

China Resources Enterprise, Limited
Final Results 2002

Solid Foundation For Tomorrow

3 April 2003





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Opening Note / Results Highlights

Frank Ning

Chairman

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Results Highlights

- Total sales reached a record HK\$28.8bn, an increase of 19% from 2001
- Earnings jumped 16% to HK\$1,403m despite the absence of significant property development and banking profits
- Final dividend of HK13¢ proposed, bringing the full year dividend to HK47¢, including a special dividend of HK25¢ paid in last February for the disposal of a stake in Hongkong Chinese Ltd, and payout ratio reached 70%
- Brewery business post a major recovery from FY2001 with earnings increased by 65%
- Earnings from petroleum and chemical business also rebounded by 25%

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Results Highlights

- Supermarket turnover increased by 97% with EBITDA margin maintained
- Hong Kong retail business reported earnings growth in a difficult environment
- Textile division's contribution met with our expectations
- Ng Fung Hong was stable and has just launched its mainland expansion plan

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Financial Summary

Francis Kwong
Executive Director

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Results Summary

Year end 31 Dec	FY2002 HK\$m	FY2001 HK\$m	% change
Turnover	28,822	24,196	+19
Earnings	1,403	1,205	+16
EPS (HK¢)	68	60	+13
DPS (HK¢)	47 *	18	+161
DPS ex-special dividend (HK¢)	22	18	+22
Dividend payout ratio (%)	70 *	30	+130

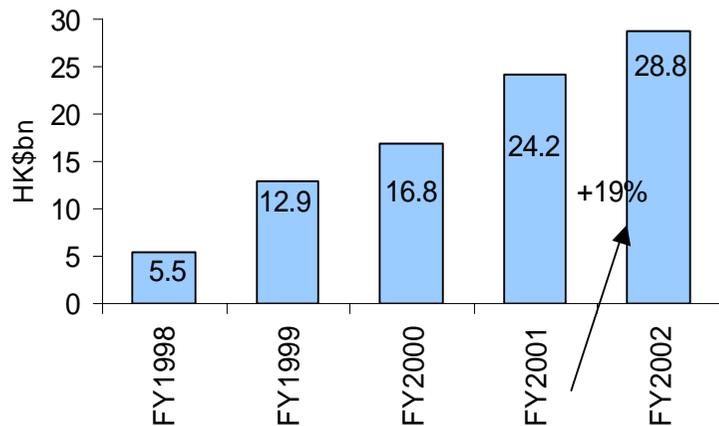
* Including the special dividend of HK25¢ paid in January 2002 for the disposal of a stake in Hongkong Chinese Ltd

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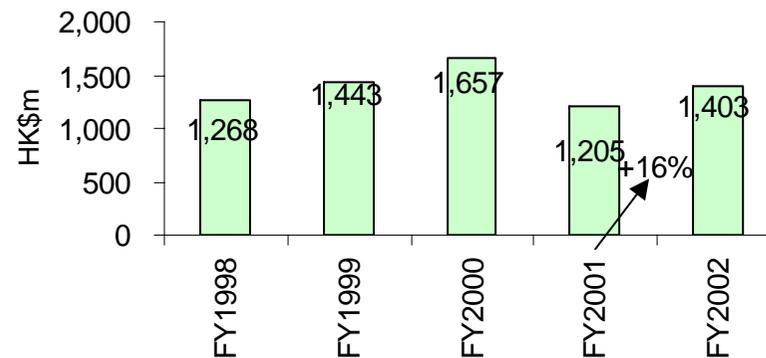


