

China Resources Enterprise, Limited
Interim Results 2004

Soar with Organic Strengths

2 September, 2004





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Interim Results 2004

Opening Note / Results Highlights

Charley Song

Deputy Chairman & Managing Director

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Results Highlights

- Turnover rose by 40% to HK\$22.6bn, driven by the retail and petroleum businesses
- Earnings grew 7% to HK\$802m but recurring profit excluding asset disposal soared 32% with most businesses showing encouraging operational improvements
- Interim dividend of HK11¢ declared, a 10% increase
- Retail business turned around in H1 2004 and contributed HK\$79m earnings compared with a loss of HK\$89m in H1 2003
- All the three retail operations, including supermarket, retail stores in Hong Kong and brand fashion distribution, recovered and were profitable

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Results Highlights

- Earnings contribution from beverage surged 126% with a 17% growth in beer sales volume
- Both food distribution and petroleum businesses reported steady core profit increases
- Textile business faced a challenging environment but it will gradually benefit from the technology upgrade program



Interim Results 2004

Financial Summary

Francis Kwong
Executive Director

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Results Summary

Year end 31 Dec	H1 2004 HK\$m	H1 2003 HK\$m	% change
Turnover	22,641	16,190	+40
Earnings	802	750	+7
Earnings ex-asset disposal profit *	802	607	+32
EPS (HK¢)	38.2	36.0	+6
DPS (HK¢)	11.0	10.0	+10
Interim dividend payout ratio (%)	28.8	27.7	+4

* Excluding the HK\$143m profit from the disposal of our interest in the aviation fuel facility at the airport in H1 2003

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Turnover Breakdown – by Divisions

Year end 31 Dec	H1 2004 HK\$m	Prop (%)	H1 2003 HK\$m	Prop (%)	% change
Petroleum and chemicals	8,996	40	5,978	37	+50
Retail	6,873	30	4,304	26	+60
Food processing and distribution	2,692	12	2,357	14	+14
Beverage	2,299	10	1,909	12	+20
Textile	1,701	7	1,411	9	+21
Property	157	1	143	1	+10
Investment & others		0	168	1	-100
	22,719	100	16,269	100	+40
Less: inter-co transactions	(78)		(79)		-1
Turnover	22,641		16,190		+40

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Earnings Breakdown – by Divisions

Year end 31 Dec	H1 2004 HK\$m	Prop (%)	H1 2003 HK\$m	Prop (%)	% change
Petroleum and chemicals *	148	17	286	35	-48
Retail	79	9	(89)	(11)	na
Food processing and distribution	203	23	175	22	+16
Beverage	57	6	25	3	+126
Textile	46	5	82	10	-44
Property	167	19	166	20	+1
Investment & others	178	20	168	21	+6
	879	100	813	100	+8
Net corporate interest & expenses	(77)		(63)		+21
Earnings	802		750		+7
Earnings ex-asset disposal profit *	802		607		+32

* There was a HK\$143m profit from the disposal of our interest in the aviation fuel facility at the airport in H1 2003 under the petroleum and chemicals business. Excluding this disposal profit, earnings contribution of this division would have increased by 4%.

