華潤創業有限公司

China Resources Enterprise, Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 291)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2003

- **Record turnover of HK$34.7 billion, 20% higher from 2002**
- **Profit attributable to shareholders grew 4% to HK$1,455 million**
- **Final dividend of HK14¢ per share recommended, bringing the full year dividend excluding special dividend to HK24¢ per share, a 9% increase from last year**

Financial Highlights

	2003	2002 (Restated)[1]
	HK$'000	*HK$'000*
Turnover	**34,655,172**	28,822,019
Profit from operations	**1,536,904**	1,806,598
Share of results of associates	**484,686**	449,930
Profit attributable to shareholders	**1,455,177**	1,404,933
Earnings per share	**HK$0.70**	HK$0.68
Dividend per share		
— interim	**HK$0.10**	HK$0.09
— final	**HK$0.14**	HK$0.13
	HK$0.24	HK$0.22
— special interim	**n/a[3]**	HK$0.25

	At 31 December 2003	At 31 December 2002 (Restated)[1]
	HK$'000	*HK$'000*
Shareholders' funds	**13,442,534**	12,938,776
Minority interests	**3,858,801**	3,290,057
Consolidated net borrowings	**2,856,490**	1,482,909
Gearing ratio	**16.51%**	9.13%
Current ratio	**1.29**	1.29
Net assets per share:		
Book value	**HK$6.43**	HK$6.22

Analysis of Turnover and Profit

	Turnover		Profit Attributable to Shareholders	
	2003	2002 (Restated)[1]	2003	2002 (Restated)[1]
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Petroleum and Chemical Distribution	**12,565,348**	10,500,763	**424,068**	287,280
Retail	**9,827,128**	6,527,747	**(98,763)**	99,988
Food Processing and Distribution	**4,801,464**	4,803,374	**339,906**	337,643
Beverage	**3,950,167**	3,738,119	**98,162**	89,723
Textiles	**3,201,798**	2,521,527	**165,891**	162,759
Property[2]	**279,876**	357,290	**278,686**	152,173
Investments and Others	**180,069**	518,442	**367,587**	410,662
Subtotal	**34,805,850**	28,967,262	**1,575,537**	1,540,228
Elimination of inter-segment transactions	**(150,678)**	(145,243)	**—**	—
Net corporate interest and expenses	**—**	—	**(120,360)**	(135,295)
Total	**34,655,172**	28,822,019	**1,455,177**	1,404,933

Notes:

1. The comparatives have been restated to conform with the current year presentation in light of the change in accounting policy for deferred taxation.
2. The change in use of certain properties from fixed assets for own use to investment properties resulted in a decrease in deferred tax liabilities.
3. A special distribution in specie of one share in China Resources Cement Holdings Limited for every ten shares of the Company was distributed in 2003.

CHAIRMAN'S STATEMENT

FINAL RESULTS

Despite the unexpected economic contraction caused by severe acute respiratory syndrome, or SARS, in the first half, the Group achieved satisfactory results in 2003 reflecting the strength of our management team and resilience of our businesses. Consolidated turnover for the year ended 31 December 2003 rose 20.2% over 2002 to a record HK$34,655.2 million. Profit attributable to shareholders was HK$1,455.2 million, 3.6% higher than in the previous year. Earnings per share, on a weighted average basis, was HK$0.70 compared to HK$0.68 in 2002.

DIVIDENDS

The Board recommends a final dividend of HK$0.14 per share for 2003 (2002: HK$0.13 per share) payable on or about 15 June 2004 to shareholders whose names appear on the Register of Members of the Company on 27 May 2004. Together with the interim dividend of HK$0.10 per share, the total distribution for 2003, excluding the special dividend, will amount to HK$0.24 per share (2002: HK$0.22 per share). In July 2003, a special interim dividend was paid by way of a distribution in specie of one share in China Resources Cement Holdings Limited (CR Cement) for every ten shares of the Company. There was also a special dividend of HK$0.25 per share paid in February 2002 for the disposal of the Group's investment in a banking business.

CLOSURE OF REGISTER

The Register of Members will be closed from 27 May 2004 to 2 June 2004, both days inclusive. In order to be eligible for the final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Standard Registrars Limited of Ground floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on 25 May 2004.

STRATEGY IMPLEMENTATION

Corporate Strategy

To capitalize on the booming consumer market in the Chinese Mainland and maximize the synergies among our businesses, the Group is committed to a unique retail-led distribution model. The Group's food, beverage and textile operations have started to form part of the supply chain for our supermarket business. Ng Fung Hong, for example, is the single largest supplier to our supermarkets in Hong Kong. With its gradual expansion into the mainland meat market targeting the major cities, it will grow together with our mainland supermarket business. To help Snow, the national brand of our brewery business, penetrate into provinces of the Chinese Mainland where the Group does not have any brewery, the beer was introduced to our supermarkets starting last October. In fact, it is the first time that Snow is available for sale in our southern China supermarkets. The garment division of our textile operation is also looking into the possibility of manufacturing apparel-related private labels for our supermarket operation.

The rapid growth of our retail business, led by our supermarket operation, is expected to drive the development of our supply chain business with significant synergies through this internal integration. For the retail business, there will be less agency involvement and more control over value-added stream. For the supply chain business, the benefits include expanded distribution network, lower sales and marketing costs as well as more effective customer feedback. Though execution of this retail-led distribution corporate strategy is at an initial stage, the progress has been satisfactory.

On the other hand, the Group has started to dispose of its non-core businesses. We have successfully reorganized our concrete business and distributed the interest to our shareholders in the form of a dividend in specie. The new company, CR Cement, was listed on the Hong Kong Stock Exchange by way of introduction on 29 July 2003.