Five Year Trends

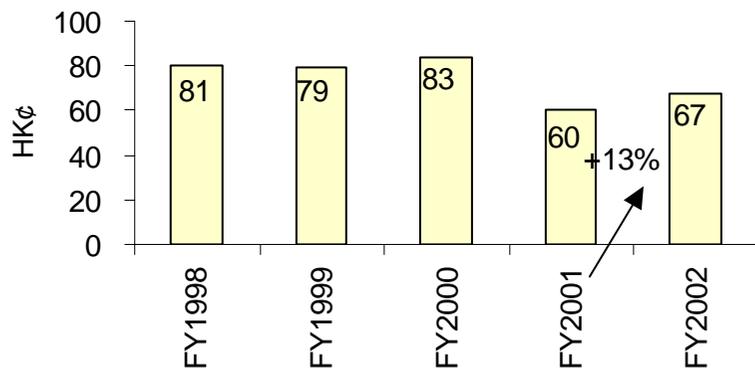
Turnover



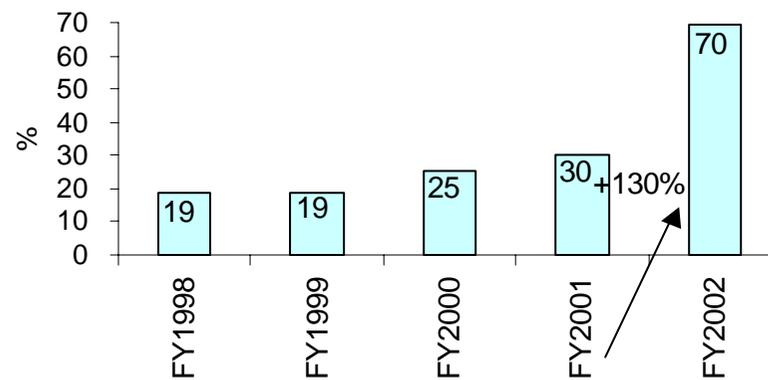
Earnings



EPS



Dividend payout ratio



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Turnover Breakdown – by Divisions

Year end 31 Dec	FY2002 HK\$m	Prop (%)	FY2001 HK\$m	Prop (%)	% change
Petroleum and chemicals	10,501	36	9,889	41	+6
Retail	6,344	22	4,026	17	+58
Food processing and distribution	4,803	17	5,750	24	-16
Beverage	3,738	13	2,413	10	+55
Textile	2,522	9		0	na
Property	541	2	1,479	6	-63
Investment & others	518	2	774	3	-33
	28,967	100	24,331	100	+19
Less: inter-co transactions	(145)		(135)		+8
Turnover	28,822		24,196		+19

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Earnings Breakdown – by Divisions

Year end 31 Dec	FY2002 HK\$m	Prop (%)	FY2001 HK\$m	Prop (%)	% change
Petroleum and chemicals	285	19	228	16	+25
Retail	24	2	31	2	-23
Food processing and distribution	337	22	397	28	-15
Beverage	100	7	61	4	+65
Textile	164	11		0	na
Property	221	14	513	37	-57
Investment & others	407	26	169	12	+140
	1,538	100	1,399	100	+10
Net corporate interest & expenses	(135)		(194)		na
Earnings	1,403		1,205		

