



China Resources Enterprise, Limited
Interim Results 2002

Restructuring Efforts Start to Pay Off

September 4, 2002



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China Resources Enterprise, Limited
Interim Result 2002

Opening Note / Interim Highlights

Mr. Charley Song
Deputy Chairman & Managing Director

“Restructuring efforts start to pay off”



Interim Highlights

- Earnings excluding profit from asset disposal maintained in the absence of significant property development and banking profits, reflecting initial results of our restructuring exercise
- Interim dividend raised to HK9¢ from HK8¢
- Earnings from petroleum and chemical business doubled
- Brewery business recovered sharply from H2 2001 and is now the second largest in the mainland
- Supermarket turnover increased by 55%, driven by mainland China operation
- China Resources Vanguard acquisition completed in July, fuelling further growth
- Hong Kong retail business turned around



China Resources Enterprise, Limited
Interim Result 2002

Financial Summary

Mr. Francis Kwong
Executive Director



Interim Summary

Year end 31 Dec	H1 2002 HK\$m	H1 2001 HK\$m	% change
Turnover	12,933	12,059	+7
Earnings	720	788	-9
Earnings ex-asset disposal profit *	720	729	-1
EPS (HK¢)	34.9	39.3	-11
DPS (HK¢)	9.0 **	8.0	+13
Interim dividend payout ratio (%)	26	20	+27

* Earnings excluding the profit of HK\$59.1m from the disposal of a stake in Shenyang Compressor in H1 2001

** Interim dividend excluding the special dividend of HK25¢ paid in February this year for the disposal of a stake in HKCB Bank Holding

Turnover Breakdown – by Divisions

Year end 31 Dec	H1 2002 HK\$m	Prop (%)	H1 2001 HK\$m	Prop (%)	% change
Petroleum and chemicals	4,558	35	5,150	42	-11
Retail	2,638	20	1,894	16	+39
Food processing and distribution	2,389	18	2,854	24	-16
Beverage	1,846	14	1,131	9	+63
Textile	1,000	8	0	0	na
Property	303	2	727	6	-58
Investment & others	273	2	380	3	-28
	13,005	100	12,136	100	+7
Less:inter-co transactions	(72)		(76)		-6
Turnover	12,933		12,059		+7

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Earnings Breakdown – by Divisions

Year end 31 Dec	H1 2002 HK\$m	Prop (%)	H1 2001 HK\$m	Prop (%)	% change
Petroleum and chemicals	181	23	91	10	+100
Retail	17	2	(6)	(1)	na
Food processing and distribution	172	22	221	25	-22
Beverage	42	5	48	5	-13
Textile	43	6	0	0	na
Property	141	18	249	28	-43
Investment & others	189	24	297 *	33	-36
	784	100	899	100	-13
Net corporate interest & expenses	(64)		(111)		-43
Earnings	720		788		-9
Earnings ex-asset disposal profit **	720		729		-1

* Including profits of HK\$59.1m from the disposal of a stake in Shenyang Compressor and HK\$43.0m from the share of profit of HKCB Bank Holding (sold)

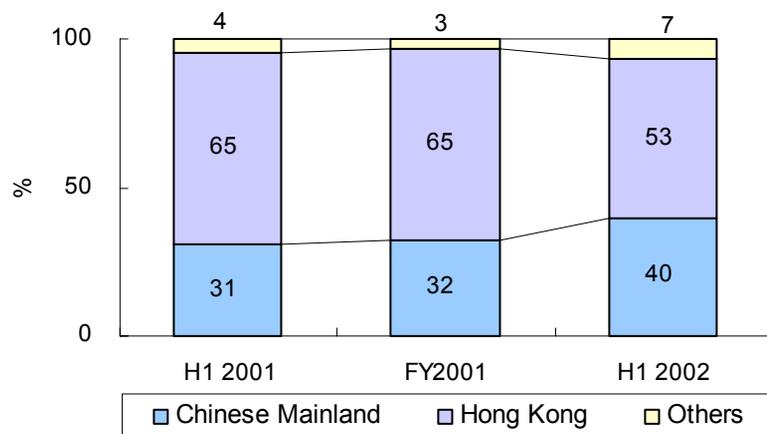
** Earnings excluding the profit from the disposal of Shenyang Compressor



