

China Resources Enterprise, Limited  
Interim Results 2003

**Roll-out of Strategies as Planned**

10 September, 2003





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## Interim Results 2003

### Opening Note / Results Highlights

Frank Ning

Chairman

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## Results Highlights

- Turnover increased by 25% to HK\$16.2bn and for the first time mainland's turnover exceeded Hong Kong
- Earnings grew 3% to HK\$750m
- Interim dividend of HK10¢ proposed, an 11% increase
- Strategies to bolster our retail-led distribution model have been rolled out as planned
- We have successfully reorganized our building materials business and acquired our parent company's logistics business
- Earnings from textile and petroleum & chemical businesses increased by 74% and 57% respectively
- Food processing and distribution business was stable and its mainland expansion plan is on schedule
- Retail and brewery businesses bore the brunt of the SARS outbreak

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## Financial Summary

Francis Kwong  
Executive Director

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## Results Summary

<b>Year end 31 Dec</b>	<b>H1 2003 HK\$m</b>	<b>H1 2002 HK\$m</b>	<b>% change</b>
<b>Turnover</b>	16,190	12,933	+25
<b>Earnings</b>	750	725	+3
<b>EPS (HK¢)</b>	36	35	+3
<b>DPS (HK¢)</b>	10	9	+11
<b>Interim dividend payout ratio (%)</b>	28	26	+8

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## Turnover Breakdown – by Divisions

Year end 31 Dec	H1 2003 HK\$m	Prop (%)	H1 2002 HK\$m	Prop (%)	% change
Petroleum and chemicals	5,978	37	4,558	35	+31
Retail	4,304	26	2,726	21	+58
Food processing and distribution	2,357	14	2,389	18	-1
Beverage	1,909	12	1,846	14	+3
Textile	1,411	9	1,000	8	+41
Property	143	1	215	2	-34
Investment & others	168	1	273	2	-38
	16,269	100	13,005	100	+25
Less: inter-co transactions	(79)		(72)		+10
Turnover	16,190		12,933		+25

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## Earnings Breakdown – by Divisions

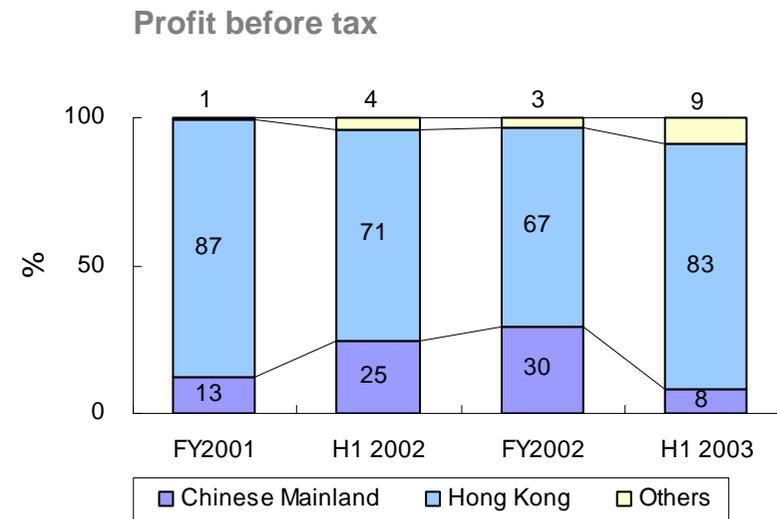
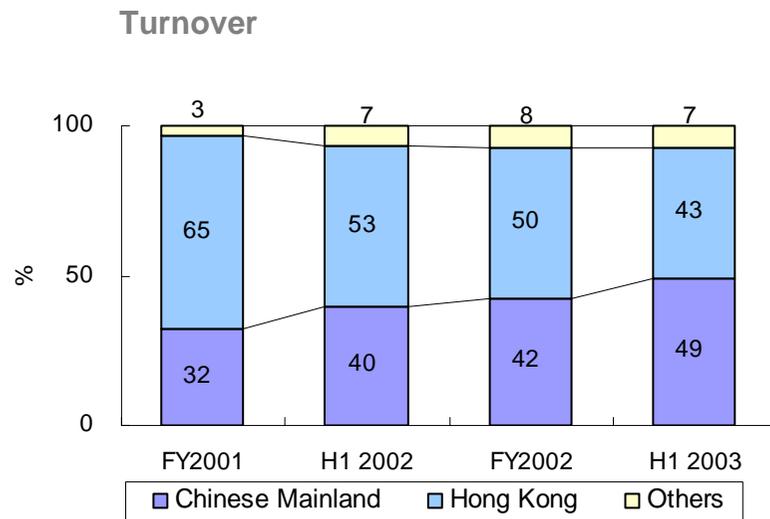
Year end 31 Dec	H1 2003 HK\$m	Prop (%)	H1 2002 HK\$m	Prop (%)	% change
Petroleum and chemicals	286	35	182	23	+57
Retail	(89)	(11)	61	8	-244
Food processing and distribution	175	22	172	22	+2
Beverage	25	3	38	5	-34
Textile	82	10	47	6	+74
Property	166	20	97	12	+71
Investment & others	168	21	191	24	-12
	<u>813</u>	<u>100</u>	<u>789</u>	<u>100</u>	<u>+3</u>
Net corporate interest & expenses	(63)		(64)		-1
Earnings	<u>750</u>		<u>725</u>		<u>+3</u>

