

The Group continued to perform well during the year ended 31st December 2006. Turnover increased 13.7% to HK\$6,851 million. Profit attributable to shareholders increased remarkably by 22.4% to HK\$1,258 million. Basic earnings per share increased by 21.5% to HK\$1.30.

Net profit from recurring operations of infrastructure facilities, medicine and consumer products businesses amounted to HK\$371 million, HK\$163 million and HK\$595 million, accounting for 33.2%, 14.6% and 53.2% of the Group's Net Business Profit before Exceptional Items respectively.

## Highlights

	2006 HK\$′000	2005 HK\$'000
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Turnover	6,851,023	6,025,285
Gross profit	2,543,945	2,305,580
Profit before taxation	1,736,712	1,449,603
Profit attributable to shareholders	1,257,778	1,027,940
Total dividend for the year	HK52 cents	HK42 cents
Earnings per share		
– Basic	HK\$1.30	HK\$1.07
– Diluted	HK\$1.29	HK\$1.06

#### **Infrastructure Facilities**

# Commencing Hu-Ning Expressways' widening and alteration works and committing further investments in water services

#### **Toll Roads**

The 26-kilometre long Hu-Ning Expressway (Shanghai Section) is one of the busiest transportation trunk routes in the Yangtze River Delta region. During the year, the traffic flow of the section reached 22.89 million vehicles, representing an increase of more than 50% compared with the previous year. The significant increase was mainly due to the rapid upturn of the traffic flow following the completion of the widening works of the Hu-Ning Expressway (Jiangsu Section) at the end of 2005 and the commencement of the road works of Hu-Jia Expressway in October of the year.

The widening and alteration works of the Hu-Ning Expressway (Shanghai Section) commenced during the year, doubling the original dual carriageway with four lanes to a dual carriageway with eight lanes. While successfully securing



favourable terms to limit the capital commitment of the Group in respect of the construction work to HK\$1,680 million, the Group is entitled to receive compensation for the deficiency in toll revenue during the three years construction period. The toll revenue and compensation received in 2006 amounted to HK\$452 million. The arrangement would reduce the overall investment risks of the Group in expressways, and ensure that income from the projects would not be adversely affected by the widening and alteration works. Upon completion of the works, the traffic flow

of the expressway will increase significantly and contribute to the sustainable profit growth.

As at 31st December 2006, the Group invested a total of approximately HK\$700 million for the widening and alteration works of the Hu-Ning Expressway (Shanghai Section). The whole project is expected to be completed in 2008.

The 70-kilometre long Yongjin Expressway (Jinhua Section) starts from Shengzhou, Zhejiang in the east, and ends at the transportation hub of the Jinhuachuan Village in the west, passing through Jinhua, Yiwu and Dongyang. The Yongjin Expressway (Jinhua Section) was in its first year of operation



in 2006 after completion of its construction work at the end of December 2005, with annual toll revenue amounted to HK\$107 million. The second half toll revenue of the year increased 15.9% over the first half showing signs of improvement in traffic flow.

The completion and operation of the Zhuyong Expressway and the Ningbo Chengxi route which cut across the Yongjin Expressway is expected to further improve the traffic flow of the Yongjin Expressway (Jinhua Section).





#### **Water Services**

In accordance with its established development strategies, General Water of China continued to focus on the operational management of its existing projects and to further invest in new water services projects. During the year, three new projects were added to General Water of China, namely, the sewage project in central Wenzhou, the city water supply project of Suifenhe and the sewage treatment project in the river east of Xiangtan. The total investment required for the projects will exceed HK\$120 million, adding daily water supply and sewage treatment capacity of 410,000 tonnes. General Water of China has concluded a total of 14 investment projects in nine cities nationwide in the areas of water sources, water supply and sewage up till 31st December 2006, with a scheduled daily treatment capacity of 4,299,000 tonnes, being daily water supply capacity of 2,875,000 tonnes and daily sewage treatment capacity of 1,424,000 tonnes.