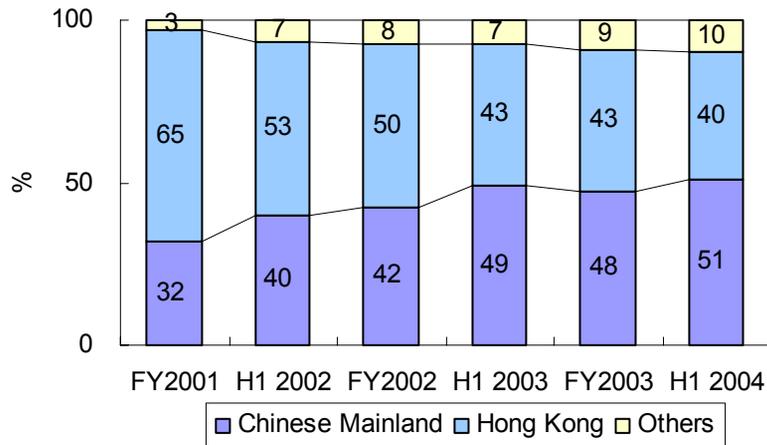
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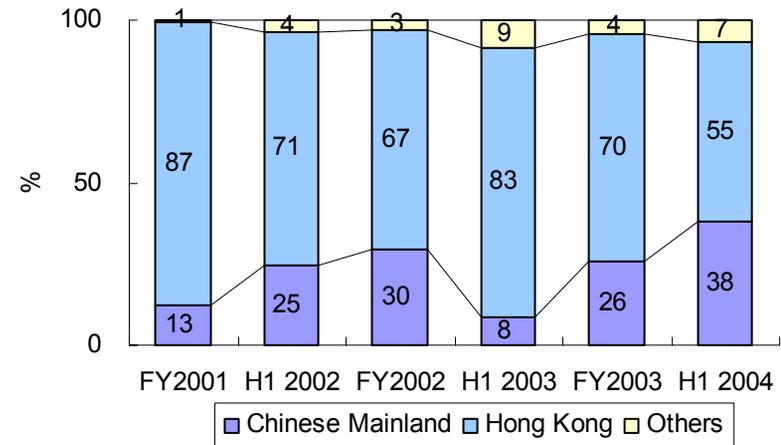
Geographical Breakdown of Turnover and Profit

- The proportion of turnover from mainland China exceeded 50% for the first time whilst that of profit before tax reached the highest level of 38%

Turnover



Profit before tax



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Key Financial Data

- Strong balance sheet with gearing similar to that at the end of FY2003
- Capex amounted to HK\$1,300m, of which about 65% for addition of fixed assets and the remaining for acquisitions in beverage, food and textile

Year end 31 Dec	H1 2004	H1 2003	% change	FY2003
<u>P&L</u>				
Finance costs (HK\$m)	135	129	+5	225
Interest income (HK\$m)	32	34	-6	69
Capitalised interest (HK\$m)	0	0	<i>na</i>	1
<u>Balance Sheet</u>				
Current ratio (%)	133	138	-4	129
Net cash/(debt) (HK\$m)	(3,147)	(1,480)	+113	(2,856)
Shareholders' equity (HK\$m)	14,055	13,425	+5	13,443
Minority interests (HK\$m)	4,425	3,432	+29	3,859
Book NAV per share (HK\$)	6.68	6.45	+4	6.43
Gearing ratio	17	9	+94	17
Net debt to equity ratio	22	11	+103	21

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Business Review

Francis Kwong

Executive Director

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Petroleum and Chemical Distribution

- Excluding the sharing of a gain of HK\$143m from the disposal of our interest in the aviation fuel facility at the airport, earnings contribution would have increased by 4%
- Turnover grew 50% boosted by both volume and price increases
- Oil price was volatile but generally moved in an upward trend
- Overall sales volume of petroleum wholesaling rose by over 40%, due to increase in secured supply contracts of fuel oil and jet fuel, leading to a steady growth in profit contribution
- Gross margin, however, was affected by jet fuel distribution as there is a time lag in the price adjustment mechanism
- Earnings contribution from petrol stations fell HK\$8m, also due to a price-fixing mismatch
- Chemical distribution reported profit drop of 45% as products had to be competitively priced over the domestic products to keep the demand

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Petroleum and Chemical Distribution

Turnover breakdown of petroleum and chemical distribution

Year end 31 Dec	H1 2004 HK\$m	H1 2003 HK\$m	% change
Petroleum			
- Diesel	2,350	1,403	+68
- Fuel oil & ocean vessels	3,215	2,572	+25
- Jet fuel	1,551	712	+118
- Others	141	149	-5
LPG	385	351	+10
Chemicals	708	584	+21
Petrol stations			
- HK	301	330	-9
- Mainland China	384	144	+167
Inter-co transactions and others	(38)	(266)	-86
Total	8,996	5,978	+50