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## Geographical Breakdown of Turnover and Profit

- The proportion of turnover from mainland China increased to 49% from 40% in H1 2002 though that of profit before tax decreased to 8% from 25%, dragged by the retail and brewery businesses



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## Key Financial Data

- Strong balance sheet with a gearing of 9% and a net debt to equity ratio of 11%

Year end 31 Dec	H1 2003	H1 2002	% change	FY2002
<b><u>P&amp;L</u></b>				
Finance costs (HK\$m)	129	171	-25	314
Interest income (HK\$m)	34	78	-57	140
Capitalised interest (HK\$m)	0	0	na	2
<b><u>Balance Sheet</u></b>				
Current ratio (%)	138	173	-20	129
Net cash/(debt) (HK\$m)	(1,480)	(386)	+283	(1,483)
Shareholders' equity (HK\$m)	13,425	12,769	+5	12,946
Minority interests (HK\$m)	3,432	3,158	+9	3,290
Book NAV per share (HK\$)	6.45	6.15	+5	6.22

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## **Business Review**

Francis Kwong  
Executive Director

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# Petroleum and Chemicals Distribution

## Turnover breakdown of petroleum and chemicals distribution

Year end 31 Dec	H1 2003 HK\$m	H1 2002 HK\$m	% change
<b>Petroleum</b>			
- Diesel	1,403	1,447	-3
- Fuel oil & ocean vessels	2,572	1,816	+42
- Jet fuel	712	472	+51
<b>LPG</b>	351	257	+36
<b>Petrochemicals</b>	584	438	+33
<b>Petrol stations</b>			
- HK	330	318	+4
- Mainland China	144	86	+67
<b>Inter-co transactions and others</b>	(117)	(276)	-58
<b>Total</b>	<b>5,978</b>	<b>4,558</b>	<b>+31</b>

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# Retail

## Retail business turnover and earnings breakdown

Year end 31 Dec	H1 2003 HK\$m	H1 2002 HK\$m	% change
<b>Turnover</b>			
- Supermarket	3,391	1,753	+93
- Department stores in HK	466	573	-19
- Brand-fashion in China	447	399	+12
	4,304	2,726	+58
<b>Earnings</b>			
- Supermarket	(66)	48	-239
- Department stores in HK	(6)	7	-184
- Brand-fashion in China	(17)	6	-355
	(89)	61	-244