While continuing to explore new markets, General Water of China strived to complete the construction work of various BOT projects on schedule and get ready for commencement of operation. During the year, the adjustment of water supply prices proposed by Bengbu GWC was approved by the relevant government authorities. The increment ranges from 8% to 36%. Reforms for utilities prices are underway in Mainland China, and this is expected to further benefit the water supply projects owned by the company.

As for BOT/BOO projects, the water sewage treatment project of Huzhou was generally completed and will commence operation in 2007. The reservoir works in Tiger Lake, Huzhou is still in progress. The construction of a 40-kilometre water induction pipeline network will commence in the third quarter of 2007, and the construction of the reservoir is expected to be completed in 2008. The construction of the pipeline network of the Chongqing sewage treatment project was completed at the end of 2006 and will commence operation in the first half of 2007. The construction of the sewage treatment project in Shenzhen and the sewage (phase I) project in eastern Wenzhou is still in progress, and is expected to be completed in 2007.



Proj	ect name	Project type	Daily production capacity	Share of interest of General Water of China	Location
1.	Sewage treatment project in the new district of eastern Huzhou	Sewage treatment	50,000 tonnes	100%	Zhejiang
2.	Water supply project in Xiangtan	Water supply	425,000 tonnes	70%	Hunan
3.	Water supply and sewage treatment project in Changshou Chemical	Water supply	240,000 tonnes	100%	Chongqing
	Industrial Zone	Sewage treatment	40,000 tonnes		
4.	Water generation project in Xiamen	Water generation	995,000 tonnes	45%	Fujian
5.	Sewage treatment project in Xiamen	Sewage treatment	784,000 tonnes	55%	Fujian
6.	Water supply project in Bengbu	Water supply	425,000 tonnes	60%	Anhui
7.	Project on sewage treatment plant in Longhua, Shenzhen	Sewage treatment	150,000 tonnes	90%	Guangdong
8.	Water supply project in Xianyang	Water supply	180,000 tonnes	50%	Shaanxi
9.	"Yinshi Guo Wei" water supply project in Xianyang	Water supply	300,000 tonnes	100%	Shaanxi
10.	Project on reservoir and water induction works in Tiger Lake, Huzhou	Water supply	200,000 tonnes	99%	Zhejiang
11.	Sewage treatment project in eastern Wenzhou	Sewage treatment	100,000 tonnes	100%	Zhejiang
12.	Sewage treatment project in central Wenzhou	Sewage treatment	200,000 tonnes	70%	Zhejiang
13.	City water supply project in Suifenhe	Water supply	110,000 tonnes	100%	Heilongjiang
14.	Sewage treatment project in river east of Xiangtan	Sewage treatment	100,000 tonnes	100%	Hunan

During the year, the Group sold all of its equity interest in Pudong Container for a consideration of HK\$447 million. The disposal enabled the Group to further optimize its business structure and generated an after-tax exceptional gain of approximately HK\$244 million for the Group.



#### Medicine

# Endeavoring to improve profitability of pharmaceutical business and enhancing vulnerability to industry fluctuations

The operating environment of the overall medicine industry in Mainland China went through significant changes in 2006 which adversely affected the operation of the pharmaceutical companies generally. Various measures were adopted to enhance the profitability of the Group's medicine business and to enhance its vulnerability to industry fluctuations, in particular, to advocate and encourage innovation of its enterprises to enhance their competitiveness; to strive for commercialization of the three State Category I New Drugs of the Group; to achieve an impressive growth rate in the sales of health food and OTC drugs which offset the adverse impacts brought by the declining sales of prescription drugs; and to maintain the persistent high growth rate of profit contribution from MicroPort Medical.







During the year, the Group introduced various measures, in particular, "Intellectual Property Management System", "Research and Development Incentives Scheme" and "Innovative Applied Research and Development Projects Funding Scheme", in order to advocate and encourage innovation of its enterprises to enhance their competitiveness.

Among the Group's three State Category I New Drugs, "Kai Li Kang" was launched in the market in April 2006, and accepted by over 100 A-grade hospitals. After the new drug certificate of "Oncorine" (H101 project) was obtained in 2005, the GMP certificate was issued in July of the year and the product was launched in the market in October. The construction and trial operation of the GMP plant for the "TNF" project was completed. The application of production approval was in progress.

