

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview of the Aeronautical Business

In 2002, China's economy maintained a steady growth in spite of the global economic slowing down, which led to a steady growth of air traffic volumes at Beijing Airport. The following chart represents the details of the air traffic volumes at Beijing Airport in 2002, together with comparisons with those in the previous year:

	2002	2001	Increase
Aircraft Movements	242,338	221,850	9.2%
Domestic	187,904	173,081	8.6%
International, Hong Kong & Macau	54,434	48,769	11.6%
Passenger Throughput	27,159,665	24,176,495	12.3%
Domestic	19,304,027	16,992,655	13.6%
International, Hong Kong & Macau	7,855,638	7,183,840	9.4%
Freight & Mail Throughput	669,347	591,195	13.2%
Domestic	366,715	322,398	13.7%
International, Hong Kong & Macau	302,632	268,797	12.6%

In September 2002, CAAC, the State Planning and Development Committee and the Ministry of Finance jointly issued a notice concerning the adjustment to the aeronautical fee standards of the airports, which led to a structural adjustment to the standards of aeronautical fees charged by the airports to domestic airlines. As a result of the adjustment, the level of aircraft movement fees charged to the domestic airlines by the Company has been increased by nearly 3 times, and the ground handling services charges have also been increased, whilst the passenger charges have been decreased by 18.75%. Announcements were made by the Company on 2 October 2002 and 13 November 2002 respectively concerning such adjustments to the aeronautical fee standards. In general, the aeronautical fee standards enforced by the Company is higher than before.

MANAGEMENT DISCUSSION AND ANALYSIS

As a result of the growth of the air traffic volumes and the increase in the aeronautical fee standards, the gross revenues of the Group's aeronautical businesses reached Rmb1,640,385,000 in 2002, representing an increase of 14.0% over the previous year; and the net aeronautical revenues reached Rmb1,591,173,000, representing an increase of 14.0% over the previous year. Details are as follows:

	Amounts (in Rmb)	Changes over the previous year
Passenger charges	539,743,000	2.5%
Aircraft movement and related charges	423,789,000	38.1%
Airport fee	361,921,000	13.6%
Ground handling facilities charge	196,582,000	5.8%
Ground handling services income	118,350,000	17.0%
Total aeronautical revenues	1,640,385,000	14.0%
Business taxes and levies	(49,212,000)	14.0%
Net aeronautical revenues	1,591,173,000	14.0%

Overview of the non-aeronautical business

In 2002, the Group made efforts to develop its non-aeronautical business and its endeavors had remarkable effects. The gross revenues of its non-aeronautical businesses reached Rmb704,807,000, representing an increase of 23.0% over the previous year; while the net non-aeronautical revenues reached Rmb675,563,000, representing an increase of 23.3%. The details are as follows:

	Amount (in Rmb)	Changes over the previous year
Retailing	287,254,000	24.6%
Rental and others	172,599,000	11.5%
Advertising	77,693,000	16.8%
Air catering	63,064,000	8.5%
Car parking	36,925,000	21.5%
Restaurants	51,349,000	105.3%
Repairs and maintenance services	15,923,000	110.4%
Total non-aeronautical revenues	704,807,000	23.0%
Business taxes and levies	(29,244,000)	17.1%
Net aeronautical revenues	675,563,000	23.3%

In respect of retailing business, the Company further expanded the space of the duty free shops and introduced more internationally well-known brands to widen the customers' choice. In addition, when the tenancy contracts expired in October 2002, the Company did not renew the tenancy agreements but instead operated the retail shops itself. The Company's reduction of the prices of 68 daily consumables by 30% to 50% during its operation increased the sales of such goods substantially and at the same time improved the passengers' satisfaction with the price level at Beijing Airport. The gross revenues of the Group's retailing business reached Rmb287,254,000 in 2002, representing an increase of 24.6% over the previous year. At the same time, by operating the retailing business itself, the Company could strengthen its data collection and throughput analysis in relation to the retail market in the terminal, which will in turn provide support to designing other possible operating methods such as concessions in the future.