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# Retail

## Supermarket turnover, EBITDA and earnings breakdown

Year end 31 Dec	H1 2003 HK\$m	H1 2002 HK\$m	% change
<b>Turnover</b>			
- HK	955	881	+8
- China	2,436	872	+179
	3,391	1,753	+93
<b>EBITDA</b>			
- HK	55	61	-10
- China	(65)	23	-384
	(10)	84	-112
<b>Earnings</b>			
- HK	14	47	-71
- China	(71)	1	-9,698
- goodwill	(9)	0	na
	(66)	48	-239
<b>EBITDA margin (%)</b>			
- overall	(0.3)	4.8	-106
- HK	5.8	6.9	-17
- China	(2.7)	2.6	-202

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# Retail

## Supermarket network

	30-Jun-03		31-Mar-03		31-Dec-02		30-Sep-02	
No of self-operated stores								
No of franchised stores								
<b>I) Traditional supermarkets</b>								
- Hong Kong	79		78		77		74	
- Beijing	24		24		24		23	2
- Tianjin	60		59		59		59	2
- Suzhou	91		93	4	95	4	96	4
- Zhongshan	23	12	23	12	23	12	23	12
- Shenzhen	87	44	87	45	88	45	90	47
	364	56	364	61	366	61	365	67
<b>II) Superstores</b>								
- Beijing	3		3		3		2	
- Tianjin	2		2		1		0	
- Suzhou	4		3		3		3	
- Hangzhou	4		1		0		0	
- Shenzhen	4		3		1		1	
- Zhongshan	6		4		2		1	
	23	0	16	0	10	0	7	0
<b>II) Hypermarkets</b>								
- Shenzhen	9		8		8		6	
- Guangzhou	6		6		6		2	
- Huizhou	1		1		1		1	
- Zhongshan	1		1		1		1	
- Zhuhai	1		1		1		1	
	18	0	17	0	17	0	11	0
<b>Overall</b>								
- Hong Kong	79	0	78	0	77	0	74	0
- China	326	56	319	61	316	61	309	67
	<b>461</b>		<b>458</b>		<b>454</b>		<b>450</b>	

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## Retail

### 2. Department stores and brand-fashion

- An inevitable SARS victim
- Hong Kong department store business reported a loss of HK\$6m and a 19% turnover decline
- Turnover of CR Care increased by 33% while that of Chinese Arts & Craft and CRC Department Store declined by 40% and 23% respectively, resulting in earnings growth at CR Care but losses at the other two
- At end of H1 2003, we operated 2 CRC stores, 5 CAC stores, 2 super-sized and 20 smaller-sized CR Care stores
- Brand-fashion in China reported a loss of HK\$17m despite a 12% turnover growth due to big discount for stock clearance of certain brands as well as the virus outbreak
- 18 international brands were distributed at 715 stores at the end of June
- Shanghai Tang contract was terminated in July and we will continue to focus on individual brand profitability

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# Retail

## Brand-fashion business in the Chinese Mainland

	30-Jun-03		31-Mar-03		31-Dec-02		30-Sep-02	
<b>No of self-operated stores</b>								
<b>No of franchised stores</b>								
Alfred Dunhill	27	13	28	7	29	5	29	6
Blue Navy	8	0	14	4	13	5	15	12
Bruno Magli	5	0	5	0	7	0	7	0
CK Jeans	18	15	19	13	21	11	15	5
Christian Lacroix	1	0	1	0	1	0	1	0
Emanuel Ungaro	2	0	2	0	2	0	2	0
Esprit/Red Earth	133	461	120	517	119	489	110	489
Givenchy / Monsieur by Givenchy	8	0	9	0	9	0	10	0
Guess	3	0	3	0	2	0	2	0
Iceberg	0	0	0	0	0	0	1	0
Kenzo	10	2	10	2	10	2	9	1
Lanvin	2	0	2	0	4	0	4	0
Pal Zileri	4	0	3	0	3	0	1	0
Piaget	1	0	1	0	1	25	1	25
Polo	1	0	1	0	1	0	1	0
Shanghai Tang	1	0	1	0	1	0	1	0
Verri	0	0	1	0	1	0	1	0
	224	491	220	543	224	537	210	538
<b>Total</b>	<b>715</b>		<b>763</b>		<b>761</b>		<b>748</b>	