### **Chinese Medicine and Health Food**

During the year, the sales of "Qingchunbao" health food and OTC drugs series resumed growth. Sales of health food series increased by 15.2% compared with last year. The sales of "Qingchunbao" Antiageing Tablets, an OTC drug increased remarkably by 26.2% to HK\$238 million. Nevertheless, due to the adverse news relating to other products in the industry and the change in rules and regulations towards the pharmaceutical industry in Mainland China, the overall sales of the prescription drugs of the Group declined. This has offset the growth of OTC drugs and health food businesses.





#### Biomedicine

Guangdong Techpool is one of the manufacturers with the most comprehensive range of urinary protein products in Mainland China. Its major product, "Techpool Luoan", is an exclusive product range in Mainland China. The company continued to expand the development of Techpool Luoan's application in the area of critical illnesses, and focused in the development of narcotic, burns, etc. with satisfactory results. During the year, the product achieved sales revenue of HK\$134 million, an increase of 7.2% compared with last year.



#### **Chemical Medicine**

During the year, "Changzhou Pharmaceutical" brand series of chemical medicines recorded a turnover of more than HK\$300 million. Major medicine sales were satisfactory. Sales of "Captopril Tablets" and "Compound Reserpine Tablets" increased by 18.8% and 15.5% respectively. Several major raw pharmaceuticals of the Company, namely "Raw Captopril", "Raw Hydrochlorothiazide", achieved a satisfactory increase in sales of over 21.0% and 14.9% during the year. This has offset the adverse effect bought by the decrease in sales of "Raw Qiangli Meisu".

In addition, the Changzhou Pharmaceutical Factory, a subsidiary of Changzhou Pharmaceutical was permitted in early 2007 as the first 10 manufacturing enterprises supplying basic medicines for cities, communities and villages in Mainland China, contributing positively to the medicine sales of the company. The said basic medicines include "Paracetamol Tablets", "Compound Reserpine Tablets", "Metformin Hydrochloride Tablets" and "Atropine Sulfate Injection".

#### **Medical Equipment**

In 2006, the business of MicroPort Medical continued its rapid development, further enhancing and expanding its sales. In particular, the sales network of "Firebird Rapamycin-Eluting Coronary Stents" expanded into countries in the EU, Latin America, Japan and Southeast Asia, with accumulated sales of over 100,000 pieces. In 2006, the company's innovation and independent development was recognized through technology awards and honours of the State and locality, including a second prize for the 2006 State Technology Advancement in the design and key production technology for "Coronary Drug Stents".





### Sales of Major Products in 2006

Product Name	Type/Indication	Sales RMB'000	Change %
"Dengfeng" Shen Mai Injection	Cardiovascular	270,514	-19.5%
"Dengfeng" Dan Shen Injection	Cardiovascular	120,583	-1.9%
"Huqingyutang" Stomach Rejunvenation Tablets	Gastritis	82,182	-4.5%
"Herbapex" Rupixiao Tablets	Gynaecological	110,778	-11.3%
"Dinglu" Xinhuang Tablets	Anti-bacterial, anti-inflammatory, pain rel	ieving <b>80,666</b>	+6.7%
"Qingchunbao" Anti-ageing Tablets	Immunity strengthening	245,521	+24.2%
"Qingchunbao" Yongzhen Tablets	Health food	32,043	+23.4%
"Qingchunbao" Beauty Capsules	Health food	52,504	-14.1%
"Huqingyutang" Herba Dendrobium Grain	Health food	49,287	-2.7%
"Techpool Luoan"	Urinary trypsin enzyme inhibitor	137,970	+5.2%
"Changzhou Pharmaceutical" Captopril Tablets	Anti-hypertension	79,330	+18.8%
"Changzhou Pharmaceutical" Qiangli Meisu	Raw pharmaceuticals	52,221	-46.7%

### **Consumer Products**

# Maintaining sustainable business growth in consumer products business and setting foundation of growing profit

Nanyang Tobacco and Wing Fat Printing are the Group's core businesses in consumer products segment. Both of them are maintaining sustainable business growth. The automobiles market in China showed signs of improvement. The persistent increase in sales of automobiles boosted the profitability of the manufacturers of automotive parts. This has offset the adverse impact arising from the decline in profits of Bright Dairy towards the consumer products business.