Business Strategy

The new management team at our supermarket operation has successfully implemented strategies in the second half of the year to revive the business. These included embarking on a cost saving program to reduce salaries and rentals, launching a new supplier rebate system to encourage volume discount, enhancing the efficiency of our supply chain as well as re-branding the whole business. As a result, there has been a significant improvement at the supermarket operation with losses reduced consecutively for the last two quarters in 2003.

To increase the core competence of our retailing businesses, the Group acquired our parent company's logistics business in July last year. It was then integrated with the Group's existing logistic operation to meet our own demand in the long term, especially in the area of fast-moving consumer goods.

Other businesses have also rolled out their respective strategies steadily. In particular, since the implementation of the national brand strategy in 2002, sales volume of Snow has increased rapidly and it accounted for about 26% of our total beer sales volume last year. To facilitate national brand development and centralized management, our brewery business has also been acquiring the minority stakes from its joint venture partners, including the Wuhan and Jilin breweries in 2003. The technology upgrade program at our textile business is poised to enhance our operational efficiency and increase the proportion of high end products, boosting the overall margins. In addition, our food distribution business has entered the Chinese Mainland meat market with a target on the major cities. Though falls outside the retail supply chain, our petroleum and chemical distribution business is also looking for growth opportunities in the Chinese Mainland, such as the piped gas market.

OPERATING ENVIRONMENT

The major market segments in which the Group's supply chain operates saw decent growth last year. Retail sales in the Chinese Mainland grew 12% in 2003 to about RMB4,600 billion and market consolidation had accelerated. In 2002, China's top 100 chain store retailers' sales constituted 6% of total retail sales. In 2003, top 30 retailers already constituted the same percentage. Of the total sales of RMB270 billion generated by the top 30 retailers, supermarket operators represented around 57%, reflecting the rapid development of this modern format of shopping.

For the mainland brewery market, total production volume increased by about 6% last year to 25.4 million kilolitres. In 2003, the top three players accounted for approximately 31% of the market. It was only about 15% ten years ago.

The production of cotton yarns and fabrics in the Chinese Mainland increased by 16% and 9% respectively in 2003 over the previous year. We were ahead of the industry growth with yarns and fabrics production increased by 30% and 11% respectively over the same period.

The mainland meat industry currently enjoys a stable annual growth rate of 3% to 5% in consumption. Pork consumption per capita in China is still very low on international scale. Improving living standards in China will boost pork consumption and narrow the gap with more developed countries.

In Hong Kong, the overall retail environment improved substantially towards the end of last year due to relaxation on Chinese Mainland individual travelers and the wealth effect from improvement in property and stock markets. Retail sales declined 2.3% for the full year of 2003 but rebounded 5.3% in the final quarter. Supermarket sales and department store sales decreased by 1.0% and 2.9% respectively in 2003 over the previous year. For livestock consumption, locally produced and imported live pigs and cattle amounted to about 2,158,000 heads and 45,000 heads respectively in 2003, remaining relatively steady over 2002.

CORPORATE GOVERNANCE

The Group is dedicated to enhancing its corporate governance standard and special efforts were made last year to strengthen the efficiency of the Board, improve internal control mechanism and increase financial transparency. Various committees are present to carry out advisory and supervisory functions. Summarized below are the major corporate governance initiatives adopted by the Group last year.

- The Compensation Committee, members of which include all Independent Non-Executive Directors and the Director responsible for the Group's human resources function, was established last year to ensure the implementation of a transparent and fair remuneration system for directors.
- The Nomination Committee, comprised all Independent Non-Executive Directors, was also set up last year to develop a formal and transparent procedure for the appointment and re-appointment of directors.
- A "Corporate Governance Standards and Objectives" Handbook with details covering the responsibilities of Board members, their functions, the structure of the Board as well as the Group's corporate governance policy was distributed to all senior staff and released on the corporate website for public access.
- A Balanced Score Card (BSC) management system was introduced to align our performance measurement system with our corporate missions and strategies.

Since November 2002, the Group has been voluntarily producing quarterly financial and operational review. We are the first conglomerate company among the constituent stocks in the Hang Seng Index to initiate such a move, well before the Hong Kong Stock Exchange making it a recommended best practice for main board issuers in the proposed Code of Corporate Governance Practices released in January 2004.

During the year, Board meetings were held on average more than once a month enabling members to participate in key decision-making process of the Group. While independent view from the Board is increasingly emphasized nowadays, average attendance of the Group's Independent Non-executive Directors stood over 90% last year, showing that the Group's major decisions went through balanced yet independent perspectives.

The Group's distinguished efforts in promoting good corporate governance have been highly commented by the financial community. It was named the second Best Corporate Governance company in the Hong Kong/China category and the sixth among corporations in leading emerging markets by a corporate governance poll organized by Euromoney Magazine in 2003. The Group was also rated China's Most Improved Corporate Governance company in the Best-Managed Companies Award run by Asiamoney Magazine in its December 2003/January 2004 issue.

The Group strongly believes that good corporate governance practices together with fair disclosure is essential to enhance its accountability and transparency. We will continue to take on the challenges in accomplishing better corporate governance and promote this as part of our corporate culture.

INVESTOR RELATIONS

The Group continued to engage in frequent and open communication with the financial community and the media last year. Top management along with senior management of different business units met with more than 410 fund managers and 250 analysts last year in the forms of one-on-one meetings, visits to our supermarket outlets, brewery plants and logistics operations as well as presentation at conferences arranged by financial institutions.

