

Management Discussion and Analysis

INTERIM DIVIDEND

The Board has recommended an interim dividend of HK3.30 cents per share in cash for the six months ended 30th June 2002 to shareholders whose names appear on the Register of Members of the Company on 18th October 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11th October 2002 to 18th October 2002, 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 10th October 2002.

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The board of directors (the “Directors”) of Tianjin Development Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2002, together with the comparative for the corresponding period in 2001, are as follows:

REVIEW OF OPERATIONS

In spite of the global downturn in economic environment and market conditions, the Group has continued to report growths in road operation and winery operation. Both core businesses and the associated companies have achieved healthy growth in the period. The Group’s turnover and profit attributable to shareholders amounted to HK\$808 million, and HK\$111 million respectively, representing 2% and 16% increase over the comparable period in 2001.

An analysis of the results of the Group by principal activities is set out as follows:

(1) Infrastructure Operations

Road Operations

The net turnover and profit attributable to shareholders during the period under review amounted to approximately HK\$121 million and HK\$41 million respectively, representing 14% and 28% increase over the same period in last year respectively. The road business continued to contribute steady and stable revenue to the Group.

As one of the major highways that controls the traffic entering and leaving the city in all directions, the Eastern Outer Ring Road also serves as a means of traffic for the outer development areas of Tianjin and diverts traffic passing by Tianjin City away from the middle and inner district. Average daily traffic flow is steadily increased from 20,300 vehicles in the first half year 2001 to 21,800 vehicles in the corresponding period in 2002, recording a growth of 7%.

With the economic growth in Tianjin and the PRC, the increasing business opportunities will continue to provide the road with significant potentials in traffic growth. It is the Group’s intention to continue strengthen the portfolio of the road operation so as to enhance shareholders’ value.

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Container Handling and Stevedoring Operations

The Container Company reported net turnover of about HK\$121 million, a 21% increase over the comparative period in 2001. Profit attributable to shareholders amounted to about HK\$24 million in the first half year 2002, representing a decrease of 11% over that of HK\$27 million for the same period last year. During the period, the total number of containers handled exceeded 550,000 TEUs.

Despite the growth in net turnover and container handling volumes in the first half year 2002, profit contribution was reduced by an additional depreciation charge of HK\$12 million on the upgraded container berths and finance costs of about HK\$4 million incurred in the period.

The net turnover of the Second Stevedoring Company for the period amounted to HK\$116 million, a decrease of 4% as compared to HK\$121 million for the corresponding period in 2001. Loss attributable to shareholders for the first half year 2002 was about HK\$14 million, compared to a profit of HK\$7 million recorded over the first six months of 2001. The decline in profit is primarily due to the decrease in volume of imported high-margin grains which was resulted from the reduction of quota on imported foodstuff. Operational disruptions caused by the redevelopment program to transform two existing cargo terminals into second and third generation container berths further pulled down the profits. During the period, the total throughput was 4.79 million tonnes.

With an ever-growing container throughput in the PRC, Tianjin has established itself as one of the major deepwater ports in the northern China and the existing export and import flows is expected to be enhanced.

(2) Consumer Products

Winery Operations

During the period under review, net consolidated turnover and consolidated profit attributable to the Group amounted to approximately HK\$350 million and HK\$56 million respectively, representing 16% and 12% increase over the same period last year. Sales volume increased to 18 million bottles, with a growth of approximately 30%. Dry red wine continued to contribute over 75% of the sales mix.

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Dynasty is steadfast in maintaining its established and competitive position in the PRC winery sector. Dynasty continues to emphasize on quality control and targets to secure its market position by strengthening the local grape bases.

(3) Strategic Investments

Gas Fuel Supply Operations

Following the corporate mission to become a high growth utility company with healthy expansion capability, stable future income and low risk, Wah Sang Holdings continued to maintain its leading position in the industry. Profit attributable to the Group amounted to approximately HK\$22 million for the six months period 2002, representing a 100% increase over the comparable period in 2001.

In May, the Group disposed 40 million shares held and recorded a remarkable gain of approximately HK\$23 million.

Elevator and Escalator Operations

The results of the business restructuring of OTIS China in 2000 was encouraging. Profit attributable to the shareholders amounted to HK\$18 million, representing a 50% increase over the last period.