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## Food Processing and Distribution

- Earnings contribution increased by 2% despite a 1% decrease in turnover resulted from the disposal of a stake in a seafood trading business in Hong Kong
- Active promotion of "Ng Fung" fresh meat and more dining at home during the SARS period led to a 3% growth in turnover of livestock distribution compensating for the decline in sales of frozen meat following the uplift of export quota
- Full recovery at marine fishing with a 89% surge in operating profit due to the exploration of more fishing grounds, enhancement in catching capability and better quality of catches
- Continued profit growth at the abattoir operation which benefited from higher sales volume of livestock
- A joint venture was set up with Shanghai New Asia Group in March to construct a modern meat processing centre in Shanghai, laying the cornerstone for entering the mainland meat market

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# Food Processing and Distribution

## Turnover breakdown of Ng Fung Hong

Year end 31 Dec	H1 2003	H1 2002	% change
	HK\$m	HK\$m	
Foodstuff distribution	1,525	1,531	-0
Food processing and stock raising	728	749	-3
Abattoir operation, transportation and others	144	152	-5
Inter-co transactions	(40)	(44)	-8
	2,357	2,389	-1

## Operating profit breakdown of Ng Fung Hong

Year end 31 Dec	H1 2003	H1 2002	% change
	HK\$m	HK\$m	
Foodstuff distribution	141	146	-4
Food processing and stock raising	30	20	+52
Abattoir operation, transportation and others	52	42	+22
	223	209	+7

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## Beverage

- Turnover growth of 3% with sales volume increasing 9% to 1.23m k litres, consolidating our market position as the second largest brewer in the mainland
- Average selling price decreased by 6% due to the lower selling prices of the newly acquired breweries and promotional activities but gross margin was in line with last year
- Earnings contribution declined 34% due to the SARS incidence, reduced profitability in Jilin and Dalian as well as the initial loss of the brewery in Beijing
- Operating environment is improving and earnings contribution for June 2003 was similar to that of June last year
- Annual production capacity amounted 4.1m k litres after acquiring Panjin in Liaoning in December 2002 and Lidu in Beijing in January this year

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## Beverage

- Organic sales volume growth was 5% with strong earnings performance at Sichuan, Anhui and Shenyang and the loss at Harbin was substantially reduced
- Sales volume of our national brand, Snow, increased by 45% from H1 2002 to 302,000 k litres, representing 25% of the total volume sold, reflecting its growing penetration following implementation of our brand development strategies for the whole country
- To facilitate national brand development and brewery management, CRB has been acquiring the minority stakes from the jv partners

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# Beverage

## Sales volume by brewery

Year end 31 Dec	Province	Area	No of breweries	H1 2003 '000 k litre	H1 2002 '000 k litre	% change
<b><i>I) Breweries acquired prior to FY2002</i></b>						
Shenyang	Liaoning	North East	3	205	205	-0
Dalian	Liaoning	North East	2	80	98	-18
Jilin	Jilin	North East	1	110	106	+3
Tianjin		Central	1	54	48	+13
Anshan	Liaoning	North East	1	43	39	+12
Anhui	Anhui	Central	3	130	106	+23
New Three Star	Heilongjiang	North East	1	82	71	+15
Liaoyang Meiyue	Liaoning	North East	1	12	13	-9
Blue Sword (incl Mianyang and Leshan)	Sichuan	South West	12	339	315	+8
Changchun Snow Leopard	Jilin	North East	1	39	37	+7
<b><i>II) Breweries acquired in FY2002</i></b>						
Wuhan Dongxihu	Hubei	Central	1	109	92	+18
Panjin	Liaoning	North East	1	17		na
<b><i>III) Breweries acquired in FY2003</i></b>						
Beijing		Central	1	10		na
			29	1,229	1,129	+9
Existing breweries				1,093	1,037	+5