Although rental income has decreased since October 2002, Huaxia, a subsidiary incorporated by the Company in May 2002, developed businesses such as terminal sanitary service, luggage deposit and storage rental, which helped the gross revenues of the Group's rental and other businesses reach Rmb172,599,000, representing an increase of 11.5% over the previous year.

In 2002, the Company engaged a professional consultant to re-design its advertising business and achieved good result. The gross revenues of the Group's advertising business reached Rmb77,693,000 in 2002, representing an increase of 16.8% over the previous year.

The increase in passenger throughput led to a steady growth in the car parking business of the Company. At the same time, the Company has reduced its charges on long-stay parking since May 2002 to attract more stable long-stay customers. In 2002, the gross revenues of the car parking business of the Group reached Rmb36,925,000, representing an increase of 21.5% over the previous year.

In line with the growth of the air traffic volumes at Beijing Airport, the gross revenues of the Group's air catering business increased by 8.5% over the previous year, reaching Rmb63,064,000.

BAFS, operated more restaurants, bars and cafes in 2002, and the gross revenues of Group's restaurants increased by 105.3% over the previous year, reaching Rmb51,349,000.

In 2002, Bowei made efforts to develop its repairs and maintenance services business in areas outside Beijing Airport, and achieved good results. In 2002, the gross revenues of the Group's repairs and maintenance business reached Rmb15,923,000, representing an increase of 110.4% over the previous year.

Operating Costs

In 2002, the operating costs of the Group totalled Rmb1,397,377,000, representing an increase of 12.6% over the previous year. Details are as follows:

	Amount (in Rmb)	Changes over the previous year
Costs of goods and materials	215,274,000	22.3%
Depreciation	445,668,000	6.0%
Staff costs	264,752,000	32.0%
Utilities and power	142,450,000	10.9%
Repairs and maintenance	89,418,000	20.2%
Other costs	239,815,000	-0.5%

The non-aeronautical businesses developed remarkably in 2002. Meanwhile, as most of the retailing business has been operated by the Company since October, and restaurants space has expanded, the costs of goods and materials also increased over the previous year.

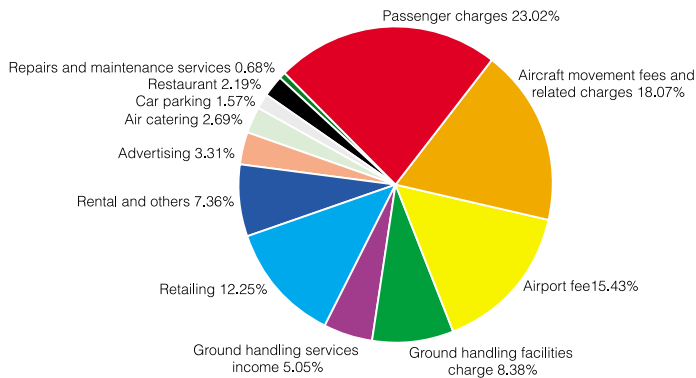
The staff costs of the Group recorded a significant increase over the previous year mainly because of the following:

1. In accordance with the guidelines issued by government authorities, the Group gave its staff a one-off housing subsidy in 2002, totalling Rmb9,340,000.
2. As Huaxia was incorporated in 2002, and in line with the increase of retailing space and restaurant space of the Group, the number of the contracted employees of the Group increased by 7.8% over the previous year.
3. The operating results of the Group were satisfactory in 2002, therefore the staff bonus which was tied to the performance and results of the Group also increased over the previous year.

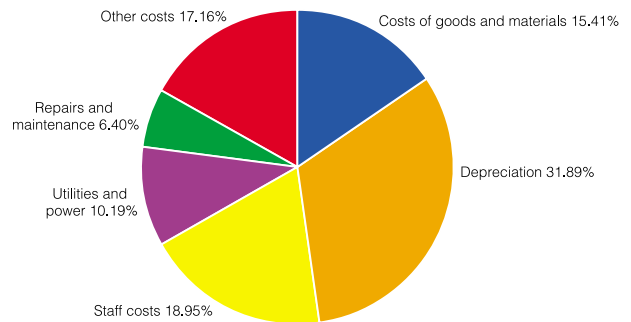
The increase in the costs of utilities and power of the Group was attributable to the increase in the prices of electricity and water by the Beijing Price Bureau, and the increase in the Group's consumption of utilities and power as a result of the business growth.