The Group's on-going efforts in encouraging two-way communication with investors have won it a good name for investor relations. In a survey conducted last year by the Institutional Investor Research Group, the Group was named the "Best Company IR" and the "Most Improved IR" among conglomerates in Asia by the Buy-side and the "Most Improved IR" among companies in Hong Kong and the "Most Improved IR" among conglomerates in Asia by the Sell-side. These awards will continue to motivate the Group to step up its initiatives in sustaining a two-way communication with investors and the media.

SOCIAL RESPONSIBILITY

The outbreak of SARS last year has raised public awareness and knowledge of hygiene and health. With businesses such as food distribution and supermarkets, which are closely related to the daily lives of the public, the Group had exercised extreme caution and prevention to ensure the hygiene of our products and the shopping environment. It reflects our care for our customers and our communities.

There was a substantial increase in our cash donations to charitable organizations last year. In particular, the Group participated in the Project Hope School program and sponsored the construction of a primary school in Jiangxi Province through CR Vanguard in November to enable children there to obtain education. Moreover, the Group supported a number of charity events, including the Fifth Challenging 12-Hours Charity Marathon, organized by Sowers Action, Trailwalker by Oxfam Hong Kong and East China Flood Relief Program launched by Ming Pao Newspaper Limited. It is the Group's commitment to customers, shareholders and employees to improve the lives of the society.

PROSPECTS

Chinese Mainland is at the heart of our growth and the Group has been strategically building up presence in this important market. Our supermarket, brewery and textile operations are now among the leading players in their respective industries. Our food operation also expanded into the mainland meat market last year to capture the opportunities in abattoir and meat processing business. With a retail-led distribution model, the Group has increasing exposure to the mainland and Hong Kong consumer market. This would drive the overall development of the Group.

In particular, our supermarket business has built up a significant market presence over a period of just two years. Whilst the market is still expanding rapidly, over the medium term, the focus of growth is likely to shift away from the major cities into the second and third-tier cities. Our superstore format has the flexibility and cost efficiency to succeed in these cities. In 2003, the first year after acquisition of CR Vanguard, our focus was placed on organizational realignment. We revamped nearly the entire management team, blending local and international expertise, and entrusted them with our national vision. This year, with a much stronger and energized team in place, we will look for business optimization, including strengthening our supply chain, developing long term relationship with suppliers, building model stores for future expansion and establishing a respectable supermarket brand.

In March 2004, our brewery business entered into a conditional agreement with the major shareholder of Zhejiang Qianpi Group Company Limited to reorganize the company into a joint venture company, whereby our brewery business will have 70% equity interests. This joint venture can not only strengthen our leading position in the mainland brewing industry but also expand our geographical coverage to the Eastern part of the Chinese Mainland. We now have a more integrated distribution network with breweries in the North Eastern, South Western, Central and Eastern region.

The elimination of all import quotas on textile products by the end of 2004 associated with China's entry to the WTO will boost the potential of the mainland textile market but that may also lead to a concurrent surge in protective trade measures. Nevertheless, we are aiming for higher operational efficiency by centralizing management functions and technology upgrade.

The Group has accelerated its investments in the Chinese Mainland as planned. For the first time, the Group's revenue from the mainland exceeded that of Hong Kong, accounting for 47.5% of the total revenue for the period under review, compared with 42.4% during the year ended 31 December 2002. As the retail and brewery operations bore the brunt of the SARS outbreak, the proportion of profit before tax from the mainland decreased from 29.5% to 25.8%.

Chinese Mainland is playing an increasingly important role in the global economy. With the continuous economic growth, low interest rate environment and favorable demographics, its consumer market is thriving. At the same time, the closer economic partnership between the Chinese Mainland and the territory as well as the influx of mainland tourists following the relaxation of individual travelers have stimulated Hong Kong's economy and improved consumer sentiment. With our unique business model, prudent strategy execution and strong financial position, we are optimistic about the prospects for further growth.

EMPLOYEES

As at 31 December 2003, excluding its associates and a jointly controlled entity, the Group employed approximately 80,000 people, of which approximately 97% were employed in the Chinese Mainland, with the remaining predominantly in Hong Kong. We offer ongoing training courses and workshops on diverse topics to our employees to enhance both their career and personal development, sometimes in conjunction with the training programs of our parent company. The Group's employees are remunerated according to the nature of job, individual performance and market trends with built-in merit components, paid in the form of cash bonuses and share options. Details of the share option scheme are described in the Report of the Directors.

APPRECIATION

2003 was an exceptionally challenging year characterized by economic and political uncertainties. Yet, we have emerged stronger and more united. On behalf of the Board of Directors, I would like to extend our appreciation towards our staff for their dedication and commitment.

NING GAONING
Chairman
Hong Kong, 7 April 2004

2003 RESULTS

The Directors of China Resources Enterprise, Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2003 as follows:

	Notes	2003 HK$'000	2002 (Restated) HK$'000
Turnover	2	**34,655,172**	28,822,019
Cost of sales		**(28,120,003)**	(23,114,000)
Gross profit		**6,535,169**	5,708,019
Other revenue	3	**358,929**	444,851
Selling and distribution expenses		**(3,642,407)**	(2,759,151)
General and administrative expenses		**(1,714,787)**	(1,587,121)
Profit from operations	4	**1,536,904**	1,806,598
Finance costs	5	**(225,461)**	(312,246)
Share of results of a jointly controlled entity		**184,938**	—
Share of results of associates		**484,686**	449,930
Profit before taxation		**1,981,067**	1,944,282
Taxation	6	**(254,997)**	(335,080)
Profit after taxation		**1,726,070**	1,609,202
Minority interests		**(270,893)**	(204,269)
Profit attributable to shareholders		**1,455,177**	1,404,933
Earnings per share	8		
Basic		**HK$0.70**	HK$0.68
Diluted		**HK$0.69**	HK$0.67

Notes:

1. **Accounting policy**

(A) *Deferred Taxation*

As a result of the adoption of the Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 12 "Income taxes" (revised), which became effective for accounting periods commencing on or after 1 January 2003, the accounting policy for deferred taxation has been changed.