#### **Tobacco**

During the year, turnover for Nanyang Tobacco increased by 7.8% to HK\$1,638 million, while its net profit after deducting non-recurring factors in the previous year increased 2.4% to HK\$328 million. During the year, Nanyang Tobacco focused its efforts to align with the market structure and enhance product quality. It also continued to strengthen its internal

# Shanghai Industrial Holdings Limited Annual Report 2006

# Business Review, Discussion and Analysis

control and technology enhancement. Nanyang Tobacco, whose products are mainly for exports, has expanded its markets to include Thailand, the Middle East, Australia, New Zealand as well as Indonesia. Sales volume in the tax-free market and the PRC market respectively increased remarkably by 30% during the year.

During the year, Nanyang Tobacco implemented a technical alteration for cut tobacco in accordance with a comparison analysis result of different technical



parameters of cut tobacco processing. Apart from improving the product quality of the tobacco, the alteration also reduced the aggregate consumption of materials. Also, the company established a series of procurement procedures in respect of strengthening the quality control of raw tobacco, so as to strictly control inventory, minimize material consumption and enhance corporate efficiency.



#### **Dairy**

As consumption in Mainland China becomes more sophisticated, demand for quality products by consumers continued to increase. On the other hand, competition changed from low-end price competition to high-end technology and product competition. The competitive environment is becoming more intense. In 2006, turnover of Bright Dairy amounted to HK\$7,002 million, an increase of 4.5% over previous year; while net profit declined 27.6% to HK\$148 million.

During the year, by capitalizing on the "Fiftieth

Anniversary of the "Bright" Brand", Bright Dairy organized a series of marketing and sales activities, attracting more than 6,000 outlets nationwide. Following the award of the "2005-2006 State Outstanding Leading Enterprise of Food Industry" given by the China Food Industry Association, Bright Dairy was awarded the title of "The Most Competitive Brand in China" by the Ministry of Commerce, which reflecting the reputation of Bright Dairy in the market.

The eighth yogurt production plant of Bright Dairy was in trial operation during the year. The high automation and scale of production of the yogurt plant will rank foremost in Mainland China and worldwide with a scale of operation for 650 tonnes in daily production capacity after completion.

### **Printing and Paper Products**

The recent development of Wing Fat Printing was characterized by its divisionalised and vertical integration strategy. While expanding its printing business, Wing Fat Printing increased its stakes in various well performed projects. This strategy was proved to be effective. During the year, the turnover for Wing Fat Printing increased by 48.15% to HK\$1,400 million. Net profit grew 18.4% to HK\$149 million. In 2006, Wing Fat Printing further expanded its business of cigarette box production in Mainland China under the favourable CEPA policy. Total sales



of cigarette box packaging recorded a significant increase of 55.76% over last year.

In recent years, Wing Fat Printing has gone through rapid developments. Packaging materials sold to Nanyang Tobacco accounting for the company's total business volume were declining. Apart from cigarette box packaging, Wing Fat Printing also engaged in paper manufacturing. The business ventures of the company were located in provinces in Zhejiang, Henan, Hebei, Shandong, Sichuan, Guangdong and Guangxi. This has enabled Wing Fat Printing to take the full competitive advantage for regional resources and distribution. To further expand its production capacities, the company established new factories through Huzhou Tianwai Paper and Jinan Quanyong Printing while Zhejiang Rongfeng Paper added a production line for the manufacturing of cork paper.

The demand for high quality paper for printing products and packaging is expected to remain strong as a result of rapid economic development and the technological advancements of related industries. Looking ahead, Wing Fat Printing will continue to expand its business, and to structure its products in accordance with market demands and increase the competitiveness of its products through technological improvement and cost controls.