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Retail

Retail business turnover and earnings breakdown

Year end 31 Dec	H1 2004 HK\$m	H1 2003 HK\$m	% change
Turnover			
- Supermarket	5,893	3,391	+74
- Retail stores in HK	467	466	+0
- Brand-fashion in China	514	447	+15
	6,873	4,304	+60
Earnings			
- Supermarket	40	(66)	na
- Retail stores in HK	24	(6)	na
- Brand-fashion in China	14	(17)	na
	79	(89)	na

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Retail

1. Supermarket

- Earnings contribution of HK\$40m in the first half, in sharp contrast to the HK\$66m loss of last year
- Overall 74% turnover growth due to the consolidation of Suguo's turnover as a subsidiary and the recovery of hypermarket sales from the SARS outbreak in Q2 2003
- Continuous improvement since H2 2003 following measures to boost supplier rebate and reduce operational expenses, which coupled with the higher profit contribution from Suguo, accounted for the turnaround
- Gross margin increased by 1.7 percentage points driven by higher supplier rebate
- Including Suguo, we operated about 1,695 stores in Hong Kong and mainland China, of which 746 are self-operated and the rest are franchised

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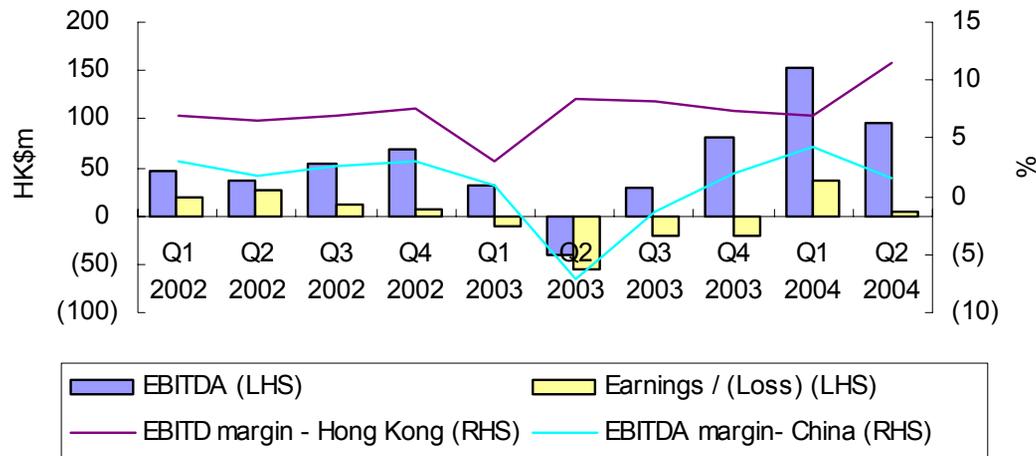


Retail

1. Supermarket

- Q2 2004 was a quiet season relative to Q1 2004 and we will continue our efforts to optimize the operation

Operational Turnaround



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Retail

Supermarket turnover, EBITDA and earnings breakdown

Year end 31 Dec	H1 2004 HK\$m	H1 2003 HK\$m	% change
Turnover			
- HK	1,114	955	+17
- China	4,779	2,436	+96
	5,893	3,391	+74
EBITDA			
- HK	103	55	+87
- China	146	(65)	na
	249	(10)	na
Earnings			
- HK	57	15	+281
- China	(7)	(72)	na
- goodwill	(10)	(9)	na
	40	(66)	na
EBITDA margin (%)			
- overall	4.2	(0.3)	na
- HK	9.2	5.8	+60
- China	3.1	(2.7)	na

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Retail

Supermarket network - CR Vanguard

No of self-operated stores		30-Jun-04		31-Dec-03		30-Jun-03	
No of franchised stores							
I) Standard supermarkets							
- Hong Kong	86		82		79		
- Beijing	22		23		24		2
- Tianjin	57		57		60		
- Jiangsu Province	97	2	93	4	91	4	
- Zhongshan/Zhuhai	21	14	23	12	23	12	
- Shenzhen	73	34	79	43	87	44	
	356	50	357	59	364	62	
II) Superstores							
- Beijing	4		4		3		
- Tianjin	2		2		2		
- Jiangsu Province	6		6		4		
- Zhejiang Province	6		4		4		
- Shenzhen	4		4		4		
- Zhongshan/Foshan/Zhuhai	8		8		6		
- Guangzhou	1		1		0		
	31	0	29	0	23	0	
III) Hypermarkets							
- Shenzhen	9		9		9		
- Guangzhou	6		6		6		
- Huizhou	1		1		1		
- Zhongshan/Zhuhai	2		2		2		
	18	0	18	0	18	0	
Overall							
- Hong Kong	86	0	82	0	79	0	
- China	319	50	322	59	326	62	
	455		463		467		