According to the SSAP No. 12 (revised), deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with limited exceptions. Deferred taxation is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

In prior years, deferred taxation was accounted for using the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset was expected to be crystallised in the foreseeable future. The effect of this change in accounting policy on the consolidated profit and loss account for the year ended 31 December 2002 and the consolidated balance sheet as at 31 December 2002 is set out in note 6.

(B) *Jointly Controlled Entity*

The Group's interest in a jointly controlled entity represents the investment in a limited partnership which was previously shown as an other investment measured at cost. Effect of the reclassification of the investment in the limited partnership is not material and accordingly no prior year adjustment is made.

2. **Segment information**

Segment information is presented in respect of the Group's primary business segment and secondary geographical segment in accordance with the Group's internal financial reporting.

Business segments

	Petroleum and Chemical Distribution HK$000	Retail HK$000	Food Processing and Distribution HK$000	Beverage HK$000	Textiles HK$000	Property HK$000	Investments and Others HK$000	Elimination HK$000	Total HK$000
For the year ended 31 December 2003									
REVENUE									
External sales	12,565,348	9,778,516	4,744,654	3,950,167	3,201,798	234,620	180,069	—	34,655,172
Inter-segment sales	—	48,612	56,810	—	—	45,256	—	(150,678)	—
	12,565,348	9,827,128	4,801,464	3,950,167	3,201,798	279,876	180,069	(150,678)	34,655,172
Other revenue	25,040	85,369	48,499	58,711	66,552	5,186	811	—	290,168
	12,590,388	9,912,497	4,849,963	4,008,878	3,268,350	285,062	180,880	(150,678)	34,945,340
Segment Result	282,344	(75,690)	426,549	400,723	216,029	282,562	4,578	—	1,537,095
Unallocated corporate expenses									(68,952)
Interest income									68,761
Profit from operations									1,536,904
Finance costs									(225,461)
Share of results of a jointly controlled entity	184,938	—	—	—	—	—	—	—	184,938
Share of net results of associates	9,930	2,658	45,431	—	11,038	—	338,239	—	407,296
Taxation									(177,607)
Profit after taxation									1,726,070

2. Segment information (continued)

Business segments (continued)

	Petroleum and Chemical Distribution	Retail	Food Processing and Distribution	Beverage	Textiles	Property	Investments and Others	Elimination	Total
	HK$000	*HK$000*	*HK$000*	*HK$000*	*HK$000*	*HK$000*	*HK$000*	*HK$000*	*HK$000*
For the year ended 31 December 2002 (restated)									
REVENUE									
External sales	10,500,763	6,498,970	4,768,241	3,738,119	2,521,527	275,957	518,442	—	28,822,019
Inter-segment sales	—	28,777	35,133	—	—	81,333	—	(145,243)	—
	10,500,763	6,527,747	4,803,374	3,738,119	2,521,527	357,290	518,442	(145,243)	28,822,019
Other revenue	29,136	59,052	40,493	33,522	53,481	7,133	81,723	—	304,540
	10,529,899	6,586,799	4,843,867	3,771,641	2,575,008	364,423	600,165	(145,243)	29,126,559
Segment Result	327,052	188,111	402,909	346,810	203,697	198,528	62,763	—	1,729,870
Unallocated corporate expenses									(63,583)
Interest income									140,311
Profit from operations									1,806,598
Finance costs									(312,246)
Share of net results of associates	6,660	(704)	40,090	—	9,961	—	337,732	—	393,739
Taxation									(278,889)
Profit after taxation									1,609,202

The logistics business has been reclassified under Retail segment from Property segment.

Geographical segments

	Turnover	Other revenue	2003 Total	Turnover	Other revenue	2002 (restated)
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	**15,037,007**	**114,705**	**15,151,712**	14,423,234	188,673	14,611,907
Chinese Mainland	**16,463,349**	**168,713**	**16,632,062**	12,227,194	112,333	12,339,527
Overseas	**3,154,816**	**6,750**	**3,161,566**	2,171,591	3,534	2,175,125
	34,655,172	**290,168**	**34,945,340**	28,822,019	304,540	29,126,559

3. Other revenue

	2003	2002
	HK$'000	*HK$'000*
Other revenue includes the following:		
Dividend from unlisted other investments	**8,507**	14,525
Interest Income	**68,761**	140,311
Profit on disposal of associates	**1,220**	—
Profit on disposal of subsidiaries	**4,941**	474
Profit on disposal of fixed assets	**20,137**	17,628
Negative goodwill recognised	**13,079**	9,627

4. Profit from operations

	2003	2002 (Restated)
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Depreciation		
— Owned assets	**973,630**	814,771
— Assets held under finance leases	**5,045**	5,078
Amortisation of intangible assets		
— Goodwill (included in general and administrative expenses)	**87,257**	65,443
— Intangible assets other than goodwill	**10,642**	12,847