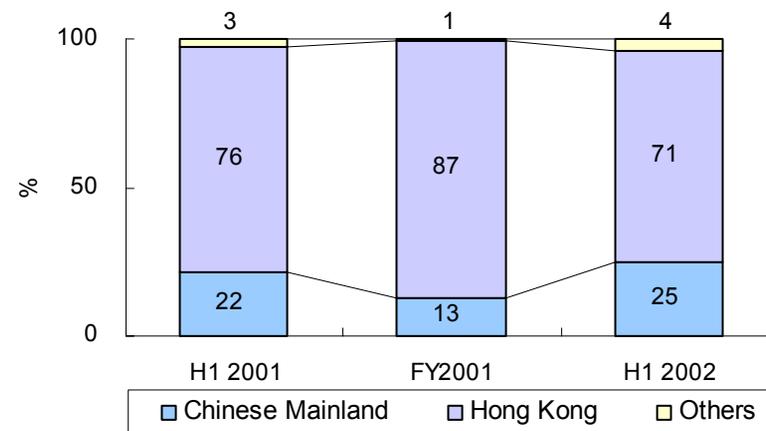
Geographical Breakdown of Turnover and Profit

- The proportion of turnover and profit before tax from mainland China increased to 40% and 25% respectively in H1 2002, compared with 31% and 22% in H1 2001

Turnover



Profit before tax



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Key Financial Data

Year end 31 Dec	H1 2002	FY2001	H1 2001	yoy % change
<u>P&L</u>				
Finance costs (HK\$m)	171	423	223	-23
Interest income (HK\$m)	78	255	156	-50
Capitalised interest (HK\$m)	0	0	0	na
<u>Balance Sheet</u>				
Current ratio (%)	173	160	168	+3
Net cash/(debt) (HK\$m)	-386	-1,685	-625	na
Shareholders' equity (HK\$m)	12,769	11,987	11,455	+11
Minority interests (HK\$m)	3,158	2,868	2,784	+13
Book NAV per share (HK\$)	6.15	5.95	5.69	+8

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Business Review

Mr. Francis Kwong
Executive Director



Petroleum and Chemicals

- Earnings doubled due to higher wholesaling margin of petroleum, turnaround of chemicals distribution business and continued growth of the local retail business
- Overall weaker oil prices year on year in H1 2002 explained the fall in turnover, but between January and June they had increased by about 25%
- Together with better control on risk and inventory management, net wholesaling margin of petroleum increased from 0.6% to 1.9%
- Chemicals distribution business in China benefited from strong demand with HK\$20m earnings (HK\$11m loss in H1 2001)
- 19% earnings growth at the local retailing operation driven by higher volume growth
- Own and operate 19 petrol/LPG stations in Hong Kong and 22 petrol stations in the mainland

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Petroleum and Chemicals

Turnover breakdown of petroleum and chemicals distribution

Year end 31 Dec	H1 2002 HK\$m	H1 2001 HK\$m	% change
Petroleum			
- Diesel	1,447	1,999	-28
- Fuel oil	1,303	1,379	-6
- Jet fuel	472	463	+2
- Others (lubricant, additive etc)	294	236	+25
LPG	257	306	-16
Petrochemicals	438	311	+41
Petrol stations			
- HK	318	258	+23
- Mainland China	86	62	+39
Ocean vessels	348	554	-37
Inter-co transactions and others	(405)	(419)	-3
Total	4,558	5,150	-11