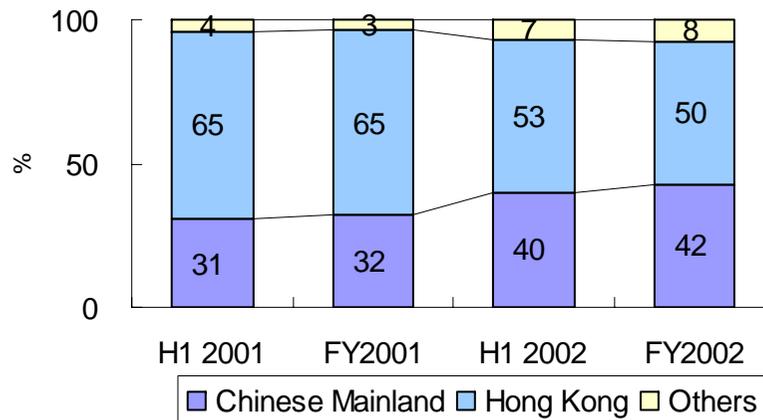
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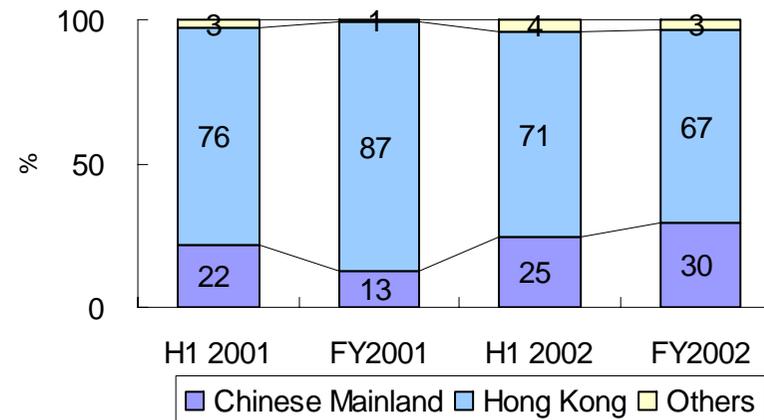
Geographical Breakdown of Turnover and Profit

- The proportion of turnover and profit before tax from mainland China increased to 42% and 30% respectively in FY2002, compared with 32% and 13% in FY2001

Turnover



Profit before tax



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Key Financial Data

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

Year end 31 Dec	FY2002	FY2001	% change
<u>P&L</u>			
Finance costs (HK\$m)	314	423	-26
Interest income (HK\$m)	140	255	-45
Capitalised interest (HK\$m)	2	0	na
<u>Balance Sheet</u>			
Current ratio (%)	129	160	-20
Net cash/(debt) (HK\$m)	(1,483)	(1,685)	-12
Shareholders' equity (HK\$m)	13,287	11,987	+11
Minority interests (HK\$m)	3,263	2,868	+14
Book NAV per share (HK\$)	6.39	5.95	+7

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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	FY2002 HK\$m	FY2001 HK\$m	% change
Petroleum			
- Diesel	2,964	3,631	-18
- Fuel oil	3,298	2,887	+14
- Jet fuel	1,130	991	+14
- Others (lubricant, additive etc)	685	403	+70
LPG	600	586	+2
Petrochemicals	1,005	697	+44
Petrol stations			
- HK	632	590	+7
- Mainland China	270	145	+86
Ocean vessels	740	954	-22
Inter-co transactions and others	(823)	(994)	-17
Total	10,501	9,889	+6

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Retail

Retail business turnover and earnings breakdown

Year end 31 Dec	FY2002 HK\$m	FY2001 HK\$m	% change
Turnover			
- Supermarket	4,386	2,223	+97
- Department stores in HK	1,064	1,104	-4
- Brand-fashion in China	894	698	+28
	6,344	4,026	+58
Earnings			
- Supermarket	(10)	3	-429
- Department stores in HK	29	23	+24
- Brand-fashion in China	5	5	-4
	24	31	-23

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Retail

1. Supermarket

- Overall 97% turnover growth with the share of the turnover for mainland's operation grew from 29% in 2001 to 63% in 2002
- Earnings contribution was affected by the initial start up costs and depreciation charges associated with the rapid increase in the number of new stores, a necessary step we need to go through
- Overall EBITDA margin was maintained as the more profitable mainland operation has overtaken Hong Kong in turnover
- Supermarkets in Hong Kong, despite a lower EBITDA margin than that of the mainland operation, churned in a small profit from a loss reflecting the impact of new store opening on the mainland operation's bottom line
- China Resources Vanguard was consolidated for 5 months and contributed HK\$2m including a goodwill amortisation charge of HK\$4m