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Retail

Supermarket network - Suguo

No of self-operated stores	30-Jun-04		31-Dec-03		30-Jun-03	
No of franchised stores						
<i>I) Convenience stores</i>						
- Jiangsu Province	210		191		174	
	210		191		174	
<i>II) Standard supermarkets</i>						
- Jiangsu Province	59	680	58	639	72	545
- Anhui Province		167		162		134
- Shandong Province		38		31		27
- Henan Province		10		10		7
- Hebei Province		2		2		2
- Hubei Province		2		2		2
	59	899	58	846	72	717
<i>III) Superstores</i>						
- Jiangsu Province	64		58		31	
- Anhui Province	8		7		4	
	72		65		35	
Overall in China	341	899	314	846	281	717
	1,240		1,160		998	

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Retail

2. Retail stores in Hong Kong and brand-fashion in China

- Hong Kong retail business benefited from a sharp improvement in consumer sentiment and contributed earnings of HK\$24m versus a loss of HK\$6m previously
- Turnover of CR Care and CAC increased by 7% and 18% respectively, whilst CRC Department Store declined by 24% due to store closure but all three formats made operating profit contributions
- At end of H1 2004, we operated 3 super-sized and 26 smaller-sized CR Care stores, 5 CAC stores and 1 CRC store
- Brand-fashion in China continued to improve and reported a profit of HK\$14m as we focused more on the brands with greater market potential
- Number of international brands has reduced from a peak of 19 at H1 2002 to 10 presently

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Retail

Brand-fashion business in the Chinese Mainland

	30-Jun-04		31-Dec-03		30-Jun-03	
No of self-operated stores						
No of franchised stores						
Alfred Dunhill	28	18	26	9	27	13
CK Jeans	14	16	27	19	18	15
Emanuel Ungaro	1	0	2	0	2	0
Esprit / Red Earth	146	444	139	448	133	461
Givenchy	4	0	7	0	8	0
Guess	3	0	4	0	3	0
Kenzo	8	2	9	3	10	2
Pal Zileri	5	0	5	0	4	0
Polo	2	0	2	0	1	0
<u>Terminated brands:</u>						
Blue Navy	0	0	2	0	8	0
Bruno Magli	0	0	1	0	5	0
Christian Lacroix	0	0	1	0	1	0
Lanvin	0	0	1	0	2	0
Piaget	0	0	1	0	1	0
Shanghai Tang	0	0	0	0	1	0
Verri	0	0	0	0	0	0
	211	480	227	479	224	491
Total	691		706		715	

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Food Processing and Distribution

- Turnover and earnings grew by 14% and 16% respectively
- There was a deemed disposal profit of HK\$29m from the listing of our interest in Hunan New Ng Fung
- Outbreak of avian flu in the region, increasing food hygiene awareness and active promotion of "Ng Fung" fresh meat led to a 19% turnover growth of foodstuff distribution but operating profit was down 4% as there was a surge in mainland livestock prices
- Strong recovery at marine fishing with a 148% surge in operating profit
- Continued profit growth at the abattoir operation which benefited from higher sales volume of livestock
- The 51%-owned modern meat processing centre in Shanghai is under construction and is expected to be operational in early 2005
- The acquisition of a 70% interest in Shenzhen General Food Corporation will be completed shortly

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Food Processing and Distribution

Turnover breakdown of Ng Fung Hong

Year end 31 Dec	H1 2004 HK\$m	H1 2003 HK\$m	% change
Foodstuff distribution	1,809	1,525	+19
Food processing and stock raising	755	728	+4
Abattoir operation, transportation and others	181	144	+26
Inter-co transactions	(53)	(40)	na
	2,692	2,357	+14