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Retail

Retail business turnover and earnings breakdown

Year end 31 Dec	H1 2002 HK\$m	H1 2001 HK\$m	% change
Turnover			
- Supermarket	1,665	1,072	+55
- Department stores in HK	573	514	+11
- Brand-fashion in China	399	307	+30
	2,638	1,894	+39
Earnings			
- Supermarket	3	1	+182
- Department stores in HK	7	(17)	-142
- Brand-fashion in China	6	10	-37
	17	(6)	-376

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Retail

1. Supermarket

- Overall 55% turnover growth and improvement in profitability
- Turnover from China supermarkets rose by almost two times and EBITDA 72% though earnings were affected by initial start up costs
- Number of stores in China increased from 321 to 379 during H1 2002 whilst that in Hong Kong by one
- Gaining a controlling stake in Shenzhen China Resources Wanfang Supermarket and acquisition of some stores in Zhongshan also led to turnover growth
- Acquisition of China Resources Vanguard completed in July
- Hong Kong operation churned in a small profit from a previous loss
- Retailing plan detailed in our presentation "Retailing Strategies and Execution Plan" in July 2002 (refer to our web site)

Retail

Supermarket turnover, EBITDA and earnings breakdown

Year end 31 Dec	H1 2002 HK\$m	H1 2001 HK\$m	% change
Turnover			
- HK	793	773	+3
- China	872	300	+191
	1,665	1,072	+55
EBITDA			
- HK	18	18	-1
- China	23	13	+72
	41	31	+30
Earnings			
- HK	2	(4)	-165
- China	1	5	-75
- adjustment	(1)	0	
	3	1	+182

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Retail

Supermarket network

30-Jun-02 31-Dec-01 30-Jun-01

No of self-operated stores

- Hong Kong	71	70	68
- Beijing	22	19	17
- Tianjin	57	52	50
- Suzhou	97	98	88
- Xuzhou		1	1
- Zhongshan	23		
- Shenzhen	100	84	56

370 324 280

No of franchised stores

- Beijing	2	2	2
- Tianjin	2	2	2
- Suzhou	4	3	1
- Zhongshan	12		
- Shenzhen	60	60	48

80 67 53

Overall

- Hong Kong	71	70	68
- China	379	321	265
	450	391	333

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Retail

2. Department stores and brand-fashion

- Hong Kong department store business turned around with earnings contribution of HK\$7m compared with a loss of HK\$17m in H1 2001
- Turnover grew 11% due to effective marketing campaigns, strong closure and renovation sales
- Chinese Arts & Crafts and CRC Medichall became profitable, more than compensating the loss at CRC Department Store
- Brand-fashion business in China showed a decline in profit due to initial set up costs as number of boutiques increased from 520 at the end of H1 2001 to 727 at the end of 2002
- The joint venture with Esprit continued to report strong turnover and profit growth

Retail

Brand-fashion business in the Chinese Mainland

	30-Jun-02		31-Dec-01		30-Jun-01	
No of self-operated stores						
No of franchised stores						
Alfred Dunhill	29	6	26	6	23	6
Blue Navy	16	9	8	0	0	0
Bruno Magli	5	0	3	0	0	0
CK Jeans	13	2	4	0	0	0
Christian Lacroix	1	0	0	0	0	0
Emanuel Ungaro	2	0	0	0	0	0
Esprit/Red Earth	98	491	98	406	89	371
Givenchy/Monsieur by Givenchy	11	0	11	0	11	0
Iceberg	1	0	0	0	0	0
Kenzo	9	2	8	2	9	2
Lanvin	4	0	4	0	4	0
Piaget	1	25	0	0	0	0
Shanghai Tang	1	0	0	0	0	0
Verri	1	0	0	0	0	0
	192	535	162	414	136	379
Total	727		576		515	

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Food Processing and Distribution

- EBIT only declined by 3% despite the challenging environment
- Earnings contribution decreased by 22% mainly due to the loss of HK\$50m interest income after a post-privatization dividend-payout
- Fall in foodstuff distribution turnover predominantly due to the uplift of frozen meat export quota
- The impact on operating profit was alleviated by direct purchase from both Chinese mainland and overseas, which is of much higher margin
- There was also exceptionally high demand for live pigs in H1 2001, triggered by bird flu and suspension of chilled meat from Thailand
- Food processing and stock raising division affected by a HK\$10m drop in operating profit contribution from marine fishing business but the embargo issue was resolved in June
- Steady growth in contribution from abattoir operation