#### **Automobiles and Parts**

The automobiles market in Mainland China showed signs of improvement in 2006 following two years of sluggish growth. It is expected that this growth momentum will remain in 2007. Nevertheless, the market



became increasingly competitive with the presence of additional brands, both local and overseas as well as joint ventures. Meanwhile, domestic brands sought to expand overseas penetrating such major markets as Russia, the Middle East, South America and Africa.

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During the year, Huizhong Automotive's results rebounded through market exploration and cost reduction efforts. Turnover increased by 43.0% to HK\$5,533 million. Currently, the company mainly focused in the sales of parts, while the sales of automobiles only accounted for approximately 19.8%. The sales of parts remained focused on selling accessories to Shanghai Volkswagen, followed by selling accessories to Shanghai General Motors. In 2006, the company continued to take part in the domestic production projects of accessories for Shanghai Volkswagen, Shanghai General Motors,

Shanghai Automotive, and completed the domestic production projects of FAW Volkswagen, Jinbei, Nanya, Ford and Tianjin FAW.

SIIC Transportation Electric recorded satisfactory results during the year. Net profit increased by 134.5% to HK\$68.84 million and turnover increased by 33.6% to HK\$443 million. The aggregate sales of automatic windows, a major product of the company, grew 44.2% to HK\$170 million. Sales of exported goods of the company increased by 28.63% during the year.

#### **Supermarket Chains**

During the year, the turnover for Lianhua Supermarket grew 15% to HK\$1,597 million. Profit attributable to shareholders remained steady this year of HK\$235 million. During the year, the number of stores of Lianhua Supermarket reached 107, of which 78 were located in eastern China. As at 31st December 2006, the total number of stores directly and jointly operated by Lianhua Supermarket reached 3,716 (excluding stores operated by the associates), of which 50% were franchised stores. Franchise is an important and effective means for the company to expand its network. During the year, Lianhua Supermarket had granted 259 additional franchises, in which 127 were supermarkets and 132 were convenience stores.

To streamline the shareholding structure among Lianhua Supermarket, Century Lianhua and Lianhua e-Commerce and enhance overall management efficiency, the Group transferred its non-controlling interests in Century Lianhua and Lianhua e-Commerce to Lianhua Supermarket during the year, so as to increase Lianhua Supermarket's control over these two projects, and enable the Group to share the investment benefit of these two projects by holding the interests of Lianhua Supermarket.

#### **Others**

After deducting exceptional gains generated from the disposal of strategic investment project in previous year, losses in technology information business has been reduced from HK\$46.40 million to HK\$10.42 million. The net loss of SMIC decreased significantly compared with last year. Turnover increased by 25.1% to HK\$11.43 billion. In 2006, SMIC strategically disposed part of its existing equipment, reducing the company's depreciation expenses, and enabling it to





further improve its production technology. During the year, the net profit of Shanghai Information Investment increased 42.5% to HK\$121 million. During the year, Shanghai Information Investment actively increased its efforts in expanding investments in the education business made use of networks. On the basis of the completion of allocating the education information resources for Distance Education Group, it planned to focus in the cooperation projects on education contents for Distance Education Group and Dongfang Cable and strived to explore and develop the electronic payment and settlement business and related businesses.

In addition, SI Pharmaceutical and Bright Dairy, both listed in the A Shares market of the Shanghai Stock Exchange, completed their share reform plans in June and October of 2006 respectively. The 56.63% non-tradable shares of SI Pharmaceutical and the 30.78% non-tradable shares of Bright Dairy held by the Group were converted to 43.62% tradable shares and 25.17% tradable shares respectively. Although the reforms brought about exceptional losses totalling HK\$243 million for the Group, the values of the shares increased significantly following the completion of the reforms. The current market price of the shares of SI Pharmaceutical and Bright Dairy recorded an increase of approximately 127% since the share reform plans were announced, with the market capitalization of the two companies amounted to HK\$17.5 billion respectively (The calculation is based on the closing price of the relevant shares in the A Shares market of the Shanghai Stock Exchange as at 20th April 2007).