees and related revenues of the Group in the first half of this year reached Rmb218,621,000, representing an increase of 32.98% over the same period of last year, despite the decrease of 15.77% in Beijing Airport's aircraft movements over the same period of last year and the reduction of 20% in charges on the airlines in May and June due to the In-phase Fee Standards.

Under the New Fee Standards, the Group's ground handling facilities charges reached Rmb54,067,000 in the first half of this year, representing a decrease of 42.55% over the same period of last year.

Since Beijing Aviation Ground Services Co., Ltd., a jointly controlled entity of the Company, has obtained more airline clients from the end of last year to early this year, there was a substantial increase in the volume of business turnover. The Group's ground handling services income reached Rmb57,398,000 despite the SARS impact, representing an increase of 20.63% over the same period of last year.

## Beijing Capital International Airport Company Limited

### 4. Revenues from Non-aeronautical Businesses

For the first half of 2003, the Group's total gross revenues from non-aeronautical businesses were Rmb291,430,000, representing a decrease of 8.53% as compared with the same period of last year. Details are as follows:

	For the six months ended 30 June		
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	Change
<b>Total non-aeronautical revenues, including</b>	<b>291,430</b>	318,593	-8.53%
Retailing	112,748	117,025	-3.65%
Air catering	24,433	28,965	-15.65%
Rental and others	68,077	89,072	-23.57%
Restaurants	28,575	16,001	78.58%
Advertising	44,095	40,461	8.98%
Car parking	12,289	17,112	-28.18%
Repairs and maintenance services	1,213	9,957	-87.82%

In the first half of 2003, with the SARS impact, the Group's revenues from air catering, car parking and repairs and maintenance services decreased by 15.65%, 28.18% and 87.82%, respectively, over the same period of last year.

In the first half of 2003, with the combined effects of SARS, the conversion of most commercial rental areas in Terminal Two to self-operations since October 2002, and the reduction in rental level by 30% for the period from 1 May to 31 July 2003, the Group's revenues from retailing, rental and others decreased by 3.65% and 23.57%, respectively, over the same period of last year but the revenues from restaurants increased by 78.58% over the same period of last year. The total revenues from the three items mentioned above were Rmb209,400,000, representing a slight decrease of 5.72% over the same period of last year.

In the first half of 2003, the Group's advertising revenues reached Rmb44,095,000, representing an increase of 8.98% over the same period of last year. It was mainly because most advertising agreements had already been signed at the beginning of the year, which were not affected by SARS. At the same time, new advertising medium, such as the new advertising light boxes with moving pictures on the luggage carousels and on the passenger boarding bridges etc were explored.

In the first half of 2003, total gross revenues from non-aeronautical businesses accounted for 31.52% of the total gross revenues of the Group (it was 29.87% in the same period of last year).

## 5. Operating Costs

In the first half of 2003, the Group's operating costs reached Rmb675,413,000, representing an increase of 6.57% over the same period of last year. Details are as follows:

	For the six months ended 30 June		
	2003	2002	Change
	<i>Rmb'000</i>	<i>Rmb'000</i>	
<b>Operating costs, including</b>	<b>675,413</b>	633,762	6.57%
Costs of goods and materials	<b>83,600</b>	88,947	-6.01%
Depreciation	<b>215,516</b>	209,004	3.12%
Staff costs	<b>119,688</b>	118,344	1.14%
Utilities and power	<b>61,090</b>	74,291	-17.77%
Repairs and maintenance	<b>56,506</b>	39,671	42.44%
Other costs	<b>139,013</b>	103,505	34.31%

Due to the combined effects of the expansion of self-operated commercial areas and SARS, the costs of goods and materials reached Rmb83,600,000 in the first half of this year, representing a decrease of 6.01% over the same period of last year.

For the first half of 2003, depreciation of the Group had no material changes and amounted to Rmb215,516,000, representing an increase of 3.12% only over the same period of last year.

For the first half of 2003, the staff costs of the Group were Rmb119,688,000, representing an increase of 1.14% over the same period of last year. It was caused by the combined effects of the increase in staff costs due to the consolidation of Beijing Airport Huaxia Air Services Development Co., Ltd. ("Huaxia"), the increase in staff costs for the retailing business of the Company and the implementation of the cost control measures including reduction of staff salaries and benefits during SARS period.

In the first half of 2003, because of the decrease in operations during the SARS period and the effectiveness of cost control measures, the costs of utilities and power were Rmb61,090,000, representing a manifest decrease of 17.77% over the same period of last year.

For the first half of 2003, the costs of repairs and maintenance were Rmb56,506,000, representing an increase of 42.44% over the same period of last year. It was mainly due to the resources integration projects during the SARS period which led to the increase in the consumption of various parts and components.

Other costs of the Group reached Rmb139,013,000 for the first half of 2003, representing an increase of 34.31% over the same period of last year. It was due to the consolidation of operating costs of Huaxia (other than staff costs) and the consulting fees for interim and long-term strategies of the Company,