5. Finance Costs

	2003	2002
	HK$'000	*HK$'000*
Interest on finance leases	**2,379**	2,402
Interest on bank loans and other loans wholly repayable within five years	**205,182**	284,692
Interest on other loans not wholly repayable within five years	**6,599**	—
Financing charges	**12,063**	26,786
	226,223	313,880
Less: Amounts capitalised	**(762)**	(1,634)
	225,461	312,246

6. Taxation

	Current taxation	Deferred taxation	2003 Total	2002 (Restated)
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Hong Kong				
Company and subsidiaries	**137,063**	**(36,584)**	**100,479**	137,770
Associates	**21,698**	**34,043**	**55,741**	41,332
Chinese Mainland				
Subsidiaries	**114,311**	**(46,568)**	**67,743**	128,160
Associates	**21,649**	**—**	**21,649**	14,859
Overseas				
Subsidiaries	**9,385**	**—**	**9,385**	12,959
	304,106	**(49,109)**	**254,997**	335,080

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profits for the year. In 2003, the government enacted a change in profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Chinese Mainland income tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the subsidiaries and associates in the Chinese Mainland. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

The change in accounting policy in accordance with the SSAP No. 12 (revised) to account for deferred taxation has been applied retrospectively and the comparative amounts previously reported have been restated accordingly. The adjustments to the consolidated balance sheet at 31 December 2002 are as follows:

	HK$'000
Decrease in purchased goodwill	(46,498)
Decrease in interest in associates	(37,888)
Increase in deferred taxation assets	90,169
Decrease in trade and other receivables	(1,168)
Increase in deferred taxation liabilities	(325,771)
Increase in minority interests	(26,801)
Decrease in reserves	(347,957)

The profit attributable to shareholders for the year ended 31 December 2002 has been increased by HK$1,988,000.

7. Dividends

	2003	2002
	HK$'000	*HK$'000*
Additional final dividend paid for the previous year as a result of share allotment and exercise of share option	**—**	5,798
2002 special interim dividend paid of HK$0.25 per ordinary share	**—**	518,142
Special dividend in specie of shares of a subsidiary	**1,050,502**	—
2003 interim dividend paid of HK$0.10 (2002: HK$0.09) per ordinary share	**208,297**	187,218
2003 final dividend of HK$0.14 (2002: HK$0.13) per ordinary share	**294,242**	270,453
	1,553,041	981,611

The special distribution in 2003 represented a distribution in specie of one share in China Resources Cement Holdings Limited ("CR Cement") for every ten shares of the Company distributed to the shareholders of the Company on the register of members of the Company on 15 July 2003 in connection with the spin-off of CR Cement.

At the meeting held on 7 April 2004 the directors proposed a final dividend of HK$0.14 per ordinary share. This proposed dividend, which is calculated on the Company's number of ordinary shares as at the date of the board meeting is not recognised as a liability in these financial statements.

8. Earnings per share

	2003	2002 (Restated)
	HK$'000	*HK$'000*
The calculation of the basic and diluted earnings per share is based on the following data:		
Earnings		
Profit attributable to shareholders for the purpose of calculating basic earnings per share	**1,455,177**	1,404,933
Interest saving on exercise of convertible bonds	**70,484**	69,561
Profit attributable to shareholders for the purpose of calculating diluted earnings per share	**1,525,661**	1,474,494

	2003	2002
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**2,082,171,453**	2,070,867,429
Effect of dilutive potential ordinary shares:		
— Share options	**12,896,662**	12,236,759
— Convertible bonds	**119,595,400**	119,595,400
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**2,214,663,515**	2,202,699,588

PUBLICATION OF FURTHER INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

A detailed results announcement containing all information required by paragraphs 45(1) to 45(3) of Appendix 16 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") will be published on the website of the Stock Exchange in due course.

DIRECTORS

The Board of Directors of the Company comprises of fifteen Directors, of which ten are executive Directors, namely Mr. Ning Gaoning, Mr. Song Lin, Mr. Chen Shulin, Mr. Qiao Shibo, Mr. Yan Biao, Mr. Keung Chi Wang, Ralph, Mr. Lau Pak Shing, Mr. Wang Qun, Mr. Zhong Yi and Mr. Kwong Man Him, and there are two non-executive Directors, namely Mr. Jiang Wei and Mr. Xie Shengxi; and there are three independent non-executive Directors, namely Dr. Chan Po Fun, Peter, Mr. Houang Tai Ninh and Dr. Li Ka Cheung, Eric.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Petroleum and Chemical Distribution

Turnover for the year ended 31 December 2003 was HK$12,565.3 million, an increase of 19.7% over last year. Net profit before corporate interest and expenses for the year ended 31 December 2003 was HK$424.1 million, an increase of 47.6% over last year.

The increase in net profit for the year was mainly attributable to the sharing of a gain from the disposal of our interest, held through a jointly controlled entity, in the aviation fuel facility at the Hong Kong International Airport but it was partly offset by a decline in profit contribution from the refined oil distribution segment.

Owing to the US/Iraq war and the uncertainty over oil supply by OPEC, world oil prices were extremely volatile during the year under review. Compared to last year, the overall sales volume of the refined oil distribution business reduced by 3.1% and gross profit margin decreased by 1.1 percentage point. The sluggish economy in Hong Kong and more entrants into the oil distribution business caused the decline in both sales volume and gross profit margin of our diesel oil operation. Competition in the fuel oil market in the Chinese Mainland also decreased the sales volume and gross profit margin of our fuel oil trading business. Although the outbreak of SARS disrupted the demand for aviation fuel, the Group was able to secure contracts to supply fuel to more airlines. As a result, the sales volume of aviation fuel increased by 18% and gross profit margin increased by 2 percentage points.

