 TIANJIN DEVELOPMENT HOLDINGS LIMITED • INTERIM REPORT 2001

Management Discussion and Analysis

The board of directors (the "Board") of Tianjin Development Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2001, together with the comparative for the corresponding period in 2000.

INTERIM DIVIDEND

The Board has recommended an interim dividend of HK4 cents per share in cash for the six months ended 30th June 2001 to shareholders whose names appear on the Register of Members of the Company on 19th October 2001.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15th October 2001 to 19th October 2001, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's Registrar, Tengis Limited at 4/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong, not later than 4:00 p.m. on 12th October 2001.

REVIEW OF OPERATIONS

(1) Consumer Products

Winery

During the period under review, net consolidated turnover and consolidated profit attributable to shareholders amounted to approximately HK$301 million and HK$50 million respectively, representing 24% and 6% increase over the same period last year. Sales volume increased by 30% to 13 million bottles, of which dry red wine continued to contribute over 70% of the sales mix.

As one of the leading producers and distributors of wine products in the PRC, Dynasty has achieved the highest sales volume in PRC grape wine market in 2000, certified by the State's Statistics Bureau Information Centre. Upon the completion of the automatic bottling line installations, Dynasty continues to focus on the management of brand name by emphasizing on advance technology, exploring new products to enhance and diversify product range and focusing on quality control.

(2) Infrastructure Operations

Road Operation

Pursuant to the Transfer Agreement entered into on 6th September 2001 between the Company and Eastern Outer Ring Road Company, the Company agreed to transfer to Eastern Outer Ring Road Company 6.1% equity interests in Jin Zheng at a consideration of approximately HK$63.2 million. In accordance to the terms of the Transfer Agreement, the profit sharing ratio of the Company in Jin Zheng was revised from 90.0% to 86.7% with retrospective effect from 1st January 2001. The directors considered that the transfer is in the best interests of the Company and will enhance the long-standing relationship with Eastern Outer Ring Road Company.

Turnover for the first half year 2001 recorded a double-digit growth to about HK$106 million as compared with HK$95 million in first half year 2000. With the growth of economic activities in Tianjin, both traffic flow and road income demonstrated a remarkable upward trend. Average daily traffic flows in the first half year 2001 was about 20,300 vehicles whereas those for the corresponding period in 2000 was only 16,800 vehicles, representing an increase by 21%.

Resulted from the increase of bank loan of approximately HK$140 million in the second half year 2000 to finance the redevelopment of ring road and change in profit sharing ratio in Jin Zheng, profit attributable to shareholders was maintained at HK$32 million.

Container Handling and Stevedoring Operations

Turnover of the Container Company for the period amounted to about HK$100 million, representing a 5% increase over the comparable period in 2000. Profit attributable to shareholders amounted to HK$27 million in both the first half year 2001 and 2000. During the period, total number of containers handled was 471,000 TEUs.

To enhance the competitiveness of Container Company, the second phase of redevelopment work on container berths has been started in February 2001 and is scheduled to be completed in October 2001. Upon completion, the container berths will be upgraded for the sixth generation container vessels.

Turnover of the Second Stevedoring Company for the period amounted to HK$121 million, representing a 7% increase over the comparable period in last year. Profit attributable to shareholders for the first half year 2001 was about HK$7 million, representing an increase of 17% over the comparable period in 2000. Total throughput for the period was increased from 3.98 million tonnes in 2000 to 4.32 million tonnes in 2001.

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With the positive market sentiment arising from China's imminent entry to World Trade Organization, Tianjin Port continues to strengthen the administration services by providing on-line logistics information of goods. Besides, the upgrading of existing equipments and expansion of the berths further equip the Group's two port companies to take advantages of the expected growth of business.

(3) Strategic Investments

Gas Fuel Supply Operations

The Group's 29.6% owned associated company, Wah Sang Holdings, continued to focus on the development of the fast-growing piped gas markets in China's small and medium-sized cities. Profit attributable to the Group amounted to approximately HK$11 million for the six months period 2001, representing a 175% increase over the comparable period in last year.

During the period, Wah Sang Holdings has successfully secured monopoly-right agreements with some of the local governments to operate piped gas business in Hebei Province, Jiangsu Province and Shandong Province. The market capitalization of Wah Sang Holdings based on the closing price as at 30th June 2001 was approximately HK$1,760 million.

Elevator and Escalator Operations

Business restructuring of OTIS China to centralise the strategic planning and operational activities has been completed in late 2000. Profit attributable to shareholders amounted to HK$12 million, representing a 140% increase over the comparable period in last year.