The costs of repairs and maintenance increased as the Company carried out several construction projects in 2002 so as to further improve the operational security of Beijing Airport.

Revenues of the group in 2002



Costs of the group in 2002



Other Items in the Income Statement

In 2002, the Company withdrew its trading investments totalling Rmb410,000,000, while the fluctuations in the market value of the securities resulted in a loss of Rmb7,200,000 to the Group's income from trading investments in 2002. In 2001, the Group's income from trading investments was a gain of Rmb6,939,000.

The net financial expenses of the Group were Rmb107,177,000 in 2002, representing a decrease of 12.5% over the previous year. The decrease was attributable to a decline of 20.7% in the net interest expenses as the Company repaid its loans granted by China Development Bank. This was partially offset by an exchange loss due to the appreciation of Japanese yen bank loans of the Company.

Net Profit

In 2002, the Group's net profit totalled Rmb506,817,000, representing an increase of 28.0% over the previous year.

Exposure to Fluctuations in Exchange Rates

As at 31 December 2002, the Group had Japanese yen bank loans of 456,092,000 yen. In 2002, the Group recorded an exchange loss of Rmb5,716,000 due to the appreciation of Japanese yen. Such fluctuations in exchange rates did not have significant impact on the net profit of the Group in 2002, and it is not expected to have an apparent effect on the next year's profit.

Contingent Liability

As at 31 December 2002, the Group did not have any significant contingent liability.

Liquidity and Financial Resources

As at 31 December 2002, the Group had total cash and cash equivalents and temporary cash investments amounting to Rmb1,415,976,000, and those as at 31 December 2001 were Rmb1,414,619,000.

As at 31 December 2002, the current ratio of the Group was 1.91, and that as at 31 December 2001 was 2.08. Such ratios were computed by dividing the total current assets by total current liabilities as at the dates respectively.

As at 31 December 2002, the equity of the Group was Rmb7,201,278,000, and that as at 31 December 2001 was Rmb6,900,416,000.

As at 31 December 2002, the gearing ratio of the Group was 25.1%, and that as at 31 December 2001 was 29.4%. Such ratios were computed by dividing the total amount of liabilities and minority interests by the total assets as at the dates respectively.

Employees and Employee Welfare

1. The number of employees of the Group is as follows, together with comparisons with those in the previous year:

	As at 31 December 2002	As at 31 December 2001
Total employees	6,669	5,191
Contracted employees	3,406	3,161
Temporary employees	3,263	2,030

2. Employees' pension scheme

Details of employees' pension scheme of the Group are set out in note 28 to the financial statements.

3. Employees' housing benefits

Details of employees' housing benefits of the Group are set out in note 29 to the financial statements.

4. Employees' basic medical insurance and commercial medical insurance

Prior to 31 December 2002, the Company and certain of its subsidiaries paid monthly cash medical subsidies to its employees, and compensated a certain percentage of their actual medical expenses.

With effect from 1 January 2003, the Company and these subsidiaries have complied with the regulation of Beijing Municipal Government for basic medical insurance. According to the regulation, the Group will pay the basic medical insurance and mutual insurance for large sum medical expenses for its employees, at 9% and 1%, respectively, of the average monthly salary of its employees in the previous year. It is estimated that such expenses will be approximately Rmb11,000,000 for the year of 2003. In addition, the Company and these subsidiaries may provide supplemental medical insurance benefits to its employees on a voluntary basis within 4% of the average monthly salary of its employees in the previous years. At the same time, the Group does not pay the above-mentioned cash medical subsidies or medical compensations to its employees any more. Therefore, the implementation of the above mentioned basic medical insurance does not have any substantial effect on the balance sheet and the income statement of the Group.

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 for the year of 2002.