Food Processing and Distribution

Turnover breakdown of Ng Fung Hong

Year end 31 Dec	H1 2002 HK\$m	H1 2001 HK\$m	% change
Foodstuff distribution	1,531	1,918	-20
Food processing and stock raising	749	759	-1
Abattoir operation, transportation and others	154	225	-32
Inter-co transactions	(46)	(47)	-4
	2,389	2,854	-16

Operating profit breakdown of Ng Fung Hong

Year end 31 Dec	H1 2002 HK\$m	H1 2001 HK\$m	% change
Foodstuff distribution	146	169	-13
Food processing and stock raising	21	27	-23
Abattoir operation, transportation and others	41	38	+8
	209	234	-11

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Beverage

- Earnings contribution of HK\$42m represents a major recovery from HK\$13m in H2 2001, despite a small decline from H1 2001
- Became the second largest brewer in the mainland in terms of sales volume (third largest in FY2001)
- Beer sales volume soared 73% yoy to 1,129,000 k litres in H1 2002 representing a market share of 9.5% compared with 6.4% in FY2001
- Average selling price steady at around RMB1,600 per k litre
- Annual production capacity about 3.7m k litres, utilisation rate being a function of seasonality



Beverage

- Initial losses of newly acquired breweries have narrowed whilst existing breweries reported a 5% volume growth
- Sichuan breweries (62%-owned by CRB) contributed earnings of HK\$26m to CRB after restructuring compared with a loss of HK\$9m (from Leshan and Mianyang before merger with Blue Sword)
- Number of loss making breweries reduced from 7 in FY2001 to 4
- National brand programme for Snow already launched in April with expenses of RMB22m incurred in H1 2002
- Sales volume of Snow increased by 33% to 208,000 k litres compared with H1 2001 of which about half were sold outside Shenyang

Beverage

Sales volume by brewery

Year end 31 Dec	Province	Area	No of breweries	H1 2002 '000 k litre	H1 2001 '000 k litre	% change
<u>Existing breweries</u>						
Shenyang	Liaoning	North East	3	205	195	+5
Dalian	Liaoning	North East	1	84	86	-3
Jilin	Jilin	North East	1	106	94	+13
Tianjin	na	Central	1	48	48	-1
Anshan	Liaoning	North East	1	39	31	+26
Anhui	Anhui	Central	3	106	104	+2
<u>Breweries acquired in FY2001</u>						
New Three Star	Heilongjiang	North East	1	71	26	+175
Dalian Bang Chui Dao	Liaoning	North East	1	14	5	+182
Liaoyang Meiyue	Liaoning	North East	1	13	8	+69
Blue Sword (incl Mianyang and Leshan)	Sichuan	South West	12	315	56	+465
Changchun Snow Leopard	Jilin	North East	1	37		na
<u>Breweries acquired in FY2002</u>						
Wuhan Dongxihu	Hubei	Central	1	92		na
			27	1,129	651	+73
Existing breweries				587	557	+5

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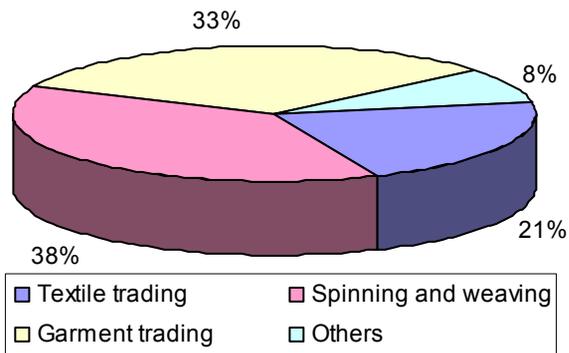
Textile