Bio-pharmaceuticals Operations

China Walfen Medical Limited was a joint venture with Walfen Scientific L.L.C. of the U.S., to develop a patented medicine, "M-Lexidronate", for treatment of bone cancer. Emphasis has been placed on research and development of new products. During the period, new drugs for treatment of rheumatoid arthritis (風濕性關節炎) were under testing stage and the products are expected to be introduced to the market next year.

Residential Property Operations

The net turnover of the Group's 51% owned subsidiary, Tianjin Gang Ning Real Estate Development Co., Ltd, was about HK$38 million. Up to June 2001, a total number of 340 flats, representing 28% of the total saleable areas, were sold. Profit attributable to shareholders was HK$1 million.

PROSPECTS

With the accession of the PRC to the World Trade Organization (the "WTO"), the overall operating environment of Mainland China will be greatly enhanced. The Group will capitalize upon such opportunity by investing in projects over which it has specialty as well as those having satisfied our investment criteria.

The Group's future development strategy is to consolidate and strengthen its existing core businesses, to actively expand its strategic new business, and to enhance its assets and profitability bases in order to provide better returns to the investors.

Consolidation and strengthening of its core businesses

The Group's infrastructure operations will benefit from the enormous business opportunities brought forth by the accession of the PRC to the WTO and the "Development of the West". Coupled with increases in direct foreign investments and rebounds of import-export trades, the Container Company and the Second Stevedoring Company will be graced with the favourable conditions of additional increases in cargo resources. To complement the accession, the redevelopment work of the container terminal will be completed in October this year. The terminal will be upgraded into an all-weather modern container terminal capable of handling containers vessels of the fifth and sixth generations with the doubling of its throughput to 1,600,000 TEUs.

In view of the rapid increase in container handling of the Tianjin Port as well as the overall strategy of "transportation of northern coal to the south" of the Tianjin Port, and the actual situations of the Second Stevedoring Company, the Group has actively researched its redevelopment into a specialised container terminal. The main operations of such terminal are the loading and trans-shipment of container vessels, the packing, cargo warehousing and consolidation of containers, as well as the land transportation of cargoes with the port and other related services. Its estimated annual throughout is about 300,000 TEUs. The redeveloped Second Stevedoring Company would be able to maintain its steady and continuous growth in returns as well as capitalize the chance of its realignments in production in meeting challenges head on with a brand new profile.

Active expansion of its strategic new businesses

The medium to long-term development strategy of the Group is to actively expand its modern logistics operations by being interwoven with the strategic mission of Tianjin in becoming the international logistics centre of China and North-eastern Asia. By leveraging upon the distinct regional advantages possessed by Tianjin in developing modern logistics and coinciding with the commercial opportunities created in the accession of China to the WTO and the

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Development of the West, the Group will establish Tianjin into a modern logistics hub with integrated sea, land and air transportation which interacts internally with the West and links externally with North-eastern Asia.

Conclusion

As the largest developing country in the world, China will undoubtedly display its competitive advantages of being a buoyant economy in the international arena at the onset of the new millennium. Backed by the strong economic fundamentals of the PRC, Tianjin Development, as the window company of one of the four directly-administered municipalities, will capture any business opportunity arising from the accession of China to the WTO and the Development of the West.

Looking ahead, we are confident in the future development of the Group as well as its performance over the second half of the year. Through its dedicated management team as well as stable and diversified sources of revenue, we believe the Group will set satisfactory results and reap fruitful investment returns for its shareholders.

LIQUIDITY AND CAPITAL RESOURCES ANALYSIS

As at 30th June 2001, the Group's total cash on hand and total bank borrowings stood at about HK$1,482 million and HK$1,473 million respectively. The gearing ratio as measured by total bank borrowings to shareholders' funds is about 45% for the period under review.

During the period, the Group issued 69,000,000 ordinary shares at a price of HK$2.00 per share in pursuance to an agreement dated 30th March 2001 whereby the Company has agreed to grant to a third party an option for subscription of new shares of the Company. The net proceeds of approximately HK$138 million will be used for general working capital of the Group.

The Group's overall funding policies have remained unchanged as to those described in the annual report for the year ended 31st December 2000. The Group has tried to minimize the currency risk by financing the operations locally. Eastern Outer Ring Road project and Gang Ning property development project are mainly financed by RMB borrowings.

EMPLOYEES AND REMUNERATION POLICIES

The Company and its subsidiary companies, together with its associated companies, had a total of approximately 9,000 employees at the end of the period, of which about 2,600 were management and technical staff, with the balance production workers.

The Group contributes to an employee pension scheme established by the Tianjin Municipal Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group in the People's Republic of China.

CHARGE ON ASSETS

As at 30th June 2001, the following assets have been pledged to its bankers to secure banking facilities granted to the Group:

(i) Ring road with a net book value of HK$1,851 million;

(ii) Group's interests in a listed associated company; and

(iii) Bank balances amounting to HK$25 million.