Petrol and LPG stations in Hong Kong and the Chinese Mainland reported an increase of 12.2% in turnover but flat earnings. Sales volume of LPG at our Hong Kong stations grew by 7.5%. High LPG cost and mismatch in the price-fixing mechanism had affected profitability. The adverse impact was particularly severe in the first quarter of 2003 but improvement was recorded in the second half of the year when the LPG selling prices was increased in August 2003.

The chemical operation reported a strong growth in sales volume which translated into a 33.9% increase in turnover and a 17.7% increase in operating profit before corporate interest and expenses over 2002. The Group will continue to enhance its distribution channel of chemical products in the Eastern and Southern China.

While emphasising on its retail-led strategy, the Group will continue to seek opportunities for growth potential in the petroleum and chemical distribution business. To tap the growing demand for piped gas in the Chinese Mainland, the Group established a joint venture with the municipal government of Suzhou in August 2003 to distribute and supply piped gas in Suzhou New District. The Group has 70% interests in the joint venture.

The Group anticipates that the world crude oil price will be stabilised in the near future but at a relatively high level. The Group will continue to take prudent measures to mitigate the impact of the volatile oil price to the business.

Retail

The retail operation achieved a marked improvement in the second half of the year. Turnover increased from HK$4,303.6 million in the first half of the year to HK$5,523.5 million in the latter half of the year and net loss before corporate interest and expenses reduced by 88.8% as compared with the first half of the year. For the year ended 31 December 2003, the Group's retail operation reported a turnover of HK$9,827.1 million, an increase of 50.5% over last year and a net loss before corporate interest and expenses of HK$98.8 million against a profit of HK$100.0 million in last year.

The retail industry remains competitive in Hong Kong and the Chinese Mainland. Retailers persistently offered discount sales to sustain market share and resulted in a decline in gross profit. It is anticipated that the Chinese Mainland's supermarket business will continue to undergo consolidation. Market players aim to improve their gross profit margins with the synergies and economies of scale created by acquisition and expansion of market share.

Supermarket

Turnover for the year ended 31 December 2003 was HK$7,880.7 million, an increase of 72.5% over last year. Net loss before corporate interest and expenses for the year 2003 was HK$106.5 million as compared to a profit of HK$65.7 million in last year. Despite a heavy loss of HK$66.1 million reported in the first half of 2003, the net loss was reduced by 38.9% to HK$40.4 million in the second half of the year. The loss in the first half of the year was mainly caused by the outbreak of SARS and the high cost base caused by the rapid expansion in 2002.

The significant increase in turnover was mainly attributable to a full year consolidation of turnover of 華潤萬家有限公司 China Resources Vanguard Co., Ltd. ("China Resources Vanguard"), as well as the increase in number of stores in 2003. In October 2003, the Group increased its interest in 蘇果超市有限公司 Suguo Supermarket Co., Ltd ("Suguo Supermarket"), which led to the consolidation of the company's results into the Group. The consolidation of the Suguo Supermarket's results also contributed to the growth in turnover of the Group.

Besides the re-branding program, the new management team also initiated a number of measures in the second half of the year to enhance the efficiency of the supply chain, reduce staff costs and rentals, as well as revamp store formats. The program and measures generated favorable results and, with a new supplier rebate system, there was a considerable increase in promotion income and volume discount. Owing to the marked improvement in operation efficiency, the supermarket operation reduced the net loss to approximately HK$40.4 million in the second half of the year.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") of the supermarket operation attributable to the Group for 2003 amounted to HK$98.1 million, of which HK$45.1 million was contributed by the newly acquired Suguo Supermarket. EBITDA reported in the second half of the year amounted to HK$108.4 million, representing an increase of HK$118.7 million over the first half of 2003.

The Group currently operates approximately 1,623 stores in Hong Kong and the Chinese Mainland, which includes 415 traditional supermarkets, 191 convenient stores, 94 superstores, 18 hypermarkets and 905 franchised stores. According to the statistics promulgated by the Ministry of Commerce of the People's Republic of China, the supermarket business of the Group was the second largest chain operator in the Chinese Mainland in terms of turnover for the year under review.

The Group has committed more resources to ensure sufficient logistics support. In July 2003, the Group acquired an established logistics business from its controlling shareholder and integrated it with the existing godown business. The distribution centre at Pinghu, Shenzhen, commenced operation in September 2003 and provided logistics support to the Group's hypermarkets and superstores in the Southern China region.

The Group will continue to improve the profitability of its Chinese Mainland retail operation through enhancement of operation efficiency. Together with the re-branding program and the efforts to revamp the store format, we are confident that we will strengthen our competence in the business.

Brand-fashion distribution

Turnover for the year ended 31 December 2003 was HK$1,009.0 million, an increase of 12.9% over last year. Net loss before corporate interest and expenses for the year ended 31 December 2003 was HK$18.9 million, as compared to net profit of HK$4.5 million last year.

Turnover growth was mainly driven by store expansion during the year. The operation reduced the net loss to HK$2.4 million in the second half of the year from HK$16.5 million in the first half. The significant decrease of net loss in the second half was mainly due to the rebound of retail sales from the recovery of SARS in the major Chinese Mainland cities.

Turnover of the "Esprit" brand, distributed by the Group's 51% owned subsidiary, was HK$673.9 million, representing an increase of 11% over last year. The growth was mainly attributable to same store growth as well as an addition of 20 self-operated stores during the year.

As at the end of December 2003, the Group distributes 15 international brands through 227 self-operated and 479 franchised boutiques at designated cities in the Chinese Mainland. Distributions of certain brands with low profitability were ceased during the year.