- The acquisition of the business was completed in January 2002 with five months' contribution during the period
- First half was slow due to seasonality, relatively high cotton prices, weakened demand from US and surge in quota costs
- Technology upgrade will enhance productivity and around HK\$700m will be invested within the next two years
- Expect improvement in performance in the second half of 2002 with arrival of Christmas orders and cost savings through centralization

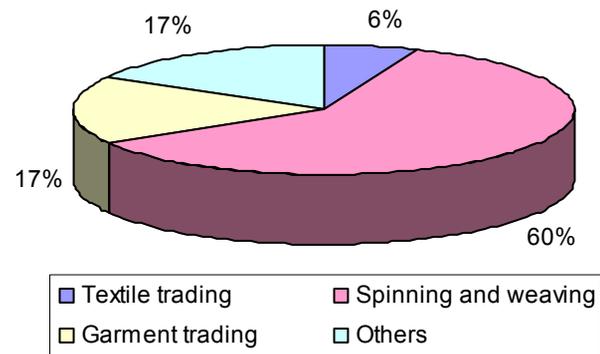


Textile

Breakdown of H1 2002 turnover



Breakdown of H1 2002 operating profit



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Property

- Property development profit became insignificant as Villa Esplanada was already completed last year with all units predominantly sold
- Rental income slightly affected by the property downturn as most of our properties are for retail use with high occupancy rates

Property business turnover and earnings breakdown

Year end 31 Dec	H1 2002 HK\$m	H1 2001 HK\$m	% change
Turnover			
- Property development	66	498	-87
- Rental properties	149	147	+1
- Warehouse	88	82	+7
	303	727	-58
Earnings			
- Property development	10	102	-90
- Rental properties	104	116	-11
- Warehouse	27	30	-10
	141	249	-43



Property

- Warehouse profit fell 10% with occupancy rates for the godown and cold storage businesses fell to 85% and 82% respectively from 88% and 85%
- Average rental rate for the cold storage business increased by 5% in H1 2002 whilst that of the godown business was flat
- Pak Sik godown has started to provide logistics services to our local supermarket operation and others

Occupancy rates of the major rental properties (av for the period)

Year end 31 Dec	Type	--Occupancy rates % --	
		H1 2002	H1 2001
CRE Building	Off	77	93
Argyle Centre	Ret	100	100
Hennessy Road	Ret	100	100
Lok Sing	Ret	100	100
Nan Fung	Ret	89	99
Silvercord	Ret	100	100
Star House	Ret	100	80

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Investments and Others

- HIT's local and Yantian operations reported overall throughput growth of 18% and an EBIT growth of 10%
- Weak local property market and lack of large scale infrastructure projects led to a 51% slide in earnings at Redland Concrete
- Measures have been taken to control costs and we are considering opportunities in the mainland concrete market

Performance of Redland Concrete

Year end 31 Dec	H1 2002 HK\$m	H1 2001 HK\$m	% change
Turnover			
- Concrete	176	302	-42
- Mortars	29	22	+35
- Shotcrete	2	6	-68
- Others	11	7	+67
	219	337	-35
Earnings	35	72	-51

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Prospects

Mr. Charley Song
Deputy Chairman & Managing Director

“Restructuring efforts start to pay off”



Prospects

- Restructuring efforts have started to pay off as we have successfully reduced our reliance on the property development sector in Hong Kong
- We will commence the announcement of quarterly results on a voluntary basis starting from Q3 2002 so that investors can clearly measure the progress of our restructuring plan
- We will continue our best efforts and commitment to strengthen communication with investors and media



Prospects

- With the special approval from the State Economic & Trade Commission, the acquisition of China Resources Vanguard is an important step to implement our retailing plan of achieving RMB50bn turnover in mainland China in five years
- We anticipate rising significance of our supermarket turnover in the coming years
- China Resources Vanguard has integrated with the existing supermarket chain to become the largest retailer in Guangdong
- We will focus on using retail businesses to drive future growth thus earnings are expected to be more recurrent



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