Property Development Operations

The net turnover of the Group's 51% owned subsidiary, Tianjin Gang Ning, was about HK\$54 million, compared to HK\$38 million over the corresponding period in 2001, representing a 42% increase. Loss attributable to the Group amounted to HK\$2 million whereas profit for the same period last year was HK\$1 million. Up to the period end, a total number of 642 flats, representing 48% of the total saleable areas, were sold.

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Bio-pharmaceuticals Operations

The Group always strives to attain new heights by venturing into new business arenas. Our bio-pharmaceuticals initiatives, a new focus of development in recent years, are led by China Walfen Medical Limited, 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.

The Group believed that the bio-pharmaceutical industry is a promising and dynamic field with huge untapped potential. The Group will continue to give full support to this business by providing resources for its research and development.

Trading Operations

During the period under review, the net turnover fell to HK\$46 million, representing a 63% reduction over the corresponding period in 2001. Loss attributable to shareholders was approximately HK\$22 million, a 69% increase compared to HK\$13 million loss incurred in the first half year 2001. This is mainly due to the provisions made against trade debtors' balances.

PROSPECTS

Restructurings in the Company's business and management have gradually presented fruitful results. Profit attributable to the Group for the first half of 2002 showed steady growth. In addition to the sound performance of associated companies, the Group's core businesses continued to improve while its non-core, loss-making businesses have been fading out gradually. The Group's acquisition in Jinbin Expressway at the beginning of the year, which connects Tianjin City with its New Coastal Area, has further expanded the Group's existing toll-road network. Meanwhile, the development of the port business has always been closely linked with economic growth. At present, about 90% of the import and export are through marine transportation. Subsequent to completion of the redevelopment project for a modernised container berth, the Group started to renovate some of its bulk cargo terminals into offshore container berths at the beginning of the year. Given the 20% average annual growth rate of China's aggregate outbound trade volume, the strategic decision of reallocating the berths can better prepare the Group's for future developments. In respect of its winery business, the growing consumption demand has led China's total sales volume of grape wine to record remarkable growth. Amidst the intense competition in the wine industry, Dynasty still

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recorded satisfactory results. Leveraging on its esteemed reputation on the domestic market, Dynasty will continue to establish itself as an international brand name. In pursuant of its clear and focused strategy, Dynasty will invest in developing other winery products and seeking after sources of unfinished red wine with a view to expanding its market share.

During the period under review, the Group's business development reflected the success of its business restructurings. In the second half of the year, the Company will continue to realign its non-core businesses while focusing on its developing core businesses. It is expected to achieve satisfactory results.

Looking ahead, the Group will capitalise on the business opportunities brought forth by China's speedy economy to capture new development opportunities so as to generate better returns for its shareholders. The Directors are confident that the Group's businesses will show even better performances in the second half of the year.

A management that is professional and with team spirit, together with the dedications of staff as a whole, are keys to success for the Group's future developments. I take this opportunity to express my sincere appreciation for their hard work and commitment.

LIQUIDITY AND CAPITAL RESOURCES ANALYSIS

As at 30th June 2002, the Group's total cash on hand and total bank borrowings were about HK\$1,012 million and HK\$1,526 million respectively (as at 31st December 2001: HK\$1,506 million and HK\$1,455 million respectively). The gearing ratio as measured by total bank borrowings to shareholders' funds is about 44% for the period under review.

On 18th April, 2002, the Group issued US\$20,000,000 convertible bonds in settlement of the purchase consideration of 4,000 non-voting convertible redeemable preference shares of Golden Horse Resources Limited, which sole asset is the interest in the entire issued share capital of China Mass Transit Development Company Limited, which owns 60% equity interest in each of the five joint ventures in the PRC. These PRC joint ventures have been granted the exclusive construction and operating rights in respect of Jinbin Expressway.

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The Group's overall funding policies have remained unchanged as to those described in the annual report for the year ended 31st December 2001. The Group limits its currency risk in Renminbi by financing the operations locally. Major projects such as Eastern Outer Ring Road project, transformation works carried in stevedoring project and Gang Ning property development project are mainly financed by Renminbi borrowings.

EMPLOYEES AND REMUNERATION POLICIES

The Company and its subsidiary companies, together with its associated companies, had a total of approximately 8,000 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 People's 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. The Group also contributes to a mandatory provident fund scheme for all Hong Kong employees. The contributions are based on a fixed percentage of the members' salaries.

CHARGE ON ASSETS

As at 30th June 2002, 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\$1,805 million;
- (ii) Group's interests in a listed associated company; and
- (iii) Bank balances amounting to HK\$15 million.