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Retail

Supermarket turnover, EBITDA and earnings breakdown

Year end 31 Dec	FY2002 HK\$m	FY2001 HK\$m	% change
Turnover			
- HK	1,634	1,568	+4
- China	2,752	655	+320
	4,386	2,223	+97
EBITDA			
- HK	36	39	-8
- China	91	26	+245
	127	65	+95
Earnings			
- HK	1	(6)	-119
- China	(7)	9	-175
- adjustment (goodwill w/o)	(4)	0	na
	(10)	3	-429
EBITDA margin			
- overall	2.9	2.9	-1
- HK	2.2	2.5	-12
- China	3.3	4.0	-18

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Retail

Supermarket network

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

I) Traditional supermarkets / superstores

No of self-operated stores

- Hong Kong	77	74	71	70
- Beijing	27	25	22	19
- Tianjin	60	59	57	52
- Suzhou	98	99	97	98
- Xuzhou				1
- Zhongshan	25	24	23	
- Shenzhen	89	91	100	84
	376	372	370	324

No of franchised stores

- Beijing	2	2	2	2
- Tianjin	0	2	2	2
- Suzhou	4	4	4	3
- Zhongshan	12	12	12	
- Shenzhen	45	47	60	60
	63	67	80	67

II) Hypermarkets

Vanguard

- Shenzhen	8	6		
- Guangzhou	6	2		
- Huizhou	1	1		
- Zhongshan	1	1		
- Zhuhai	1	1		
	17	11	0	0

Overall

- Hong Kong	77	74	71	70
- China	379	376	379	321
	456	450	450	391

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Retail

2. Department stores and brand-fashion

- Hong Kong department store business reported a 24% earnings growth despite a 4% turnover decline caused by store closure and redecoration
- Encouraging earnings recovery at Chinese Arts & Crafts and CRCare, compensating for the loss at CRC Department Store
- The rebranding of CRCare was carried out in January 2003 and the first super-sized CRCare store was opened at To Kwa Wan
- Brand-fashion business in China was stable but profit contribution was small as most brands were still new to the market
- Esprit continued to show very strong earnings growth
- 18 international brands were distributed at 761 stores at the end of 2002, compared with 727 at the end of H1 2002
- Shop that offers little or no profit will be considered for closure while brand with limited development potential will be pulled out

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Food Processing and Distribution

- Earnings contribution decreased by 15% mainly due to the loss of interest income after an intra-group dividend payment of HK\$1.3bn
- Excluding the effect of reduced interest income, profit only fell by 3.7%
- 22% fall in foodstuff distribution turnover predominantly due to the uplift of frozen meat export quota but operating profit only fell 4% following increased direct purchase from both the mainland and oversea
- Food processing division was affected by a HK\$29m drop in operating profit contribution from the marine fishing business
- Steady growth in profit contribution from abattoir operation due to effective cost control
- In March 2003, a joint venture was set up with Shanghai New Asia Group to construct a modern meat processing centre in Shanghai, laying the cornerstone for entering the mainland meat market
- Our objective is to become a leading vertically integrated meat supplier in the mainland

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Food Processing and Distribution

Turnover breakdown of Ng Fung Hong

Year end 31 Dec	FY2002 HK\$m	FY2001 HK\$m	% change
Foodstuff distribution	3,049	3,914	-22
Food processing and stock raising	1,537	1,518	+1
Abattoir operation, transportation and others	301	412	-27
Inter-co transactions	(84)	(94)	-11
	4,803	5,750	-16

Operating profit breakdown of Ng Fung Hong

Year end 31 Dec	FY2002 HK\$m	FY2001 HK\$m	% change
Foodstuff distribution	293	307	-4
Food processing and stock raising	38	61	-38
Abattoir operation, transportation and others	90	87	+3
	421	455	-7