The Group will continue to strengthen its distribution network and take prudent measures to improve the profitability of each brand under its portfolio.

Hong Kong Retail

Turnover for the year ended 31 December 2003 was HK$937.4 million, representing a decrease of 11.9% over last year. Net profit before corporate interest and expenses for the year ended 31 December 2003 was HK$26.7 million, representing a decrease of 10.1% over last year.

The Group currently operates a chain of retail stores in Hong Kong under the name of Chinese Arts & Crafts Stores 中藝, CRC Department Stores 華潤百貨 and CR Care Stores 華潤堂. As at the end of December 2003, the Group operates 5 Chinese Arts & Crafts Stores 中藝, 2 CRC Department Stores 華潤百貨 and 27 CR Care Stores 華潤堂.

The decrease in turnover and net profit was mainly attributable to the sluggish economy and outbreak of SARS in the first half of 2003. However, the closure sales of CRC Department Stores 華潤百貨 at Argyle Centre and Henessey Road during the year helped to reduce the decrease in turnover. CR Care Stores 華潤堂 reported an increase in turnover during the year. The increase was stimulated by the growth in public health consciousness brought by the outbreak of SARS. There was also addition of new stores during the year. In the last two quarters of 2003, performance of Chinese Arts & Crafts Stores 中藝 resumed to normal level following the recovery from SARS, with turnover increased by 25.0% compared to the previous six months. The Group took a number of cost cutting measures on marketing and staffing expenses during the year in order to improve the profitability.

The Group will continue to expand the business of CR Care Stores 華潤堂 as public health consciousness continues to grow. In order to maximise the synergies among our business, the Group is planning to open CR Care Stores 華潤堂 in our existing supermarkets. It will optimise the mix and variety of the products in our supermarkets for customers.

Food Processing and Distribution

Turnover and net profit before corporate interest and expenses for the year ended 31 December 2003 was HK$4,801.5 million and HK$339.9 million respectively. Both remained relatively stable compared to last year.

Although the restaurant and catering industry in Hong Kong was adversely affected by the outbreak of SARS, the Group made a considerable effort to promote the "Ng Fung" brand of high quality fresh meat during the year. As a result, turnover of livestock distribution and frozen food trading grew by 1.1% and 13.3% respectively for the year.

For marine fishing and aquatic products processing, its operating profit increased by 188.8% over last year. This was mainly attributable to the effort taken to explore more high quality fishing grounds and to enhance fishing fleet capability, which resulted in growth of 13.6% of total catches and enrichment in catches assortment.

The ice-cream business under the food production and processing also maintained its strong growth in turnover which was 21.0% over the previous year.

In order to maximise the synergies among our business and to integrate the food operations with our supermarket business, the Group will continue to expand into the meat processing business in the Chinese Mainland. The meat-processing centre in Shanghai is under construction and is expected to commence operation in early 2005. The Group also entered into a principle agreement for its meat processing project in Shenzhen in September 2003.

Beverage

For the year ended 31 December 2003, the operation reported a turnover of HK$3,950.2 million, representing an increase of 5.7% over last year and net profit before corporate interest and expenses of HK$98.2 million, representing an increase of 9.4% over last year.

Increase in turnover was mainly driven by the growth in sales volume of both the beer and purified water. Sales volume for beer and purified water amounted to 2,532,194 kilolitres and 369,771 kilolitres respectively, representing an increase of 8.0% and 32.2% over the previous year. Excluding the newly acquired breweries, the Group recorded an organic growth of approximately 4.9% in beer sales volume for the year under review. The increase in profit contribution from the operation was partly attributable to the improved performance of purified water as well as the strong earnings growth in Shenyang and Sichuan breweries. In addition, there was a gain from disposal of land in Tianjin brewery. Owing to more stringent control on material cost, average gross margin for the beer operation remained stable compared to last year. Stimulated by the increase in sales of large-size bottled purified water in Shenzhen, the performance of the purified water operation was improved and resulted in a steady increase in net profit for the year under review. As a result of a successful strategy to promote "Snow" as a national brand of our beer, the sales volume of the brand increased by 48.0% over the previous year reaching 653,872 kilolitres and represented 25.8% of the total beer sales volume.

During the year, the brewery operation consolidated its interests in several breweries by acquiring the minority interests, including 10% equity interests in 吉林華潤啤酒有限公司, and 30% equity interests in all 武漢華潤啤酒有限公司, 武漢華潤東西湖啤酒有限公司 and 武漢華潤行吟閣啤酒有限公司. The Group also acquired 100% equity interests in 北京華潤啤酒有限公司. As at 31 December 2003, the Group operated a total number of 29 breweries with an annual production capacity of approximately 4.2 million kilolitres. The Group is currently ranked the second largest brewer in the Chinese Mainland in terms of sales volume.

In March 2004, the beverage operation entered in a conditional agreement with the majority shareholder of Zhejiang Qianpi Group Company Limited to reorganise the company into a joint venture company, whereby our brewery business will have 70% equity interest. With this new company, the Group can strengthen its leading position in the brewing industry by bringing our production capacity to 4.7 million kilolitres and expand its geographical coverage to the Eastern China region. Apart from acquisition, the Group will continue to emphasise on brand development and expand its market coverage in the Chinese Mainland.

Textile

Turnover for the year ended 31 December 2003 was HK$3,201.8 million, representing an increase of 27.0% over last year. Net profit before corporate interest and expenses for the year ended 31 December 2003 was HK$165.9 million, compared to a net profit of HK$162.8 million in the previous year.