Operating profit breakdown of Ng Fung Hong

Year end 31 Dec	H1 2004 HK\$m	H1 2003 HK\$m	% change
Foodstuff distribution	136	141	-4
Food processing and stock raising	55	30	+81
Abattoir operation, transportation and others	60	52	+16
	251	223	+13

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Beverage

- Profit surged 126% to HK\$57m attributable to rise in sales volume, higher sales of premium beer, lower interest expenses and initial profit contributions from newly acquired Qianjiang and Longjin
- Turnover growth of 20% with beer sales volume increasing 17% to 1.44m k litres, representing a market share of about 10%
- Average selling price increased by 2.4% and gross margin was stable
- Annual production capacity amounted to about 5.0m k litres at the end of June 2004
- Organic sales volume growth was 11% with strong earnings performance at Blue Sword, Dalian, Wuhan Dongxihu and New Three Star

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Beverage

- There were 4 unprofitable breweries in H1 2004 (excluding Shuining, which is part of Blue Sword), compared with 6 in H1 2003
- Sales volume of our national brand, Snow, increased by 38% to about 416,000 k litres, representing 29% of the total volume sold
- About two-thirds of Snow were sold outside Liaoning province and 15% in districts where we do not have brewery, representing its rapid penetration
- Acquisition of Qianjiang and Longjin were completed in June
- Construction of a new brewery in Dongguan will commence in November and be operational in early 2006 with an ultimate capacity of 300,000 k litres
- Upon completion of this new brewery, coverage will extend to the North Eastern, Northern, South Western, Central, Eastern and Southern region of the mainland

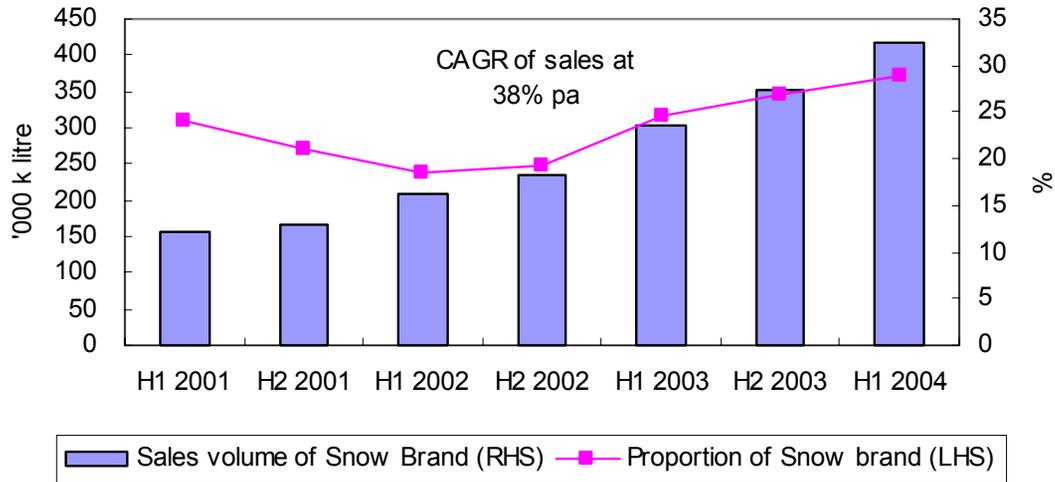
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Beverage