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Beverage

- Turnover growth of 55% accompanied by a profit margin improvement leading to a 65% earnings growth
- The second largest brewer in the mainland with sales volume rising 62% to 2.34m k litres
- Average selling price was steady
- Annual production capacity reached approximately 4m k litres at the end of FY2002 after acquiring Panjin in Liaoning (85,000 k litre capacity) in December
- Initial losses of newly acquired breweries have further narrowed whilst existing breweries reported a 5% volume growth
- Sichuan breweries (62%-owned by CRB) contributed earnings of HK\$77m to CRB after restructuring compared with a loss of HK\$44m in FY2001

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Beverage

Sales volume by brewery

Year end 31 Dec	Province	Area	No of breweries	FY2002 '000 k litre	FY2001 '000 k litre	% change
<u>Existing breweries (acquired prior to FY2001)</u>						
Shenyang	Liaoning	North East	3	404	410	-2
Dalian	Liaoning	North East	1	146	180	-19
Jilin	Jilin	North East	1	213	202	+5
Tianjin	na	Central	1	105	100	+6
Anshan	Liaoning	North East	1	84	66	+27
Anhui	Anhui	Central	3	204	190	+7
<u>Breweries acquired in FY2001</u>						
New Three Star	Heilongjiang	North East	1	146	103	+42
Dalian Bang Chui Dao	Liaoning	North East	1	53	19	+181
Liaoyang Meiyue	Liaoning	North East	1	26	22	+17
Blue Sword (incl Mianyang and Leshan)	Sichuan	South West	12	667	143	+368
Changchun Snow Leopard	Jilin	North East	1	68	9	+616
<u>Breweries acquired in FY2002</u>						
Wuhan Dongxihu	Hubei	Central	1	228		na
Panjin	Liaoning	North East	1			na
			28	2,344	1,444	+62
Existing breweries (adj for Mianyang and Leshan)				1,322	1,257	+5

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Textile

- Earnings of HK\$164m, slightly exceeding the profit guarantee of HK\$160m
- Overall operating margin about 6.5% with spinning and weaving division achieving the highest margin followed by garment trading and textile trading divisions
- Acquisition of minority interests in several spinning and weaving plants was completed during the year
- In February this year, acquisition of a 51% stake in CR Jinhua was announced, subject to regulatory approvals
- A HK\$700m technology upgrade programme has commenced

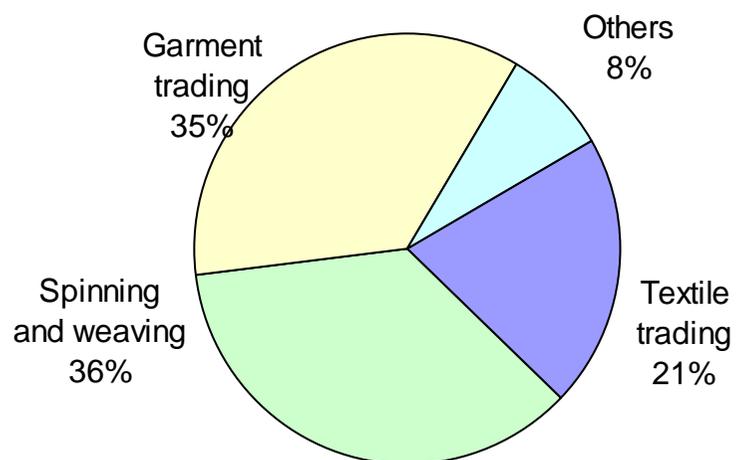
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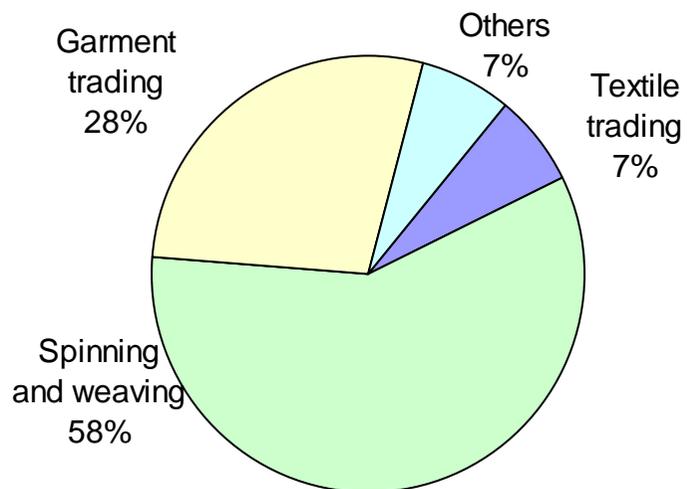