Despite the surge in cotton price and fluctuation of the price for garment quota in the year under review, the Group managed to record a satisfactory result because of effective cost control measures as well as contribution from the newly acquired textile plants. However, the Group anticipates the fluctuation of cotton price and garment quota may affect the textile business and, therefore, will take proactive measures to mitigate the effects.

During the year, the Group successfully acquired 51% equity interest in 華潤錦華股份有限公司, a company listed on the Shenzhen Stock Exchange, and 100% equity interest in 南通華潤大生紡織有限公司. We also bought an additional 24% equity interest in 濟南華豐紡織有限公司, bringing our shareholding to 64%.

The Group is making a satisfactory progress in the technology upgrade programme. As at 31 December 2003, majority of the old machines was replaced by the updated models. Testing and operation of the new machines have commenced in early 2004. The technology upgrade programme is expected to be finished by late 2004. In order to improve profitability, the Group will continue to enrich and enhance its product mix and quality.

Property

Turnover for the year ended 31 December 2003 was HK$279.9 million, representing a decrease of 21.7% from last year. Net profit before corporate interest and expenses for the year ended 31 December 2003 was HK$278.7 million, compared to a net profit of HK$152.2 million in last year.

Rental Properties

For the year ended 31 December 2003, the Group's rental properties segment, which comprised office, retail and industrial premises, reported a turnover and a net profit before corporate interest and expenses of HK$258.1 million and HK$237.7 million respectively, representing a decrease of 9.9% and an increase of 69.9% from last year.

The reduction of turnover was mainly attributable to the reduction of rental income from Argyle Centre during the renovation period and certain rental concessions granted to tenants affected by SARS. Average occupancy rate of retail premises for the year under review maintained at high level of 92.5%. Renovation work for the Group's retail space at Argyle Centre was completed by the end of September 2003. The refurbished property was renamed as "旺角新の城" with approximately 98% leased out. Despite the reduction of rental income, the operation reported an increase in net profit. The change of Argyle Centre from a fixed asset for own use to an investment property resulted an increase in deferred tax credit. Excluding the effects of a revaluation deficit recorded in 2002 and the deferred tax credit adjustment, the net profit for the year reduced by 17.7% as compared to last year.

Property development

The Group's Hong Kong property development segment, which included its 55% interests in the Villa Esplanada project, recorded a turnover of HK$21.8 million (2002: HK$70.8 million) and a net profit before corporate interest and expenses of HK$41.0 million (2002: HK$12.3 million) for the year ended 31 December 2003. The project was completed with all residential units substantially sold in prior years. As at end of December 2003, 282 car parks were left unsold, of which over 85% were leased out.

Investments and Others

For the year ended 31 December 2003, the turnover was HK$180.0 million (2002: HK$518.4 million), and the net profit before corporate interest and expenses was HK$367.6 million (2002: HK$410.7 million).

Container Terminal

The Group has a 10% interests in HIT Investments Limited. The Hong Kong and Yantian deepwater port operations reported combined throughput growth of 8% and EBIT growth of 13%.

Building Materials

In line with the Group's retail-led distribution strategy, the ready mixed concrete operations were successfully spun off by way of a distribution in specie to the shareholders in July 2003.

CAPITAL AND FUNDING

In 2003, the Group centralizes surplus fund and funding requirements in order to achieve better treasury control and lower cost of funds. As at 31 December 2003, the Group's consolidated cash and cash equivalent amounted to HK$3,787 million. The Group's borrowings as at 31 December 2003 were HK$6,643 million with HK$2,458 million payable within 1 year, HK$4,116 million within 2 to 5 years and HK$69 million after 5 years. Committed borrowing facilities available to the Group, but not drawn as at 31 December 2003, amounted to HK$1,500 million. All the borrowings are subject to floating rates except for the US$230 million convertible guaranteed bonds, which are subject to fixed interest rate.

Calculated on the basis of the Group's net borrowings over the shareholders' funds and minority interests, the Group's gearing ratio was approximately 16.5% (2002: 9.1%). The increase in gearing ratio was mainly attributable to the acquisition of businesses with higher gearing ratio as well as the increase in purchase of raw materials by our textiles segment.

Based on the Group's consolidated net assets value, substantial net assets are denominated in Hong Kong dollar and Renminbi offset by net liabilities denominated in US dollar. In order to limit the exposure to the fluctuations in foreign currency rates and interest rates, the Group entered into certain forward contracts and interest rate swaps to hedge for part of its borrowing. As of 31 December 2003, 42% of the Group's cash deposit balances were held in Hong Kong dollars, 40% in Renminbi and 17% in US dollars. 35% of the Group's borrowings were denominated in US dollars and 39% in Renminbi with the remainder in Hong Kong dollars.

CAPITAL EXPENDITURE

The Group spent HK$2,335.4 million on capital expenditure during the year 2003. Additions to fixed assets amounted to HK$1,788.2 million. The Group incurred HK$547.2 million for new acquisitions in retail, food, textile and beverage, as part of our retail-led distribution strategy.

Capital expenditure was primarily financed by internally generated funds from operations. With a solid base of recurrent income and adequate committed banking facilities, the Group has sufficient financial resources to cope with the investment needs.

PLEDGE OF ASSETS

As at 31 December 2003, fixed assets with net book value of HK$357.8 million (2002: HK$466.4 million) are pledged for short-term loans in the sum of HK$256.7 million (2002: pledged for short-term loans of HK$370.6 million) and long term loans in the sum of HK$56.4 million (2002: Nil).

CONTINGENT LIABILITIES

The Group does not have any material contingent liabilities as at 31 December 2003.