Sales volume of Snow brand and its significance



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Beverage

Sales volume by brewery

Year end 31 Dec	Province	Area	No of breweries	H1 2004 '000 k litre	H1 2003 '000 k litre	% change
<i>I) Breweries acquired prior to FY2003</i>						
Shenyang	Liaoning	North East	3	208	205	+2
Dalian	Liaoning	North East	2	86	80	+6
Jilin	Jilin	North East	1	109	110	-1
Tianjin		North	1	59	54	+10
Anshan	Liaoning	North East	1	42	43	-2
Anhui	Anhui	Central	2	124	130	-4
New Three Star	Heilongjiang	North East	1	117	82	+43
Liaoyang Meiyue	Liaoning	North East	1	11	12	-2
Blue Sword	Sichuan	South West	12	397	339	+17
Changchun Snow Leopard	Jilin	North East	1	43	39	+10
Wuhan Dongxihu	Hubei	Central	2	135	109	+23
Panjin	Liaoning	North East	1	17	17	+5
<i>II) Breweries acquired since FY2003</i>						
Beijing		North	1	31	10	+213
Shuining (part of Blue Sword)	Sichuan	South West	1	3		
Qianjiang	Zhejiang	East	1	33		
Longjin	Anhui	Central	2	22		
Less: inter-co transactions and others				(0)		
			33	1,439	1,229	+17
Existing breweries				1,355	1,219	+11

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Textile

- Turnover expanded by 21% but earnings declined 44%
- The spinning and weaving division reported a 71% earnings drop due to the surge in cotton prices, increase in finance cost for purchase of cotton, relocation of two factories and relatively high depreciation charges associated with the commencement of the technology upgrade program
- Sales volume of cotton yarns increased by 57% to 23,400 tonnes but fabrics decreased by 2% to 89m metres
- Earnings contribution from the garment division reduced by 56% because of the competitive environment before the removal of the quota system in 2005
- Second half of the year will remain difficult though most of the machinery under the HK\$700m technology upgrade program is ready for production and this would gradually improve profitability

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Textile

Turnover and earnings breakdown of the textile business

Year end 31 Dec	H1 2004 HK\$m	H1 2003 HK\$m	% change
Turnover			
- Spinning and weaving	1,124	728	+54
- Garment	409	450	-9
- Textile trading	144	185	-22
- Others and inter-co transactions	25	47	-48
	1,701	1,411	+21
Earnings			
- Spinning and weaving	11	40	-71
- Garment	9	22	-56
- Textile trading	4	9	-51
- Others and inter-co transactions	20	11	+79
	46	82	-44

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Property and Others

- Gross rental income increased by 10%, driven by higher average rent at the retail properties
- Occupancy rates of our retail properties remained high at 95%
- With the retail properties at Argyle Centre and Hennessy Road being changed from own use into property investment, there were decreases in deferred tax liability in both years of about HK\$60m
- There was negligible property development profit while that of H1 2003 was boosted by the write-back of over-provided construction cost
- Hong Kong and Yantian deepwater port operations reported EBIT growth of 5% and 22% respectively



Property and Others

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

Year end 31 Dec	Type	-----Occupancy rates % -----	
		H1 2004	H1 2003
CRE Building	Off	88	85
Argyle Centre	Ret	98	80
Hennessy Road	Ret	83	100
Lok Sing	Ret	100	100
Nan Fung	Ret	98	93
Silvercord	Ret	100	100
Star House	Ret	75	73

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Prospects

Charley Song

Deputy Chairman & Managing Director

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Prospects

- Following the introduction of various measures to rationalise business operations and boost profitability, there was strong core profit growth in the first half of 2004
- Despite a relative low base for comparison due to the impact of SARS in H1 2003, the profit contributions of most operations, notably retail, beverage, food and property, already exceeded the same period in 2002
- The new superstores opened in southern and northern China since the beginning of this year have achieved desired initial results
- Further consolidation of our stake in Suguo is expected to drive synergies of the entire supermarket operations in Jiangsu Province
- To enhance operational efficiency and take advantage of the foreign ownership limit relaxation by the end of this year, we have an intention to acquire the remaining 35% interest in CR Vanguard

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Prospects

- We are optimistic that the retail business would continue to show improvement in the remaining months of this year
- For brewery, to offset the impact of the increase in raw material prices and fuel costs, we started to increase beer prices in some areas in June
- The growth of Snow has been encouraging and a new advertising campaign was commenced in July promoting Snow as the brand associating with “life’s progression”
- We have rising exposure in the mainland and Hong Kong consumer market under our retail-led distribution model and the majority of our turnover and earnings are now consumer-related
- With the progress in the first half of the year and the strategies currently in place to enhance our competitiveness, we are positive that we will be able to achieve satisfactory results in 2004

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