Textile

Breakdown of FY2002 turnover



Breakdown of FY2002 operating profit



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Textile

- There are two main reasons for technology upgrade:
 - To enhance efficiency
 - To increase the proportion of higher end products
- Old machines will be replaced with advanced ones for greater productivity and higher quality products, and the entire programme will cost approximately HK\$700m with the majority spent during 2003
- The difference in gross margin between lower end products and upper end products could be as much as 10% in absolute terms

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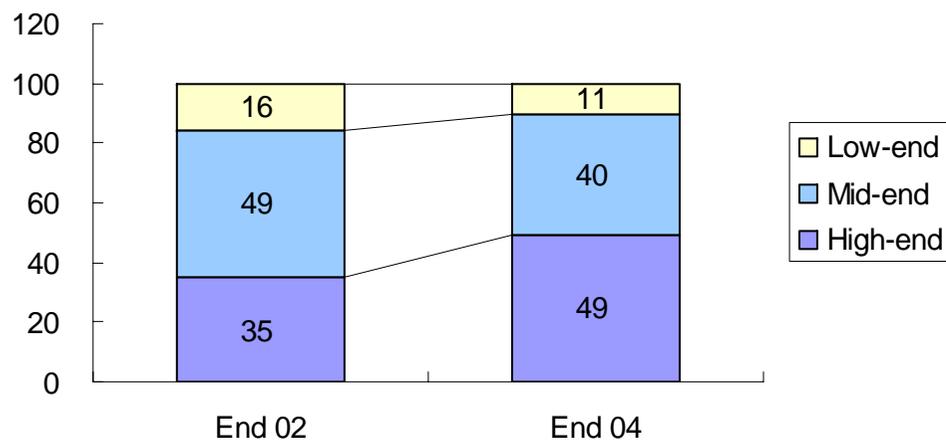




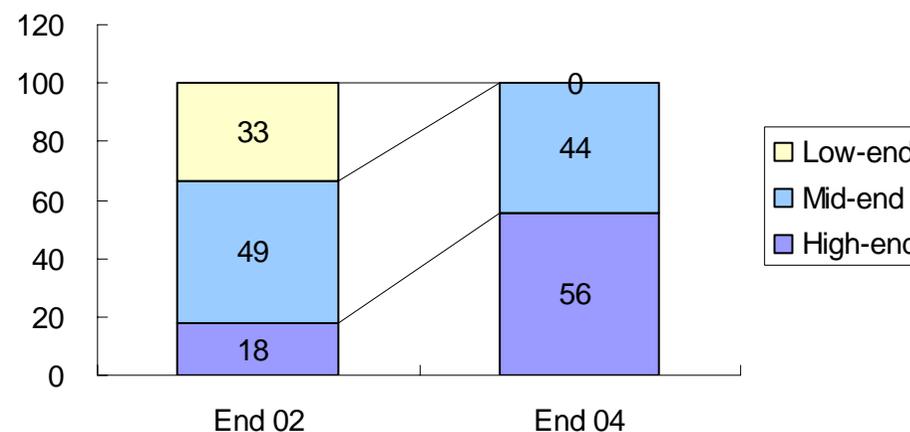
Textile

- Proportion of high end yarns and fabrics will be increased from 35% to 49% and 18% to 56% respectively upon completion

