

Trading & Industrial Division

The Trading & Industrial Division has interests in Hong Kong, Taiwan, Mainland China and Vietnam, consisting of wholly owned and joint venture investments in:

- Distribution and retailing of motor vehicles
- Distribution and retailing of sports and casual footwear and apparel
- Packaging and retailing of sugar products
- Marble cutting and contracting
- Waste management
- Aluminium can manufacture
- Paint manufacture

Swire Resources operates 199 outlets in Hong Kong and Mainland China.

	2006 HK\$M	2005 HK\$M
Turnover		
Taikoo Motors group	3,845	4,156
Swire Resources group	1,303	1,574
Other subsidiaries	475	347
	5,623	6,077
Operating profits/(losses)		
Taikoo Motors group	183	245
Swire Resources group	88	137
Other subsidiaries and head office costs	5	(9)
Valuation gain on investment property	27	6
Discontinued businesses	–	9
	303	388
Attributable profits/(losses)		
Taikoo Motors group	135	182
Swire Resources group*	108	106
Other subsidiaries and head office costs	7	(8)
Net valuation gain on investment property	22	6
Discontinued businesses	–	9
	272	295
Share of post-tax profits from jointly controlled and associated companies		
Swire SITA group	82	83
CROWN Beverage Cans group	26	67
ICI Swire Paints	64	75
Swire Resources group*	34	2
	206	227
	444	520

* Including post-tax profits from jointly controlled and associated companies shown below

Attributable profit

	2006	2005
Vehicles sold	12,809	15,825
Shoes sold (pairs)	2.38	2.34
Retail outlets in Hong Kong	111	107
Retail outlets in Mainland China	88	46
Brands managed	21	21



2006 OVERVIEW

The division reported an attributable profit of HK\$444 million, a 14.6% decrease on 2005. The shortfall was largely attributable to weak sales for Taikoo Motors in a difficult Taiwan car market and rising raw material prices for the CROWN Beverage Cans group.

Taikoo Motors group

Taikoo Motors group reported a profit of HK\$135 million, a 25.8% decrease on 2005. The total Taiwanese car market contracted 31% with imports down 16% as political unrest and tightened credit availability adversely impacted consumer spending. Taikoo Motors sold 12,809 vehicles in 2006, down 19.1% on 2005. Margins weakened due to competitive discounting and depreciation of the Taiwan dollar. Volkswagen car sales grew 8.1% over 2005 and consolidated its position as one of the leading imported brands. Kia sales were significantly down on 2005 whilst Audi sales were marginally ahead of last year and enjoyed an improved market share. Volkswagen light commercial vehicles and Volvo truck and bus sales were satisfactory. Prospects for 2007 are clouded by the prevailing lack lustre consumer sentiment, which shows few signs of short-term improvement.

Swire Resources group

The attributable profit of HK\$108 million was in line with 2005. Swire Resources group is distributor for 17 brands in Hong Kong and two brands in Mainland China. The prior year turnover included turnover from the Puma distribution business which was subject to reorganisation effective 1st January 2006 from which point it has operated through an associated company.

The Hong Kong market experienced marginal growth for both wholesale and its 111 retail shops. Hong Kong margins eased as rental and staff costs increased. Mainland China sales grew an encouraging 89.6% and the company's retail chain increased to 88 shops in Beijing, Shanghai and Guangzhou from 46 in the prior year. Margins in 2006 were in line with 2005.

Prospects for 2007 are encouraging for the Mainland China market, especially for sporting goods, in anticipation of the Beijing Olympic Games in 2008. The Hong Kong market is expected to remain stable but retail margins will continue to be pressured by higher retail rentals.

Taikoo Sugar

Taikoo Sugar reported a profit of HK\$5.7 million compared to a loss of HK\$1.5 million in 2005. Sales improved for the Hong Kong retail and bulk businesses whilst broader distribution generated an encouraging improvement for China sales. Raw material prices were volatile in 2006 and may impact the 2007 performance.

Swire Duro

Swire Duro returned to profitability with an improved second-half performance. The profit of HK\$2.4 million compared favourably to a loss of HK\$2.3 million in 2005. A similar performance is projected for 2007.

Swire SITA Waste Services group

Swire SITA group reported a profit of HK\$82 million attributable, in line with 2005. The business specialises in long-term environmental contracts and is a 50:50 joint venture with SITA of France – a part of the Suez Environment group. It has operations in Hong Kong, Macau, Taiwan and Mainland China in waste treatment, cleansing and recycling, all supported by modern technology and advanced techniques.

In Hong Kong the transfer stations experienced a 2.4% net gain in waste throughput but the landfills reported a decline due to less construction waste receipts. The Taiwan waste-to-energy incinerator incurred a loss due to low waste volumes and consequent weak electricity sales. The hazardous waste incinerator in Shanghai, in which Swire SITA holds a 40% interest, was completed on schedule in August and commenced processing waste. Swire SITA's 80%-owned waste management company in Macau, CSR, reported satisfactory results. It successfully renewed its waste collection contract for a further seven years and secured new contracts to construct and operate a hazardous waste incinerator and to develop an underground automatic waste transfer trial project. The outlook for 2007 is positive.

CROWN Beverage Cans group

CROWN Beverage Cans group is a joint venture with Crown Holdings Inc. of the USA, which manufactures aluminium beverage cans in Mainland China and Hanoi, Vietnam.

The CROWN Beverage Cans group achieved an attributable profit of HK\$26 million compared to HK\$67 million in 2005. Sales volumes were robust in Mainland China but margins were significantly eroded due to high aluminium costs. The Vietnam plant also enjoyed strong sales growth and was relatively successful in recovering increased raw material costs. The company expects another challenging year in Mainland China unless aluminium prices subside. The Vietnam plant will face increased competition in 2007, which may undermine the positive benefits from a strengthening Vietnamese economy upon its WTO entry.

ICI Swire Paints

ICI Swire Paints reported a profit of HK\$64 million, down on the HK\$75 million reported in 2005 (which had included a HK\$18 million writeback of prior year provisions). The business is a joint venture with ICI, which manufactures and distributes decorative paints, primarily under the Dulux brand, in Mainland China and Hong Kong.

Sales remained buoyant in Mainland China but margins eased as mid-tier products took a larger share of the portfolio mix and as distribution expanded outside the major cities. Hong Kong sales were steady in 2006. Prospects for 2007 are satisfactory.

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