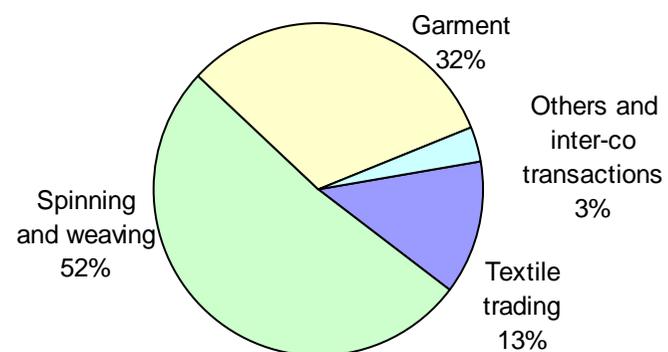
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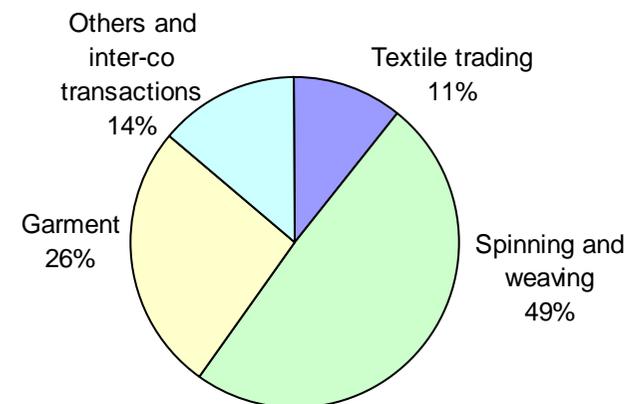


# Textile

Breakdown of H1 2003 turnover



Breakdown of H1 2003 earnings



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## Property

- There was a residual property development profit mainly due to the write-back of over-provided construction cost for our last project
- Rental income was relatively stable as most of our properties are for retail use at prime locations
- Due to Argyle Centre's change from own use into property investment, there is a decrease in deferred tax liability of HK\$60m

### Property business turnover and earnings breakdown

Year end 31 Dec	H1 2003 HK\$m	H1 2002 HK\$m	% change
<b>Turnover</b>			
- Property development	5	66	-92
- Rental properties	138	149	-7
	143	215	-34
<b>Earnings</b>			
- Property development	22	10	+124
- Rental properties	144	87	+65
	166	97	+71

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## Property

- Despite the weak economy, occupancy rates of our office premises improved slightly while that of retail premises remained high
- Rental concessions had been made to some SARS-affected tenants and there was a rental shortfall due to the renovation work at Argyle Centre
- Logistics services have been integrated with our retailing division

### Occupancy rates of the major rental properties (av for the year)

Year end 31 Dec	Type	-----Occupancy rates % -----	
		H1 2003	H1 2002
CRE Building	Off	85	79
Argyle Centre	Ret	80	100
Hennessy Road	Ret	100	100
Lok Sing	Ret	100	100
Nan Fung	Ret	93	89
Silvercord	Ret	100	100
Star House	Ret	73	100

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## Interim Results 2003

### Prospects

Charley Song

Deputy Chairman & Managing Director

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## Prospects

- We have set a precedent for a foreign company to take a controlling stake in a mainland listed company via the acquisition of a 51% stake in China Resources Jinhua, a crucial step for our textile business to achieve a leading position
- Our food processing and distribution business has entered the mainland meat market unveiling its blueprint for China
- These accelerated investments in the mainland have resulted in a higher proportion of turnover contribution from China than Hong Kong during the period under review, the first time since our listing
- In the first half of this year, textile and petroleum & chemical divisions have performed particularly well
- We are gradually recovering from the unfortunate disruption of SARS and are very confident about our future prospects

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