Yarns quality breakdown percentage



Fabrics quality breakdown percentage



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Textile

- The programme will involve buying spinning and weaving machines as well as dyeing and printing lines

Process	Technical names	Units	Existing*	Replacement	Newly increased	After Technical Upgrade
Spinning	Open End	rotors	11,000	0	0	11,000
	Ring Spun	spindles	500,000	92,000	92,000	500,000
Weaving	Looms	units	8,400	3,000	700	6,100
Dyeing & Printing	Lines	sets	4	0	4	8

* Existing includes Jinhua

Source: CRE

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Property

- Property development profit declined by 94% as Villa Esplanada was already completed last year with all units predominantly sold
- A provision of HK\$75.6m was made, of which HK\$55.2m went through the p&l account

Property business turnover and earnings breakdown

Year end 31 Dec	FY2002 HK\$m	FY2001 HK\$m	% change
Turnover			
- Property development	71	1,013	-93
- Rental properties	287	296	-3
- Warehouse	184	170	+8
	541	1,479	-63
Earnings			
- Property development	12	211	-94
- Rental properties	204	240	-15
- Provision on rental properties	(55)		na
- Warehouse	60	62	-4
	221	513	-57

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Property

- Rental income was affected by the property downturn but occupancy rates remained high
- Warehouse profit fell 4% with occupancy rates for the godown and cold storage businesses fell to 89% and 86% respectively from 91% and 90% respectively

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

Year end 31 Dec	Type	-----Occupancy rates % -----	
		FY2002	FY2001
CRE Building	Off	82	87
Argyle Centre	Ret	100	100
Hennessy Road	Ret	100	100
Lok Sing	Ret	100	100
Nan Fung	Ret	91	99
Silvercord	Ret	100	100
Star House	Ret	99	83

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Prospects

Charley Song

Deputy Chairman & Managing Director

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Prospects

- We have been laying solid foundation for our future, including group restructuring to reduce reliance on property development and focus on distribution businesses and fastening the pace of our investment in the mainland
- Last year, we formulated strategies for our retail, food, textile and logistics businesses together with professional firms
- This year, we have started to further streamline our business via non-core asset disposal
- The initial results of our restructuring exercise are gradually paid off and we are on schedule to achieve our retail-led distribution plan
- Turnover from the mainland will likely first exceed Hong Kong this year driven by mainland retailing businesses

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Prospects

- Our supply chain-related operations, including food, brewery and textile, are well positioned to seek growth opportunities in the mainland
- We have initially targeted fresh food and garment products for exploring retail supply chain opportunities
- Further improvement on corporate governance will be sought following our efforts made last year which included the release of quarterly financial and operational review
- More than 240 analysts and 440 fund managers attended our IR functions last year and senior management as well as heads of different business units will continue to work closely to enable an open and responsive communication with shareholders
- We are aiming for achieving leadership positions in our core businesses over the medium to long term

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Prospects

Profile of leading chain stores in China

Ranking FY2002	Retailer	FY2002 Turnover RMBm	% change	Ranking FY2001	FY2001 Turnover RMBm
1	Shanghai Lianhua	18,330	+30	1	14,063
2	Shanghai Hualian	15,066	+77	2	8,504
3	Dalian Shopping Mall Group (shopping mall)	12,790	+71	na	
4	Beijing Guo Mei (electrical goods)	10,896	+70	6	6,150
5	Beijing Hualian Investment Hldg (conglomerate)	10,300	+29	3	8,000
6	Shanghai Nong Gong Sang	8,730	+17	4	7,475
7	China Resources Vanguard	8,591	+37	11	4,648
8	Bai Sen (fast food)	7,287	+33	7	5,498
9	Suguo Supermarket	7,020	+33	8	5,282
10	Su Ning Group (electrical goods)	6,068	+26	12	3,991

Source: China Chainstore & Franchise Association

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